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MANAGING THE DIGITAL DIVIDE

What is now called the Digital Divide was referred to, earlier, simply as 'closing the gap' between the developing and industrialised countries in the field of telecommunications. In the mid-1980s, Sir Donald Maitland's report 'The Missing Link' set the year 2000 as when every citizen of the world would be within easy access of a telephone. And today, well into the new millennium, more than half the world's population of six billion has yet to make its first phone call! As a specialised agency of the United Nations, the International Telecommunications Union (ITU) is the oldest multilateral institution, celebrating its 136th anniversary on 17th May. As the principal custodian of closing the digital divide, the ITU has, in addition to its own efforts, to play an increasingly co-ordinating role with other organisations that have joined the race. In an interview with the South Bulletin, the Secretary General of the ITU, Yoshio Utsumi explains some of the critical concerns.

Someshwar Singh

SB: What are the principal initiatives to close the Digital Divide?

Yoshio Utsumi: The ITU itself is in the process of implementing the four-year strategic Valletta Action Plan (VAP), adopted by the ITU World Telecommunications Development Conference (WTDC) in 1998. VAP is a six-point action plan that addresses the key elements needed to bridge the digital divide: sector reform, access to new technologies, gender issues, rural development and universal service/access. In addition to the VAP, which also has a special component for the Least Developed Countries, there are a number of other programmes in partnership with the private sector, the UN and other multilateral organisations.

Outside the ITU, there is the DOT force (digital opportunities task force) initiative launched by the G-8 countries in Okinawa last year.

Then there is the ICT (information and communication technologies) Advisory Group at the United Nations with a significant representation from developing countries and the industry at a very senior level. The UN Secretary General has sent the Group's report to the ECOSOC, with a view to implementa-

tion. One of the elements has to do with the establishment of a 36-member Task Force. The UNDP, for its part, is involved in the Digital Opportunity Initiative.

SB: How would you assess the G-8 initiative in terms of developing country needs?

Yoshio Utsumi: It is a step forward that the G-8 have paid attention to the problem and the initiative will accelerate the process. From the forthcoming Genoa G-8 Summit, we do expect an elaboration of a specific, concrete and clear action plan. But the various initiatives out there today, including the DOT force, run the risk of failing if we don't address, first and foremost, and on an urgent basis, the development of basic infrastructure in developing countries.

In my opinion, they should focus more upon basic telecommunication infrastructure. Without that, nothing can be done. Unfortunately, the people who are addressing the digital divide (questions) tend to focus more on computers and internet issues. But basic telecommunications are a prerequisite.

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Secondly, developing countries need to be part of the process from the very beginning; they can best assess their needs and recommend solutions to address these needs. I am concerned that the international community may not have retained lessons learned from previous initiatives. For example, back in the mid 1990s, G-8 countries had undertaken a major initiative aimed at extending the benefits of the Global Information Infrastructure and Global Information Society to the developing world. Despite best of intentions, this initiative was not terribly successful, the main reason being that developing countries were not sufficiently involved in this process from the beginning.

In the most recent DOT Force initiative, 9 developing countries have been participating in the meetings. Even these countries publicly state that they represent only their country, and not the other developing countries from their region. If the DOT Force does indeed come up with an Action Plan which is endorsed by the G-8 countries, mechanisms will need to be put in place to ensure widespread developing country participation in the implementation of the Action Plan.

SB: So what is the best way to develop that basic telecommunication infrastructure?

Yoshio Utsumi: The first priority is to develop the basic infrastructure where it may be next to non-existent in some developing countries.

The next priority is to improve the basic infrastructure of those developing countries where the infrastructure is inadequate. One of the prerequisites to achieving success in implementing both priorities is to assist developing countries in establishing a regulatory and policy environment (policy and

regulatory frameworks, privatisation, competition, establishment of regulatory agencies, etc.) which is conducive to the development of their infrastructure. This is one particular area to which the ITU has given top priority.

New technologies (GMPCS, IMT 2000, and IP telephony, for instance) can be of enormous benefit to developing countries - it enables them to "leapfrog" technologies and to learn from mistakes which may have beset industrialised countries - but for this to happen, the right policy and regulatory environment must be in place.

SB: How do you see the role of the private sector in comparison to the contribution of governments in closing the digital divide?

Yoshio Utsumi: The role of governments is to create a policy and regulatory environment in their countries which is conducive to private sector investment and to the development of their basic infrastructure. Their role is to create a stable, predictable, transparent, competitive market which will attract investment from industry.

The private sector role is to provide the funding, build the infrastructure and provide services. Past experience has shown industry's willingness and interest in doing this, if indeed an appropriate policy and regulatory environment and framework are in place in developing countries. Industry has the required funding, the technologies, the skills and the expertise to bridge the digital divide.

SB: But in the industrialised countries of today, governments had played a key role in developing the telecommunications infrastructure?

Yoshio Utsumi: There has been a dramatic change in the concept of

telecommunications development from a 'public service' to 'tradeable commodity.' In the past, telecommunications was conceived as a public utility - government played a very important role and government invested. But since the change of the notion, the private sector plays the lead role. However, the nature of telecommunication services has not changed at all - it remains a service to the public - a fundamental infrastructure of society. In fact, it constitutes the nerve-system of a nation. Therefore, governments still have to play a very important role. Developing countries should prioritise this area compared with other sectors.

There are many ways to do that - to open the market and ask foreign companies to invest - that is one way. At the same time, governments can also promote the funding. But nowadays privatisation and liberalisation may be the easier way - but some countries still think the government should play an important role. That is another option and many industrial countries did develop telecommunications by that way.

SB: When did this change in perspective on the role of governments vis-a-vis the private sector take place?

Yoshio Utsumi: About ten years ago in the industrialised countries. In Japan specifically, that happened 15 years ago. In the United States, from the beginning perhaps. But in Europe, only five years ago. But in most developing countries, that change has happened in the last two to three years, and many are still in the process.

SB: Did the World Trade Organization have a role to play in this process?

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Yoshio Utsumi: That change in the concept with respect to telecommunications - from a "public to private sector primacy" was institutionalised by the WTO agreement on telecommunication, brought within the framework of multilateral trade rules.

(The Agreement on Basic Telecommunications Services (BTA) and the Information Technology Agreement (ITA) have been negotiated at the WTO since the conclusion of the Uruguay Round. The principal objective of BTA is to liberalise trade in basic telecommunications services and to enable countries to take advantage of this technology by opening up domestic markets to foreign competition. Embodied in the WTO Ministerial Declaration on Trade in Information Technology Products, ITA went into effect in March 1997. It provides for its participants to eliminate customs duties and other duties and charges on information technology products by the year 2000, on a most-favoured-nation basis.)

The ITU is helping countries implement those commitments in time. But the schedules of commitments are different. In case of Europe, the target year for implementation was 1998 - just about two years ago. The basic philosophy of the WTO agreement is that telecommunication is a tradeable commodity. That it is a trade issue. And as far as trade is concerned, that should be open trade.

SB: Even with the best of regulatory frameworks, do you think the private sector would ever touch some of the less developed regions?

Yoshio Utsumi: I think so. First of all, the price or the cost is going down remarkably because of the developments in technology. Secondly, the demand for telecommu-

nications is sky-rocketing. In most cases, the demand is higher than the supply. That is the situation. When you say unprofitable, there may be unprofitable areas but because of the new technologies which can be supplied much cheaper today and combine that with the high demand telecommunications, in my opinion, there is virtually no unprofitable area. It depends upon how you consider profitability. For instance, if you look at the some basic telecommunications needs of communities in rural areas, again there is a huge market.

SB: Can developing countries ever catch up in this technology race?

Yoshio Utsumi: Absolutely. Not only do they have the possibility of catching up, they also have the possibility of leapfrogging technologies and of learning from past mistakes in industrialised countries.

Once developing countries have established an appropriate policy and regulatory environment which is conducive to private sector investment and to development of their basic infrastructure, the gap which currently exists between developing and industrialised countries will narrow significantly. Technical and technological solutions to developing country needs exist today. I also maintain that the required funding, to be provided mostly by industry, is also there today.

SB: What are you doing to encourage the private sector to fill-in the gaps, particularly in the rural areas?

Yoshio Utsumi: I think the technologies for the industrialised countries and for people who are sophisticated enough in the use of these technologies - and those needed for the bulk of humanity in the rural areas - have to be differ-

ent. The industry is paying more attention to the sophisticated end of the market, which is evidently more profitable but we always have to ask them to pay more attention to the technologies which are more suitable to the rural areas. In the coming Africa telecom event in November in Johannesburg, for instance, the ITU stand will have many exhibitors competing with appropriate rural technologies.

We have also been identifying technologies which are suitable for rural areas and have many pilot projects for developing telecentres. But technology is changing so quickly, you always have to catch up with the latest one. The newest one is the cheapest. Nowadays, for instance, the cheapest is IP Telephony together with IP access (local group) - you can have telephone and computers in the local area - that is the cheapest now for the rural areas. Once you set up a small base station, you can have comprehensive access to information. Two years ago, this did not exist. The idea may have been there, but today the products are there in the market. Tomorrow the prices may come down even further, and even sizes of equipment may become smaller. And guided by demand, the prices can go down even further. At the same time, however, we have to mobilise that isolated demand and pool them together.

SB: How do you see the partnership between governments and the private sector evolving in the ITU, particularly in terms of resources?

Yoshio Utsumi: Right now, governments pay 80 per cent of the funding and the balance comes from the private sector. With 189 Member States and more than 600 (private) Sector Members, in terms of participation, the role of the private sector is clearly very important.

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So, over the years, a balance has to be struck between the decision-making power and the participation. But the ITU should remain an intergovernmental organisation. The uniqueness and the meaningfulness of the ITU derives from the fact that it already brings together the major stakeholders in the field of telecommunications - and this should be maintained.

SB: Have you set any goals on telecom access with time-frames to achieve them?

Yoshio Utsumi: One of the objectives of the World Summit on Information Society, to be held towards the end of 2003, is to have a more co-ordinated approach. I am hoping that current initiatives, including the DOT force and those of other organisations, will go as inputs to that Summit, where we may see hard targets and time-tables emerging.

This is where I believe that the ITU can be a major force in bridging the Digital Divide and play a leading role in the implementation of current initiatives. Not only is Bridging the Digital Divide at the very core of the ITU mandate, but the ITU constituency encompasses all of the major stakeholders in this initiative.

The ITU is ideally placed to assume this leading role, given its global and all-inclusive membership and constituency, and its core mandate, to spearhead the development of telecommunications networks and services globally. In particular, the unique status of the ITU as a public/private sector partnership, in which private sector players work alongside governments, gives us a head start in this work.

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HELPING SMEs BRIDGE THE E-COMMERCE DIVIDE

Geneva, 2 May (South Development News) -- The business community in the developing and transition economies can have a competitive edge in electronic trade given their large pool of "imagination and creativity," according to J. Denis Bélisle, Executive Director of the International Trade Centre (ITC).

At a special session on "Building the E-trade bridge - Facilitating E-trade Development of SMEs" during the annual meeting of the ITC, Mr Bélisle said, "So far, we have been getting used to a business world where big fish were eating small fish and it became something that we got used to. We are coming to a world where it is going to be different."

"Small but fast fish are going to eat the (big but) slow fish," he said referring to the potential of small and medium enterprises. "And fast fish are being born everywhere in the North and in the South.

Those fast fish come about as a result of imagination, creativity and technology. There is an abundance of imagination and creativity in the developing world. Moreover, applied technology is becoming cheaper."

During the past two years, the ITC has entered into a systematic dialogue with businesses, trade support institutions and governments to understand their needs in relations to trading in the digital age.

The September 2000 Executive Forum held in Montreux, Switzerland, provided vital inputs and views from e-commerce practitioners as well as strategy and opinion-makers from developing and transition economies on the state of development and needs and constraints of SMEs related to e-trade.

In terms of response, the ITC has launched a number of pilot exercises, including researching best practices, publishing practical guides and organising the world's first online coffee auction. It is currently in the process of implementing its 'E-facilitated Trade Development Strategy'.

US VOLTE-FACE ON CLIMATE

*The US opposition to the Kyoto Protocol has thrown ten years of climate negotiations into a crisis. It has certainly not been smooth sailing up until now. There were differences on how far to move but movement was on the same track. Not anymore. The US has dealt a blow to the critical first phase of the Kyoto Protocol, which is meant to evolve into broader and deeper commitments to reduce greenhouse gas emissions. This is despite the fact that a number of initiatives were taken simply to get the US on board. Meanwhile, Mr Jan Pronk, President of the COP6 has set out new proposals (www.unfccc.org) with the aim of bridging the gaps and breaking the deadlocks before the resumed COP6 session in Bonn in July. In an interview to the South Bulletin, **Michael Zammit Cutajar**, Executive Secretary of the United Nations Framework Convention on Climate Change (UNFCCC), assesses the implications of the US pull-back in terms of unravelling the Kyoto Protocol.*

SB: What reasons are given by the United States for its withdrawal?

Mr Cutajar: Essentially, three have been mentioned: unfair because of its exclusion of developing countries; too costly (not actually spelt out); and incomplete science. In the more recent pronouncements, the last point is taken away and there is a statement to the effect that the US administration recognises that global climate change is a serious problem and wants to do something about it.

At a certain point, people speaking on behalf of the US Administration were saying that the protocol is dead. Other countries are offended by this, saying "the Kyoto Protocol is ours too, you cannot just declare it dead unilaterally. We have put a lot of work into this." The most recent statement I heard is, "the Kyoto Protocol is a dead-end path." Of course, that is a judgement by the US, not a declaration on behalf of the rest of the world.

At the recent meeting in New York (21 April) to discuss the Pronk proposals - it was the US position that dominated the discussions. The US representative at that meeting said all available options would be examined "from the ground up." But the US has not committed to being ready in July with the new proposals. So the whole thing may be shifted to COP7 in Marrakesh. The message was

really that the Convention is still alive but the Kyoto Protocol is the wrong way to build on it.

The other countries at this meeting were virtually unanimous in regretting the position taken by the United States. In some cases, it was more than regret, it was criticism - that the US had made a mistake and must think again. Most countries were urging the US to reconsider.

SB: Can the United States derail the whole Kyoto Protocol process on implementation?

Mr Cutajar: The interesting thing about the Bush pronouncement is that it has put the climate change issue higher in the political agenda of developed countries than it has ever been before. Before, it was really a matter being dealt with by environment ministers. Now it has gone up to the top. The EU Summit, at which President Bush is invited, in the middle of June is going to be an interesting encounter and the climate issues are bound to figure in there.

For now, only one country - Romania - from out of the Annex 1 parties has ratified the Protocol. Annex I consists of the developed countries' members of the OECD plus the economies in transition of East and Central Europe, and Russia.

The importance of Annex I is that the Protocol can enter into force only with two conditions being met. One is 55 ratifications - by any countries - and we are moving to that. Secondly, within those ratifications, there should be Annex I parties whose 1990 CO₂ emissions add up to at least 55 per cent of the total Annex I countries' emissions.

In discussions on the subject, much is made of the fact that the United States, in itself, contributes over 25 per cent of global CO₂ emission. That is not the relevant number. The relevant number is that in 1990 the US emitted over 37 per cent of Annex 1 CO₂, Russia 17 per cent, and the EU as a whole 34 per cent.

So, it is not the number of countries, it is their weight in terms of CO₂ emissions. Let us take the US as 37 per cent, Russia as 17 per cent. You put those two together and it makes 53 per cent, meaning they can block. So if Russia does not join, the protocol is indeed "dead," it cannot enter into force.

On the other hand, the United States alone cannot block. To put it positively, EU plus the transition economies, even without Canada and Australia (which may find it politically difficult not to join the US), along with Russia and Japan, can make the Protocol enter into force. So Russia is the key player on both sides of the equation.

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SB: Is there no time limit for this ratification process?

Mr Cutajar: No, there is no time limit. The key thing now is not the number of countries because in September last year, we got up to about 30 - past the half way mark. Gradually countries are ratifying but usually, these are least developed countries or small island states. The only significant emitter to have ratified is Mexico, which is not an Annex I country. It is one of the giants on the global scale, rated among the top 20. The key is the Annex I ratification and we only have one ratification there. That is where the United States can exercise its weight on account of its nearly 37 per cent share.

SB: How valid is the US concern that it is unfair to let the developing countries off the hook for now?

Mr Cutajar: The US keeps saying in defence of its current position that emissions from developing countries are soon going to surpass those from developed countries. So they should, because developing countries account for about 80 per cent of the world's population and emissions need to grow if they are going to achieve sustainable development and better standards of living. If you look at current flows - CO₂ from fuel combustion, which is the easiest thing to measure and the biggest single source of green house gases - developing countries are accounting for about 40 per cent of emissions at the moment. They will probably catch up in maybe 10 or 20 years and pass the 50/50 mark.

But you also need to look at the historical responsibility. Because these emissions do not disappear. They accumulate in the atmosphere and it is the accumulation that is the source of the warming. What remains in the atmosphere dissipates very slowly. It has a life time of, say, 100 years. So, if you look at

what has been happening over the last 100 years, the historical responsibility is pre-ponderantly one of developed countries. In the long term, one expects that developing countries will catch up but it is misusing the figures to say that their emissions are equally responsible.

Secondly, there is an equity measure, which is how much each individual human being emits and here we have tremendous disparities. If we are looking at CO₂ numbers, the US is currently emitting about 20 tonnes per inhabitant per year. The average for developed countries, including United States, some 11 tonnes. The average for developing countries, as a whole is about 2 tonnes per head and that is only because of countries like China which are pretty heavy in emissions. India emits about 1 tonne per head. Tanzania, on the other hand, emits about 0.1 tonnes.

So, looking at it in equity terms, in terms of waste and needs, the answer is very clear. You cannot compare the tonnes emitted by a US citizen for keeping the house excessively warm in winter or excessively cool in summer with an Indian peasant burning firewood. This very crude statement that emissions from developing countries are catching up obscures all those qualitative factors.

SB: How much can be read into the US complaint that the Protocol would be "too costly?"

Mr Cutajar: If you look back to the protocol negotiations, at the European Union and the US, the EU was always pushing for a Protocol that would oblige states to undertake domestic action to reduce and limit emissions. Thereby, generating the technological and other solutions that the rest of the world could follow.

The United States, even under the Democratic administration, was always looking to avoid that sort of obligation - no quantitative obligation to do things domestically and to open up all means of limiting emissions wherever they happen to be cheapest. Hence, the whole concept of emissions trading is in the protocol because of the United States.

In the final crunch, that was one of the things that was kept in to keep the US on board, although many countries do not like it. The offshore clean development mechanism is very much supported by the US, although it was a Brazilian idea. The idea of using storage of carbon in sinks is a cheaper and softer alternative to actually limiting productions through consumption. The rest of the world more or less swallowed it because without this, we would not get the US in.

Flexibility was maximised in relation to environmental integrity. Additionally, a target was set very generously for Russia and the Ukraine, which gives them a tremendous margin. The allowance to emit is far more in excess of what they are actually emitting. So, they have this margin which we call 'hot air'. They have a surplus 'commodity' which they can sell - it is cash in hand - and that too, was put there so that the Americans could buy permits through emissions trading. So, the whole thing was set up in a way to make it possible for the US to sign on, maximising flexibility, lowering costs. Then they turn around and say it is too costly.

What has happened in reality is that the US economy went through a tremendous boom and the greenhouse gas emissions of the US are way above the 1990 level. The effort that the US would have to make to meet its target has increased since the target was set.

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They have discovered that they signed up to a target that would be impossible to achieve at an acceptable political and economic cost.

Secondly, the opponents of the treaty, and there are many lobbies including the oil industry lobby, have been accentuating the negative side. They do not, for instance, consider the US experience with sulphur dioxide limitation. By limiting sulphur dioxide emissions and permitting emissions trading, the US has managed to achieve emissions target at a much lower cost than initially estimated.

SB: So what are the next steps before July?

Mr Cutajar: The two week meeting (18-27 July) in Bonn will be a resumption of the Hague conference in an attempt to clear the deadlocks present in the Hague and at the same time, see what the US comes up with.

The two big questions between now and then, while work continues, is whether the EU which has declared that it wants to go ahead with the Protocol even without the United States, can carry that policy through at the heads of govern-

ment level and can bring the Russians, the Japanese and the transition economy countries into that same strategy. If that is so, the Protocol could enter into force without the United States.

On the other hand, if the US comes up with a clever alternative proposal in good time for the July Conference, it may succeed in focusing attention on it, and thus derailing further work on the Protocol.

SHAPING AN INTERNATIONAL FINANCIAL ARCHITECTURE

Despite the recent financial crises that swept through Asia, Russia and Latin America, little progress has been made in re-designing the international financial architecture. Most current proposals tend to emphasise reforms of the national macroeconomic and financial policies as opposed to the need for changes in the international aspects of the required architecture. In the following article, Mr. José Antonio Ocampo, Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC), focuses on some of the systemic, center-periphery and institutional issues - from the standpoint of developing countries. He expressed these views at a meeting organised by the South Centre in co-operation with the Group of 77 and China on 25th April in Geneva, in the context of preparations for the upcoming conference next year on Financing for Development.

It is useful to differentiate the "systemic" issues from what we can call "center-periphery" issues. The basic difference between these two groups of issues is the fact that the center-periphery issues are closely associated with the basic asymmetries of the international economy. Most of the discussions that take place around Washington around United Nations and in universities, by ignoring these asymmetries, are not 'down to earth.' They discuss, for instance, the issue of volatility in abstraction of the issues of asymmetries. So, the differentiation is really quite important in terms of international financial reform.

The systemic issues are basically associated with two problems. The first is that financial markets

are, by their own nature, volatile. The second is the fact that domestic policies have become increasingly weak to manage a macroeconomic policy in this age of globalisation without the development of alternative co-ordination mechanisms between the major economies that will allow for more stability. So, it is the result both of the rise of private international finance in the 1960s, booming almost every year, and at the same time, the weakening of traditional national institutions without there being an alternative instrument.

The center-periphery issues are associated with the asymmetries which characterise this system. On the macro side, the basic asymmetry is associated with the fact that the international currencies are

the currencies of the industrialised countries. Which means, in practice, that the room for stabilising policies in the center does not exist in the countries that do not issue international currencies.

The developing world has to adjust to crises, not only because the IMF decides that it has to, but that is the logic of the way they have to operate within the system. That in turn generates incentives to spend with the boom - you would not do austerity policies during booms. Spend when you can - that is the basic rule on which developing countries more or less operate - due to the essential structure of the international economy.

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Financial Asymmetries

On the financial side, there are several huge asymmetries. One is the size of markets. Even the largest developing country market is minute by the international financial standards. This means that international finance can really destabilise any of the major markets in the developing world.

There are asymmetries in the nature of the currencies in which debt instruments are issued. Developing countries generally have no alternative but to issue debt in international currencies.

There are huge asymmetries in the maturities that markets manage. In developed countries, in international markets, you can get long maturities. In developing country markets, you generally get short maturities, at least in the private markets, and the markets for securities in the developing world are thin.

This collection of asymmetries implies that in any developing country, part of finance has to be done internationally. In a developed country market, a large firm can, in a sense, choose between doing their operations in a domestic financial market or going internationally. It is an option. It is a substitution. In developing country markets, due to the incompleteness of financial markets, part of finance has to be sought internationally. If you want long maturities, you have to go to the international markets. If you want large chunks of finance, for instance, for a large company, it would have to go to the international market. This implies, in a sense, that you have no alternative but to choose between a maturity mismatch or a currency mismatch but you cannot avoid both of them simultaneously.

A developed country firm can always avoid both if it finds it prefer-

able. If it is a large US company, it can avoid both the maturity mismatch and a currency mismatch by borrowing long term in dollars or a European firm by borrowing long term in euros. A developing country firm will, if it wants to avoid the maturity mismatch, have to borrow short term in the domestic market. If it wants to borrow long term, it would have to go to the international market and then it has a maturity mismatch. There is no way, in a sense, to avoid the problem.

This, of course, makes the whole system very dependent on liquidity provision from the outside in the developing country markets.

It is important to understand both the nature of the problems as well as the nature of the institutions. Before taking up the institutional issues, the analysis covers the systemic and center-periphery issues.

The two center-periphery issues are the issues of volatility of flows and the issue of the concentration of flows in the less risky markets which implies that most of the developing world does not have access. You can have access with unstable flows or have no access, thus a dilemma. Actually, it is a continuum because during crises, even countries which have access would have no access or will have access only at very high costs.

The systemic issues have, basically to do with two things. First, to deal with the issue of volatility of flows in the industrialised countries themselves and the capacity to manage and regulate an eventual crisis in the industrialised countries. They have to do, according to my analysis, also with the macro-economic issues which are associated with

the fact that you do not have macroeconomic institutions at the world level which can co-ordinate the policies of the major countries.

In this area, one of the major problems for developing countries is the fact that our only participation in these issues goes through the involvement of the International Monetary Fund in these processes. The other major institution here is the Bank for International Settlements, where there is a sub-optimal developing country participation. In the IMF, we have a sub-optimal share in the decisions but we have, broadly, a very large membership of developing countries. Beyond that, the real story here is that the major decisions are taken outside even those institutions. Many decisions are strictly national and most are G7 decisions.

So, the first problem I sense is the lack of participation of developing countries in the systemic issues, institutionally speaking. That is one of the problems that has to be addressed. The trend of a push in the IMF into basically dealing with center-periphery issues, which is what has been happening in the last 20 years, is a wrong trend for developing countries. Developing countries should defend the role of the IMF as a major actor with respect to the industrialised countries as well as defend a strong participation in the Bank for International Settlement and the role of that bank in developed country issues.

The point is that developing countries need some form of participation, of having a voice in these processes. In the area of regulation, Gerry Helleiner put it in a strong way, "no standardisation without representation", which is a nice way of using the old democratic principle in this area.

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Today, if there were to be an international financial crisis, the fact is that it would have to be managed by the national financial institutions of the developed world. There is no way to manage it otherwise. The IMF is a minute institution by the size of the developed country markets. A large financial crisis in the developing world would have to be managed by the central banks of the industrialised countries and by their economic authorities. This is by itself a major problem of international arrangements. We in the developing countries have no voice whatsoever of any importance in these decisions. The fact is that in this era of globalisation, we still depend on a particular national institution to manage an eventual large crisis.

With respect to the first center-periphery issue, which is the issue of volatility, we all agree now that the differentiation between prevention and management of crisis is probably a wrong way of looking at things. The issues that had been raised in the management of crisis can have preventive effects. But, let me differentiate two issues that have mostly preventive focus and two issues which have mainly a management-of-crisis focus.

Crisis Prevention

On the preventive side, the first issue relates to prudent macro-economic policies. That is, avoiding over-spending during booms. The basic problem here is really to create a larger room for developing countries to do anti-cyclical policies. At the end of the day, what we really need is an international system that allows developing countries to really operate contrary to the way we are operating now, which is basically pro-cyclically. We adjust in a crisis and spend when we can - to a system in which we avoid over-spending during periods of

euphoria and try to smooth out the succeeding crisis.

I agree that the preventive framework is useful. I also agree that the focus of the International Monetary Fund has to increasingly be on prevention of crisis rather than the management of crisis. But this has to start from a change in the global framework in which the whole cycle of developing countries operates.

The second issue is the regulation of capital flows. There are two strands here. Undoubtedly, whatever is decided around the international committees - Basle Committee and all the sister commissions - there is a basic problem. That has become very clear, for example, in some of the analyses done by the BIS which put very simply says: 'We cannot have the standards for the developed world, taking into account the regulation of the emerging markets.'

It is becoming clear, for instance, with the new proposal of the Basel Committee, that by bringing these issues, they are making these asymmetries in the international financial system be reflected in a "dualistic way" of managing regulation. So, there is regulation for those who have high standards and regulation for those who have low standards. We are obviously put in the second category. This is a wrong way of thinking in the long run, resolving asymmetries by recognising asymmetries and saying: you simply cannot have high standards, we have a special chapter for you.

This is of course what is actually happening in the regulatory area. This makes the issue of regulation of capital flow an issue that must remain - as it has always been - an area of autonomy for developing countries. I will not even argue that the international institu-

tions should allow us to do that. No, I would be more radical. International institutions have never had a mandate in this area. So, they should not have a mandate in the future. Of course, to maintain the autonomy of the developing countries to regulate the capital account does not mean that developing countries will adopt the same policy. Some may want to globalise financially, some may want to maintain quantitative restrictions on capital flows. But, I think the basic principle is that this is not an area for international regulation.

Crisis Management

With respect to management, the basic point is the choice between emergency financing and how to improve emergency financing and orderly debt workouts or private sector involvement as it is also called. The two instruments are used complementarily at the national level; you have emergency financing - i.e. central banks lending to banks in difficulties - which is an issue that you manage for liquidity purposes, and then, you have debt workout procedures when you have solvency problems. That is how it is managed nationally.

We recognise that the line that divides illiquidity from insolvency tends to be a thin one and you actually have a gradient in which illiquidity becomes insolvency for financial institutions or for nations. You cannot look at this as an either or, you really have to think of both as instruments you have to employ.

In the area of emergency financing, there are two basic problems. The first is the international community through the assistance of the IMF, has actually moved away from the old principle of Bretton Woods, that you give

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emergency finances only when you are already in crisis. There is the idea that you have to give liquidity in order to avoid crisis and that has become very clear and the basic question here is how to improve those facilities. The major facility which is a contingency credit line of the IMF in fact has been subject to huge discussions. It has not been used, it was reformed once already and still has not been used. So there is a basic problem in the design of those alternative credit lines. But even in the absence of it, many of major emergency packages built by the Fund have a preventive focus. Lending is made before the liquidity position is very low.

The second problem is the issue of the availability of funds to do emergency financing. The way this is done today is to basically have funds in the IMF, which are clearly institutional. Then there are the special lines by which the IMF can borrow from the industrialised countries in case you need additional resources. I really think that this system has to be totally overhauled and the basic proposal that we did in the January 1999 document which is also in the UN Secretary General's report, of using the special drawing rights (SDRs) for this purpose, is the correct way of doing things. Moreover, you do not have to do a permanent issue of SDRs. You can generate liquidity only for the crisis and then contract.

That will never be a major part of world liquidity so that criticism that you are additionally creating liquidity is a totally wrong argument. Developing countries have an interest in the more active use of the SDRs. This is a subject that somehow went out of the agenda of developing countries for a long time but the idea needs to be resurrected.

In the area of private sector intervention (on which there is great

discussion going on in the IMF and a very interesting chapter in UNCTAD's Trade and Development Report this year), the major problem is in the way industrialised countries are pushing some decisions in the IMF. They are forcing "voluntary negotiations". It means that as a precondition to IMF lending, you have to first negotiate voluntarily with your major creditors. This is a contradiction in terms because you cannot force anything voluntarily. It has happened many times. For instance, when the IMF was lending to Korea or Brazil. There is a basic asymmetry. The creditors will have losses if they do not extend the credit lines but the country in problems has a totally illiquid position, so it is a very asymmetric negotiation.

This particular way of looking at things has to be severely criticised. There is no basic agreement in the developing world about what to do in this area. In Latin America, governments are generally severely against any international rules on re-negotiations of debt. That is why the best alternative is simply an arbitration mechanism, to create an institution which will play the role of arbiter, a voluntary arbiter for the time being. It is basically an institution that serves as an intermediary in the negotiations and makes 'impartial' evaluations of what is viable and what is not. That is the only alternative today and going beyond that is not feasible.

ODA

The second center-periphery issue relates to the concentration of flows. In this area, there is a basic agreement in the analysis of all sources, including the multilaterals, on the clear role of ODA as a basic instrument that has to be used for low income countries and to differentiate ODA from other sources of financing, particularly for the provision of global public

goods. There should be a clear differentiation between ODA and other sources by which transfers of developed countries are used. This does not mean that there is a commitment of industrialised countries on this issue. Europe is moving in the correct track in trying to make commitments in this area, not certainly to the 0.7 per cent target, far from it, but to move gradually up, that is an improvement. I do not see a similar commitment in the other developed countries, but this is a central issue that has to be brought in the financing for development process.

Development Finance

With respect to multilateral development finance, my basic argument is that multilateral development finance has to reform in relation to the changes in the international financing system due to the increases in private financing. Generally speaking, there is no way for multilateral finance to compete in normal times with private finance. Private finance is faster, comes without conditionality and with better terms. In the long run, there is no way for those countries to compete, with no access to the market. So multilaterals face three basic challenges. First, to finance those countries that do not have access - number one priority. Second, to develop instruments to smoothen the cycles for countries which have access - to develop more anti-cyclical financing policies for middle income countries. Third, to facilitate access to private markets for those countries that do not have such access, which is basically turning to issuing guarantees rather than lending. So, a more active use of guarantees, a more anti-cyclical role together with the old role of giving access to those countries that do not have it.

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It is a whole new way of thinking and some of the institutions are actually moving in that direction but at a very slow pace. Of course, the last few years have been one of very abnormal conditions in the international financial markets. And they have had a very central role. But when conditions normalise, as happened between 1990 and 1997, generally the multilaterals are out - they have no significant role with respect to middle income countries which have access to the market.

With respect to the sectoral use of funds, I think that there is also an argument for multilaterals to be more innovative in certain social areas or infrastructural areas. For instance, in my own case, when I had opportunities to take decisions in this area in Colombia, we chose the multilateral financing knowing consciously that it would take too long to negotiate and the process was very long and cumbersome. Basically, we valued the technical assistance component. This is very important for some of the banks. The World Bank, for example, had a very good technical assistance attached to lending but that has been declining through time. It has to be borne in mind as a very important parallel function.

Institutional Concerns

With respect to the institutional concerns, there is a broad consensus among developing countries on two of the three issues. The third, though very important has not received adequate attention.

The first institutional issue is, of course, the adequate representation of developing countries in the international financial institutions and other relevant fora. I argue there is a role for the United Nations system, precisely because it is a more open forum than the Bretton Woods institutions. It is

not only a question of membership but the kind of voices that are heard within. The voices that are heard in the Bretton Woods institutions are those of the central banks and the finance ministries and sometimes the planning ministries. Those are useful voices and very legitimate voices. But there are also other voices that bring some "balance" in discussions. One of the basic advantages of the UN is that it is open to more voices and today, there has even been an increase in the voices of civil society. This system is geared towards hearing alternative views on major decisions and that is why the 'balance' is quite useful. So, in addition to the representation for developing countries, it is also a question of the 'openness' to discuss.

The second issue refers to conditionality versus ownership of policies. I think the conditionality has gone way too far. Of course, the conditionality in IMF lending in particular has to exist. It is hard to think of any other alternative but it really should be restricted to the old way of doing things, that was typical up to the 1970s. That is basically macroeconomic issues, not getting into many structural issues and that ownership should broadly be promoted. Now, there is a broad recognition that this is the only way to proceed conceptually. Because if reforms in the developing world depend on commitment, they can only be built on a stable basis if they are "owned" by the countries.

So the conditionality in a sense does not work. The IMF and the World Bank have been recognising this. It is also in the OECD Development compact. There was a statement last year orchestrated by the IMF Managing Director and the World Bank President, accepting that they had to move into ownership. But there is a lot of rhetoric and in practice, it is only another way of doing conditional-

ity. I am afraid, for instance, that HIPC is now represented as a case in which ownership has been promoted. My own way of reading HIPC is that it is the most conditional programme in history.

So there is a lot of mis-understanding by what we mean by the terms today. Gerry Helleiner has written a brilliant paper on this question of ownership, in which he talks of the developed country authorities saying that we have to "force ownership." This is like forcing voluntary negotiations. There is something really strange about the language in which some of these issues are expressed. Though the general principle is accepted, we have to be clear about what it really means. The standards of ownership, for me, are of an international programme - the world standard should be the Martial Plan. How the funds of the Martial Plan were managed by the Europeans - that is a good standard of ownership. Nobody would disagree that this was the most successful support program in history. It was funded by the United States but the management of funds was almost entirely European.

Regional Institutions

Finally, with respect to institutions, there is not enough focus in the world on the role of the regional institutions in the financial area. There are four good arguments for strong regional institutions. I will refer here to the area of liquidity and development finance, aside from, of course, the trade area. The first is the classical risk pooling argument, that is, the collective risks of a region are lower than that of individual countries.

The second is the issue of complementarity. I will argue that the largest developing countries will probably be best served by global institutions - the ones which

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are able to generate systemic risks, should probably be funded by international organisations. There is a strong sense that most of the problems that the medium and smaller countries have, can be managed regionally. You really do not need international institutions. We have made our own estimates in Latin America and came to the conclusion that, outside of the problems of Mexico and Brazil, all the other problems can be managed by regional reserve funds of relatively small size. There is no sense in which you really need the IMF.

The third is the competition argument. Mexico and Brazil have the advantage that they have a strong voice, even in international institutions. But a Central American or Caribbean country generally does not. For the smaller countries, the best thing that we can provide for them is competition. So, we have competition between a regional, sub-regional and inter-

national fund because they will not be able to have a strong voice.

The last is the federalist argument - that a federal state is more committed to a union if it has more power. This set of arguments is something that has to be taken seriously. There is much more room for regional action than is recognised today.

I happen to come from a part of the developing world that has developed two sub-regional institutions that have been very successful. These are the ANDEAN Reserve Fund, now called the Latin American Reserve Fund and the ANDEAN Development Bank. They have been very successful in their two respective areas - liquidity and development finance. They are totally owned by developing countries, they are perfectly viable, and have been growing through time. This shows that those two experiences hold a lot of possibilities.

The major initiative recently, has been the ASEAN-China-Republic of Korea and Japan Asian initiative for swap arrangements. That is also a really major advance and we should think in the future of an IMF that is really a network of reserve funds rather than one global institution. This is the IMF we should move into - 20 years from now - a network of reserve funds rather than one institution - more like the European Central Bank than the current IMF.

And in the area of development finance, one in which many institutions - the World Bank, the regional development banks and many other sub-regional development banks are operating and competing with each other. This is the area we should look at in international finance, not an area where we continue to look at two or three institutions, but more institutions and many of them owned by developing countries.

3RD UN LDCs CONFERENCE

Geneva, 3 May (SDN) -- Many of the 'deliverables' at the 3rd UN Conference on the Least Developed Countries (14-20 May in Brussels) may not be 'grand designs' but a number of 'modest' initiatives could create a momentum for change in favour of the 49 LDCs, according to Rubens Ricupero, Secretary General of UNCTAD.

Mr Ricupero said it was important to have a follow-up mecha-

nism on how various agencies are implementing their commitments and not rely on a mid-term review which only conducts a 'post-mortem' when the patient is dead.

Asked about what best could be done in the field of trade, Mr Ricupero said it was 'free market access with as little limitations and obstacles' as possible. He added that a significant number of the LDCs were not members of the

WTO yet. "As the negotiating process is very long and burdensome, there could be simplified procedures for their accession."

Mr Ricupero also highlighted the need for positive movement on Debt, ODA and Aid for LDCs.



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