World Institute for Development Economics Research

WIDER ANGLE

No. 1/2002

WIDER Conference on The New Economy in Development

Over one hundred experts participated in this conference on 10-11 May and discussed the impacts of the New Economy on economic growth, productivity and development. The New Economy can be defined as an economy which is able to benefit from the two trends shaping the world economy today—the globalization of business and the revolution in information and communication technology (ICT).

The conference was a continuation of two previous WIDER projects. The outputs of these projects have been published in the book entitled *Information Technology, Productivity, and Economic Growth* by Oxford University Press in 2001 and in the June 2002 special issue of the Elsevier journal *Information Economics and Policy*, both edited by Matti Pohjola.

Mr Kimmo Sasi, the Finnish Minister of Transport and Communication, opened the conference. Plenary presentations were given by Kevin J. Stiroh (Federal Reserve Bank of New York) on the New Economy in the United States, by Francesco Daveri (University of Parma) on the New Economy in Europe, by Paul A. David (Oxford University) on digital information goods and access to knowledge, and by Kenneth L. Kraemer (University of California, Irvine) on the determinants of ICT spending. There was also a policy panel discussion on promoting ICT for growth and development by experts including Pekka Tarjanne (Executive Coordinator, UN ICT Task Force). In addition, 42 papers were presented on topics ranging from the impacts of ICT on firm and economy level productivity in industrial and developed countries to e-commerce business models and ICT initiatives in developing countries.

Of the 70 conference participants from outside Finland and WIDER, about 30 came from developing and transition countries. Most participants were from universities and research institutes in developed and developing countries, but some 15 were from UN-related or governmental organizations.

A selection of the papers presented at the conference will be posted on the WIDER Web site at:

www.wider.unu.edu

Poverty, Migration and Asylum

by Jeff Crisp

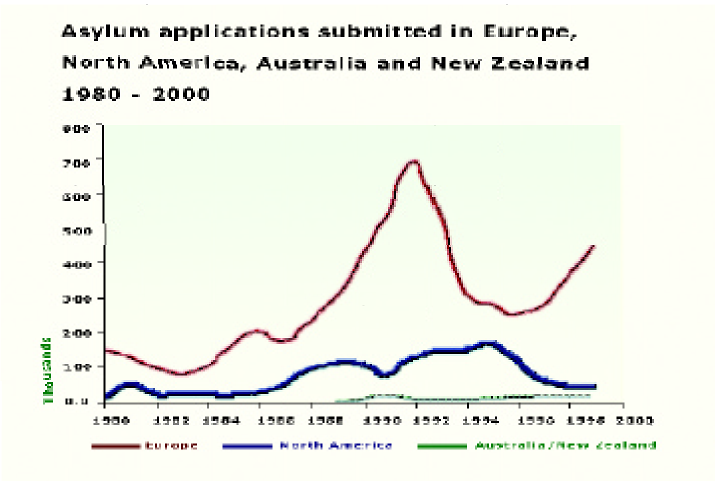
Vincenzo Pinto Lehtikuva/Reuters

Afghans making their way in ramshackle boats to the territorial waters of Australia; Iraqis crossing the desert into Jordan, on the first stage of a journey which will—if they are lucky—end in Europe or North America; young men of many different nationalities, gathered at the entrance to the Channel Tunnel, trying to stowaway on a train that will take them from France to the United Kingdom…

In recent years, our newspapers have been full of stories such as these, involving people who are trying to escape from poorer and less stable parts of the world, so that they can begin a new life in a region which offers them more security and better opportunities. Most of these migrants move illegally and then seek asylum when they have reached a country where they are willing to settle. For unlike business executives, IT professionals or United Nations officials, unskilled migrants from the world's poorer countries have very limited access to regular migration opportunities.

The debate surrounding the phenomenon of illegal and irregular migration has become a highly polarized one. According to human rights organizations, many of these asylum seekers have a genuine fear of persecution in their own country, and they should therefore be regarded as *bona fide* refugees.

But according to the governments of many industrialized states, most of the people who move in this way are really economic migrants, 'bogus refugees' who use the asylum procedure to circumvent established immigration controls. And it is on this basis that those governments have introduced a barrage of restrictive migration measures: visa requirements, passport controls, carrier sanctions, the interdiction of boats at sea, and draconian laws against human smuggling and trafficking.



The Present System Doesn't Work

Whether the people concerned are refugees, economic migrants or a mixture of the two, it has become increasingly evident that current asylum and migration management practices are to a large extent dysfunctional.

First, they are dysfunctional in the sense that they do not address the root causes of movement or provide any additional security to those people who are in greatest need of it. For every Afghan, Iraqi or Somali who manages to make their way to Europe or North America, there are many thousands more back at home who face similar (if not more serious) threats to their welfare, but who are unable to escape from the danger in which they find themselves.

Second, and as a corollary of the preceding point, current practices are discriminatory. With the introduction of restrictive asylum and migration measures throughout the industrialized world, and with the resultant growth of human smuggling, only those people with access to considerable resources (perhaps $15,000 in the case of an Afghan who wishes to reach Australia) can hope to leave their country of origin and seek asylum in a more prosperous state.

Third, current practices in relation to the refugee and asylum issue entail a degree (and many people would argue that it is a high degree) of hypocrisy. Representatives of governments in the industrialized world are quite happy to address international fora where they express their firm support for the rights of refugees, as enshrined in the 1951 UN Refugee Convention. But once they walk out of the conference room, they resume their usual practice of making it as difficult and as dangerous as possible for asylum seekers to gain access to their territory.

Fourth, the current asylum and migration management system can be described as dysfunctional because of the massive amounts of money (no-one knows exactly how much, but it may run into billions of dollars) that are spent on dealing with the relatively small numbers of asylum seekers who manage to arrive in the industrialized states.

Meanwhile, refugees and displaced people in other parts of the world, most notably in sub-Saharan Africa, are receiving progressively lower levels of assistance from the international community.

Finally, despite all of their efforts to demonstrate that they are 'doing something' about the arrivals of asylum seekers and irregular migrants, the industrialized states appear to have lost the confidence of their citizens in this area of public policy.

And this disaffection cannot be blamed entirely on unscrupulous politicians or xenophobic newspapers. For there are some fundamental flaws in current practices, not least the inability of many states to ensure that asylum seekers who fail to obtain refugee status are returned to their country of origin. Why spend so much money on asylum systems if unsuccessful applicants are nevertheless able to remain in the country?

Towards a More Humane System

How, then, can the dysfunctionalities of the current system be addressed—and to what extent can that be done in a way that is consistent with refugee protection and human rights principles?

According to some commentators, the problem lies essentially with the industrialized states. If they were to live up to their obligations and were to remove the visa requirements, carrier sanctions and other restrictive measures that they have introduced over the past two decades, then the rights of asylum seekers and refugees would be guaranteed.

But does anyone really believe that this will happen? For even if those states need to import additional labour and replace their ageing population, they seem highly unlikely to relax current restrictions on the arrival of illegal or irregular migrants.

Some people have quite rightly suggested that action must be taken in countries of origin so as to remove the causes of refugee and migratory movements: persecution, armed conflict, poverty and inequality. Others have suggested that if asylum seekers and refugees could find adequate protection and assistance in their own region, then they would be less prone to move on to the industrialized states, and less inclined to use the services of professional smugglers.

What such arguments tend to ignore is that the instability, violence and poverty that is to be found in less developed countries has deep historical and structural roots. The desire and ability of people to escape such conditions is unlikely to be reduced by the small-scale development projects and conflict resolution initiatives proposed when politicians and humanitarian agencies talk of the need to avert refugee and migratory movements.

A third school of thought—to which UNHCR has subscribed—suggests that irregular movements of people could be averted, and the international refugee protection system reinforced, if regular channels of migration were to be opened up to people who wish to leave their country of origin.

But this argument is not a wholly convincing one. The people who currently migrate to and seek asylum in the industrialized states are not necessarily the people who would be given the highest priority by organized immigration programmes. And even if such programmes were to be established, they would evidently not be able to satisfy the actual and latent migration demand that exists in the less-developed regions.

Finally, and at a more technical level, a number of mechanisms have been proposed as a means of addressing the issue of asylum and migration: the introduction of measures such as 'humanitarian visas', which would allow people to seek refugee status before they leave their own country; the expansion of resettlement quotas, allowing refugees to arrive in the industrialized states in a planned, predictable and organized manner; and the introduction of migration information programmes in less-developed countries, providing an antidote to the rosy images of life abroad that are disseminated by the mass communications industry and by human smugglers.

No Easy Solutions

It is not possible to assess the feasibility or impact of such proposals in this brief article. Suffice it to say that while they may have some potential, such innovations also have a number of constraints and limitations. Not least the fact that they address symptoms (the desire and ability of people to migrate) rather than causes (the poverty and insecurity which prompt people to migrate).

In this situation, the options are relatively few and unoriginal. We must continue to hold the industrialized states accountable for their actions, urging them to respect the principles and standards which they themselves formulated when they established the UN Refugee Convention. We must be prepared to examine new approaches to the issue of asylum and migration and determine whether those approaches function in a more fair and effective manner than is currently the case. And we must continue to point out that people will always try to migrate when there are such vast discrepancies in the level of human security to be found from one country and region to another.

Jeff Crisp is Head of UNHCR's Evaluation and Policy Analysis Unit, and a co-director (with George Borjas of Harvard University) of the WIDER project on 'Poverty, International Migration and Asylum'. The WIDER conference on this issue will take place in Helsinki 27-28 September 2002. Further details available at: www.wider.unu.edu

Unskilled people from the world's poorer countries have very limited access to regular migration opportunities

Current asylum and migration management practices are often dysfunctional and discriminatory

Measures that are simply designed to obstruct the movement of people from one part of the world to another are almost certain to fail

The most effective and humane way of addressing the migration issue is to provide people with greater security and opportunities in their own country

WIDER Conference on Poverty, International Migration and Asylum

27 - 28 September 2002
Helsinki, Finland

In recent years, substantial numbers of people have migrated—or sought to migrate—from regions that are afflicted by poverty and insecurity to more prosperous and stable parts of the world. By the year 2000, the United Nations estimated that about 140 million persons—or roughly two per cent of the world's population—resided in a country where they were not born.

The conference will focus on two major themes: the economic consequences of immigration, and issues associated with asylum migration.

Application form and details:

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By Invitation

Strangers in their Own Land: the Plight of Internally Displaced Persons

by Francis M. Deng

Over the last decade, the international community has been confronted with the global crisis of internal displacement, involving some 25 million people in over 40 countries around the world. These people have been uprooted by internal armed conflicts, communal violence, and egregious violations of human rights, but have not crossed international borders. Invariably, they are exposed to severe threats to their physical and psychological security, gross violations of human rights, and denial of basic needs to shelter, food, medicine, sanitation, potable water, occupation, and education. Had they moved across international borders, they would be considered refugees for whom the international community has well-established legal and institutional frameworks and mechanisms for their protection and assistance. But because they remain within their state borders, they are ironically assumed to be the responsibility of their governments, even though those same governments are often the source of their plight.

In most cases, the affected countries suffer from an acute crisis of national identity emanating from severe social, ethnic, cultural and religious cleavages. These cleavages determine who is treated with dignity as a citizen, and who is denied a sense of belonging on equal footing in the national identity framework.

International Response

The United Nations Commission on Human Rights decided in 1992 to place the issue of internal displacement on its agenda and requested the Secretary-General to appoint a Representative on Internally Displaced Persons to study the problem and recommend ways in which the United Nations system and the international community in general might respond to the needs of the internally displaced. I was honoured to have been appointed by the Secretary-General as his representative on the issue.

UNHCR/ A.Hollmann

Working in close collaboration with a team of international legal experts and in a broad-based process of consultation involving representatives of relevant UN agencies, regional organizations, and non-governmental organizations, we developed the Guiding Principles on Internal Displacement. These principles restate the relevant standards in existing international human rights law, humanitarian law, and analogous refugee law. We have also made recommendations for institutional arrangements, presenting various options, ranging from the creation of a specialized agency for the internally displaced, to the designation of an existing agency to assume full responsibility for them, to a collaborative approach that utilizes the capacities of existing agencies. This last option proved to be the preferred one.

Since the Guiding Principles were presented to the Commission on Human Rights in 1995, and taken note of by the Commission, they have been very well received by the agencies of the UN, regional organizations, governments and non-governmental organizations. The coordination needed for the collaborative institutional arrangements to be effective has also evolved significantly. The reform agenda of the Secretary-General designated the Emergency Relief Coordinator and Under-Secretary-General for Humanitarian Affairs, as the head of the Office for the Coordination of Humanitarian Affairs (OCHA), to function as the focal point in the system charged with the responsibility of ensuring that the displaced are protected and assisted. A series of other measures included initially, the establishment of an Inter-Agency Working Group on Internally Displaced Persons, later succeeded by the more high profile Inter-Agency Network and more recently, by an IDP Unit at OCHA to facilitate the role of the Emergency Relief Coordinator and the Network.

As Representative of the Secretary-General on Internally Displaced Persons, I have continued to play the catalytic role of advocating the cause of the IDPs and have focused the activities of my mandate in four interconnected areas: promoting the dissemination and application of the Guiding Principles; appraising the performance of the operational agencies and how they can be made more effective on the ground; undertaking country missions to assess the conditions of the displaced and plead their case with governments, organizations, donors, and all those whose mandates and scope of activities impact on them; and conducting studies into various aspects of the crisis of internal displacement and the response to it at various levels.

The Responsibility of Sovereignty

Considering that the problem of internal displacement is inherently internal and therefore under state sovereignty, our approach has been to affirm respect for the sovereignty of the state, but to stipulate sovereignty as a concept of responsibility for ensuring the protection and the general welfare of the citizens and all those under state jurisdiction. If governments cannot do so for reasons of lack of capacity, they should invite or at least welcome international assistance.

When governments lack the requisite capacity or the political will to discharge their responsibility, whether on their own or in cooperation with the international community, and masses of their people face severe hardships and even the threat of death, they cannot expect the international community to remain indifferent. International involvement can range from diplomatic intercession, to various forms and degrees of coercion extending to military intervention in extreme cases. The best way to protect national sovereignty is therefore to discharge the responsibilities associated with it and to seek the assistance of the international community, as needed.

Opportunities in Crisis

As much as the problem of internal displacement is a consequence of deeper structural problems that generate conflicts and gross violations of human rights, it also poses a challenge for addressing those problems in the interest of nationbuilding. To the extent that peace, unity, stability and the viability of the nation are overriding objectives, a responsible and wise leadership must not only accept, but indeed initiate and lead, a major reform with the view to establishing a new basis for sharing power, national resources, services and opportunities for equitable development.

Along with the current efforts at assisting and protecting displaced populations, there is a need to urge and assist governments to address the root causes of displacement by seeking in earnest a constructive resolution of the conflicts through a just and lasting peace. Beyond that, the challenge of nation building calls for the establishment of a system of governance that ensures democratic participation, respect for fundamental rights and freedoms, and equitable opportunities for sustainable development.

Francis Mading Deng has served, since 1992, as the Special Representative of the United Nations Secretary-General on Internally Displaced Persons. He is also a distinguished professor and Senior Fellow and Co-Director of the CUNY Graduate Center Brookings Project on Internal Displacement at the Ralph Bunche Institute for International Studies of The Graduate Center, City University of New York.

The 22 million people of concern

Refugees	**53.8%**
Returnees	**15.7%**
Internally displaced/Others	**26.5%**
Asylum seekers	**4.0%**

Refugees

Persons outside their country of origin who are unable to return, owing to a well-founded fear of persecution.

Returnees

Persons who were of concern to UNHCR when outside of their country of origin and who remain so for a limited period after their return.

Internally displaced persons

Persons displaced by conflict within their country. UNHCR has been mandated to assist some groups of internally displaced.

Asylum seekers

Persons who have left their countries of origin and have applied for recognition as refugees in other countries and whose applications are still pending.

Others of concern

Persons who are in a refugee-like situation but who have not been formally recognised as refugees. This covers, among others, victims of war in the former Yugoslavia and various groups in the CIS countries.

Source: UNHCR

How Do We Prevent War And State Murder?

by E. Wayne Nafziger and Raimo Väyrynen

Since the end of the cold war, civil wars and state violence have escalated, resulting in millions of deaths. Past failures from Afghanistan to Zaire/ Democratic Republic of the Congo (DRC) indicate the importance of prevention strategies. The most promising are long-term economic approaches, institutional peace-building, defence of human rights, and third-party presence in the conflict zone. A recently published WIDER study, *The Prevention of Humanitarian Emergencies* (Houndsmills, UK: Palgrave 2002) provides an analysis and an inventory of instruments for donors, international agencies, and developing countries to prevent humanitarian emergencies.

UNHCR/ P.Benatar

Afghan girls back in school in Kabul after the Taliban

Sources of Emergencies

Emergencies have numerous sources. Both greed and grievances from wealth and power discrepancies drive emergencies. Important economic contributors are low average income, protracted economic stagnation and decline, chronic international deficits, large income inequality, and conflict over mineral exports (as in DRC, Angola, and Liberia).

Political contributors include government exclusion of particular ethnic communities, rule by entrenched minorities, and a tradition of violent conflict. Many states experiencing emergencies have weak or failing governments and face a breakdown in public order and services. The lack of personal security and uncertainty about the future drives people to opposing camps.

Most deaths from emergencies are not from insurgent action but from government sponsored or organized killing. Amid war and scarcity, ruling elites may benefit economically from spearheading genocide or tolerating crime and mass murder in co-operation with militias, war profiteers, and ethnic champions. Stopping deadly political violence requires changing the balance between benefits and costs.

Emergencies are more likely to occur where the state is weak, venal, and subject to extensive rent-seeking, a policy to obtain private benefit from public resources. Governing elites gain more from extensive unproductive, profit-seizing activities in a political system they control than from long-term efforts to build a democratic and prosperous state.

Economic Stagnation and Emergencies

Slow or negative growth puts ruling coalitions on the horns of a dilemma. Political elites can expand rent seeking, but that contributes to further stagnation, threatening political legitimacy and stability. Or they can reduce the allies they support, risking opposition by those losing benefits. Either strategy, amid economic crises, exacerbates the potential for repression, insurgency, and ultimately humanitarian emergencies.

In the long run (a decade or more), accelerating economic growth reduces the risks of emergencies. Enhancing growth requires changes in the international economic order, which encompasses economic relations and institutions linking people from different nations, including the World Bank, the International Monetary Fund (IMF), the World Trade Organization, bilateral and multilateral trade, aid, banking, exchange, and capital movements. Improving the world order enhances global peace and stability, and the economic development of both rich and poor countries.

Changing Economic Policies

During the last 20-25 years the IMF and World Bank undertook stabilization and adjustment policies, setting conditions for loans of last resort in virtually every developing country. Conditions included privatization, deregulation, wage and price decontrol, trade and financial liberalization, and monetary, fiscal, and exchange-rate policies. For the IMF, when inflation is 20 per cent or less annually, restoring growth should take precedence over policies such as draconian spending reductions and monetary restrictions. Orthodox disinflationary policies may aggravate social tensions leading to emergencies. Adjustment policies need to be subject to open debate to reflect the priorities of the host country.

Poor, inegalitarian, and weak Third World states, with the support of the international community, must strengthen their institutions by developing an impartial legal system, enhancing financial institutions, increasing taxing capacity, investing in basic education and infrastructure, creating resource and exchange markets, targeting programmes for weaker segments of the population, and devising democratic institutions that accommodate and co-opt the country's various ethnic communities.

Agricultural land disputes, landless discontent, and unequal land distribution increase the risk of emergencies. One preventive measure is equitable land distribution together with policies supporting small-scale agriculture. In addition, secure property and use rights contribute to safeguarding land productivity and reducing deadly political violence. Where vested interests block land redistribution, more modest agrarian reform, such as reform of tenancy terms, can reduce rural poverty. Donors can provide the extra resources, making reforms feasible.

Domestic Management

The prevention of emergencies must start at home. The external management of such crises cannot make up for domestic resource mobilization, public order, and robust political and legal institutions. Domestic strategies are particularly effective if they cater to basic human needs (health, nutrition, and education), promote inclusive social policies, and enhance citizens' political rights and the public accountability of the rulers. The most important causes of emergencies are bad policies and criminal behaviour by elites, difficult to alter from outside. Examples of the relative impotence of external intervention are predatory and repressive actions by Iraq's and Zimbabwe's governments that increase disease and hunger.

The Role of the International Community

Recently donor governments and international financial institutions, in response to demands for justice and legitimacy, have reoriented their policies to promote human rights, gender equality, and good governance that reduce violence. However, external involvement may be too cautious and late to be effective. While external players may subcontract conflict prevention and humanitarian action to NGOs with new modes of civil-military co-operation, at times NGOs face intractable political tangles, especially in collapsing states.

Over the long run, the most effective preventive strategies include stable socio-economic development, environmental protection, secure property rights, enforceable economic legislation, accountable and inclusive political institutions, and respect for basic human rights. Implementing such strategies is difficult, partly because globalization has marginalized many peripheral areas. The absence of constructive international engagement leaves these areas to their own devices, frequently giving local dictatorial elites the chance to pursue their agendas.

The North tends to react only when its people are directly affected or the humanitarian consequences of the local crises are too severe to be overlooked. Punitive reactions include economic sanctions and military interventions that exacerbate rather than resolve humanitarian problems. International programmes address humanitarian crises and peace-building through separate compartments of development aid and the rebuilding of war-torn nations. In Afghanistan alone reconstruction is estimated to cost US $10-15 billion, roughly equal to annual US aid to the entire developing world.

The amount of aid is not correlated with emergencies, and many poor countries are hampered by a high dependence on aid, reducing domestic initiative, technical learning, and export orientation. Still aid to smooth abrupt external price and income shocks, reschedule debt of non-predatory states, diminish food insecurity, invest in education, and support long-term agricultural research and technology has high payoffs, requiring more aid than present. In giving aid, rich countries and international agencies need coherent preventive policies undertaken in concert with local leaders.

E. Wayne Nafziger, University Distinguished Professor of Economics, Kansas State University was Senior Research Fellow at WIDER in 1996-98. Raimo Väyrynen is Professor of Government and International Studies, University of Notre Dame, and was WIDER Senior Research Fellow in 1996-98. They are the editors of The Prevention of Humanitarian Emergencies, *Palgrave for UNU/WIDER (2002).*

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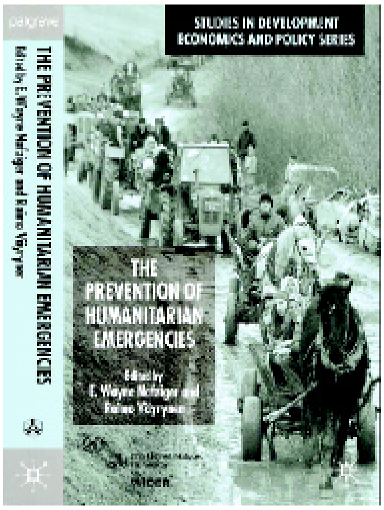

Table of contents

Joe Peoples

Presentation of The Prevention of Humanitarian Emergencies *in New York*

The editors of *The Prevention of Humanitarian Emergencies*, Professors E. Wayne Nafziger and Raimo Väyrynen presented the study in New York on 24 April 2002. The event was chaired by Mr Edward Mortimer, Chief Speechwriter, United Nations Executive Office of the Secretary-General, and Mr Iain Levine, Chief of Humanitarian Policy and Advocacy, Office of Emergency Programmes UNICEF, was the discussant of the presentation. WIDER would like to thank Dr Necla Tschigri, Vice President of the International Peace Academy, for introducing the meeting and welcoming participants.

This event was coorganized by WIDER and the International Peace Academy in New York. WIDER thanks Dr David M Malone, President of IPA, and his staff for hosting the meeting. The meeting was attended by over seventy participants from different units and agencies of the United Nations, international organizations, NGOs, the academic community, and representatives of the media.

Publications from the WIDER project on the root causes of humanitarian emergencies:

The Prevention of Humanitarian Emergencies

Edited by E. Wayne Nafziger and Raimo Väyrynen
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Hardback ISBN: 0-333-96438-1, UK Price £50.00
Publication date: February 2002
Palgrave Macmillan

War, Hunger, and Displacement: The Origins of Humanitarian Emergencies

Volume 1 & Volume 2

Edited by E. Wayne Nafziger, Frances Stewart and Raimo Väyrynen

Series: WIDER Studies in Development Economics
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The first chapters of these manuscripts are available as PDF documents Volume I & Volume II at **www.wider.unu.edu**

Conflict and Financial Reconstruction

by Tony Addison

The last ten years or so have seen 56 major armed conflicts in 44 different locations, most of them civil wars. Different types of conflict have different types of effect on the domestic financial system.

These include: guerrilla insurrections that disrupt the rural financial system (e.g. Colombia today, and Guatemala during its long civil war); cronyism in bank lending linked to autocratic rule (e.g. the Yugoslav Federation in the 1990s and Zimbabwe today); and temporary shutdowns in the financial system caused by military revolt (e.g. Côte d'Ivoire in 1999-2000 and Guinea-Bissau in 1998) as well as successful or attempted secessions (most recently East Timor and Kosovo).

Other types of conflict and their financial effects include: the looting of banks to finance genocide and profit from it (e.g. Rwanda in 1994); civil wars that leave central banks intact but otherwise damage financial infrastructure (Angola from the 1970s onwards and Mozambique during its 16-year civil war); and civil wars that comprehensively destroy the formal financial-system (e.g. Cambodia in the 1970s and Somalia 1992-94). Finally, there are inter-state conflicts in which formal financial institutions are stressed but nevertheless continue to operate (e.g. the 1998-2000 war between Eritrea and Ethiopia).

National priorities for financial reconstruction therefore vary significantly depending on the scale and character of the destruction as well as the country's institutional resources and human capital. And the political dynamics of each conflict (as well as the war-to-peace transition) also play a role.

There is no hard and fast dividing line between 'war' and 'peace', and 'post-conflict' is often a misnomer. Notwithstanding the political challenges, countries should aim for a *broad-based* reconstruction that benefits the majority of people (and not just a narrow elite). Rebuilding the domestic financial system, so that normal economic activity and investment resume, is critical to success.

Institution-Building is Imperative

A country's central bank may remain operational during civil war (e.g. Angola and Mozambique), it may shut down temporarily but reopen relatively quickly (e.g. Congo-Brazzaville and Rwanda), or shut down completely (Somalia's central bank remains closed after its looting in 1991).

Creating a central bank is high on the list of priorities for institution building in countries that have seceded (for example Eritrea in 1993). But institutional capacity may initially be too meagre to create a fully operational central bank (for example East Timor). Capitalisation (or recapitalisation) of the central bank must also compete with other expenditure priorities (including humanitarian and social spending), and it can be undermined by an inadequate fiscal framework (the taxation and public-expenditure management systems often need to be rebuilt or created from scratch).

Reviving the Financial System is Critical to Recovery

Resuming normal economic activity will be severely impeded without a revival of commercial banks and insurance companies. The provision of bank finance for working capital, fixed investment, and residential reconstruction must also restart.

Banks may take considerable time to restore their capital base, restructure their bad debts, and re-equip and re-staff themselves. On the demand-side, loss of collateral (compounded by delays in property restitution), the destruction of business records, and difficulties in obtaining insurance combine to intensify the credit-market problems that typically disadvantage any but the largest borrowers. This hits small and medium sized enterprises which otherwise constitute a potentially powerful source of post-war employment growth.

Damaged judicial systems also make it difficult to enforce contracts, thereby deterring lenders. Some of Rwanda's borrowers defaulted safe in the knowledge that creditors were unlikely to pursue them through the courts, which were overburdened in dealing with the genocide's perpetrators.

Easy Bank Licensing leads to Unsound Banks

As a result of the pillage of state and commercial banks by insiders (often connected to powerful elites), financial systems are often insolvent (or close to it) prior to the start of major violence (e.g. Congo-Brazzaville, Indonesia, and Somalia).

Fiscal transfers traditionally covered the losses of state banks. But expenditures for post-war reconstruction and poverty reduction make large demands on public funds (which typically remain low until the economy's tax-base starts to recover). Therefore little public money is available to recapitalise state banks, and infusing private capital (both domestic and foreign) by means of complete or partial bank privatization is favoured. Mozambique's two largest banks were created out of the former state banking system in this way.

Although privatization and the licensing of private banks helps to recapitalise the system, the process can be highly non-transparent, especially when it begins during war. Private banks in conflict-affected countries are often licensed on highly favourable terms.

Strengthening Regulation is Politically Challenging

Conflict-affected countries have seen the relaxation of controls on deposit and lending rates (and practices). Financial liberalization has merit for economies that have otherwise failed in the strategy of directing credit to selected priority-borrowers (state-controlled financial systems and directed credit worked well in the reconstruction of Japan and some Western European economies after World War II, and in the post-war reconstruction of South Korea in the 1950s).

But financial-liberalization only works when financial regulation and supervision improves as well (as financial crises over the last two decades demonstrate). Legal reform must also create clear property rights (for collateral-based lending) and punish fraud.

The weaknesses prevalent in the financial systems of developing countries are seen in acute form in conflict-affected countries. Considerable technical assistance is required. Professional staff must also be paid a salary commensurate with their responsibilities (otherwise they will leave for the private financial-sector).

Political interference in supervision is acute in conflict-affected countries, especially when the oversight provided by such democratic institutions as parliamentary committees and an independent media is weak or absent. Warlords may own private banks and other financial institutions, originally capitalised with war booty (e.g. Liberia and the former Yugoslavia). Furthermore, the legal framework in which to pursue bank fraud is often grossly inadequate and corruption is often rife.

Not surprisingly, bank crises are frequent. In 2000 two of Mozambique's largest banks reported losses totalling US$ 177 million. Bank crises result in credit contractions which undermine growth. And their fiscal cost is often substantial (thereby taking resources from development spending, including pro-poor services and infrastructure). As a part shareholder in the country's two largest banks, the Government of Mozambique's share of the losses is estimated to be US$ 130 million (3 per cent of GDP).

Reconstruction for Broad-Based Recovery

The key challenge is therefore to rebuild economies so that the benefits of recovery are spread as widely as possible across society, and especially down to the poor. Such broad-based recovery requires considerable institution building, together with the reform of institutions that are not working well (and whose deficiencies may have contributed to the general economic decline that often precedes the outbreak of civil war).

However, narrow reconstruction—which benefits a political and economic elite, sometimes including those who profited from war—will occur unless national authorities prioritise the poor. Democratic oversight of state-institutions to ensure that they act in the public interest is also critical. And the international community must provide adequate technical assistance, as well as external finance, to support national priorities.

When there are so many humanitarian needs and so much human misery connected to war, it might seem overly narrow to discuss the seemingly esoteric issues of financial-sector policy. But there is little prospect for a fast recovery in output and employment without a well-functioning financial system. And without economic recovery, demobilised fighters will have few livelihoods other than war and crime, and economic hardship will enable demagogues to exploit ethnic rivalries and tensions, thereby undermining peace itself.

Tony Addison is deputy director, WIDER. A longer version of this article appears as a briefing paper of the DFID Finance and Development Programme (www.devinit.org/findev and www.man.ac.uk/idpm). Papers arising out of this research can be found at the WIDER Web site www.wider.unu.edu. See also: T. Addison, P. Le Billon, and S. M. Murshed (2001), 'Finance in Conflict and Reconstruction', Journal of International Development, *Vol.13 No.7.*

National priorities for financial reconstruction vary, depending on the type of conflict and the country's resources

Central bank functions must be rebuilt, or created from scratch, and this demands considerable financial and human resources

Reviving the commercial financial system is impeded by the banks' loss of reserves, and the destruction of financial records

Non-transparent privatization and easy bank licensing lead to the creation of unsound private banks

Prudential regulation and supervision is crucial to protecting the public interest and to avoiding destabilizing financial crises

A Fair Deal for Consumers? The Impact of Latin America's Infrastructure Reforms

by Cecilia Ugaz and Catherine Waddams Price

How have consumers fared from the sale and introduction of competition to the traditional 'public utilities' (electricity, water, telecommunications, etc) in Latin America? Have some consumer groups benefited more than others from increased coverage and changes in price structure? These issues are crucial both for countries considering introducing such reforms, and for those who have already introduced them and are discussing future policy.

This WIDER project explores these questions for four Latin American countries where extensive reforms in the utilities sectors have taken place, starting in Chile in the 1980s (the pioneer in the region) and more recently in Argentina, Bolivia and Peru. These four cases were compared with two European countries: Spain because of her continued investment in Latin America, and the UK because of her influential experience in the field. The experience of the UK is also relevant because of recent concerns with distributional issues which led to reform of the regulatory law in 2000 by the Labour government. These case studies have been complemented by more general considerations of the role of Universal Service Obligations, subsidies and of regulation, the determinants of connection to utilities world wide, and the effects of utilities reform in a general equilibrium framework.

Distributional Impacts are Complex

The distributional impact of reforms between consumer groups depends on two main factors. The first is changing access to the services. This may arise from increased investment to expand the network leading to better geographical coverage or, in the case of fixed line telecoms, the presence of a substitute. The second factor is changes in affordability. Price rebalancing, for example between a fixed charge and the charge per unit or between rural and urban areas or among different categories of consumption (residential, commercial, industrial, etc) has a direct impact on affordability both for new and previously existing consumers.

Ara Kazandjian

Internet connections are no longer exceptional services

The Latin American region, as other regions in the developing world, is very 'vulnerable' to distributional concerns. There are large areas of these countries where there is no effective access to many infrastructure services, and there is a major disparity in the ability of consumers to connect physically and financially to the network. In the past, cross-subsidies have generally been extensive, both in size and in coverage. But, they have often benefited those with political power, the urban elite, rather than necessarily those in greatest need. As a result, the current challenge is to reach the poor (particularly in rural areas) who have been excluded from networks and subsidies.

The WIDER project, undertaken by experts in each country, estimated changes in access (measured as the number of connections) and in the consumer surplus (a measure of consumer welfare favoured by economists) using data from household surveys for years pre- and post privatization. The partial equilibrium approach used clearly imposed limits on the analysis, but nevertheless captures an important aspect of the reform programme.

One overall pattern is that the effects are often greater for industries privatized earlier, perhaps because those which are easier to open to competition, i.e. telecoms, are more likely to be reformed first. Some of these effects may emerge later in other industries, albeit more slowly. Causality is also difficult to determine. Changes in connections and in consumer surplus are unlikely to be exclusively attributable to privatization and associated reforms.

Access has Mostly Increased

The number of connections has increased in Bolivia and Peru, particularly for telephones. Moreover benefits do not seem to have bypassed the poor. In Bolivia there is evidence that connection rates for the poor increased faster than for other groups across all utilities. In Peru, the pattern of access is similar. In Chile, service coverage increased for most income groups. Electricity coverage increased most dramatically amongst the lower income deciles, and telephone coverage amongst middle income groups. Measuring changes in access for Argentina was more complicated because the only available household survey corresponds to 1997 but statistics from the annual reports of the companies operating in the sectors

Value of privatizations in Latin America, US$ millions			
Total	**1998**	**1999**	**2000**
Total	**42 291**	**12 374**	**18 464**
Argentina	598	4 082	309
Bolivia	---	137	27
Brazil	36 600	4 440	12 260
Chile	186	1 434	429
Colombia	470	292	433
Mexico	581	360	4 298
Peru	292	301	380
Venezuela	174	37	23
Other	3 390	1 291	305

Source: ECLAC, Economic Survey of Latin America and the Caribbean 2000 - 2001

indicate an increase in the total number of service users.

For pre-existing customers, the telecoms sector in Peru showed substantial consumer welfare losses associated with the increase in fixed charges for telephones. The effects are negative for all income quintiles, although surplus losses are larger for the poorest consumers, who use the telephone less intensively. For Peru there were positive changes in consumer surplus for telecoms, though water and electricity effects remained negative for all income quintiles. This calculation reinforces the perception that gains in access in some cases dominate the negative effect of higher tariffs on consumer welfare.

In Argentina most residential consumers have gained from telecoms and electricity price changes, but the poorest have the lowest absolute gain and improvement relative to their income. In gas, water and sewerage there are losses across the board. For low-income groups these losses are higher relative to their income. Again, Bolivia is similar in this respect to Peru: consumer welfare losses from electricity consumption are in general greater in the richer quintiles. The results for the area of the water concession of the city of La Paz/El Alto also show consumer surplus losses but these were smaller than in other departmental capitals where there had been no reform of the water and sanitation system.

In conclusion, we see a mixed picture. Prices have often risen as a result of reforms, and this has frequently adversely affected low income groups more than others, either in absolute or relative (to income) terms. But most networks (including cell telephony) are extending their coverage, and the poor, who have had least coverage to date, are benefiting more than other groups in most cases. Changes in access were crucial, and often dominated the effect of changing prices for those already connected. The analysis may underestimate consumer gains as it does not account for quality improvements. However, the deficit of connection, particularly for water and sewerage, remains high in many Latin American countries, as reforms have concentrated on urban areas. Concerning the evolution of tariffs, one way of circumventing monopoly power is strengthening regulation, making it more participatory. The experience of the UK and Chile also show that introducing competition wherever possible is the ultimate tool to curb increases in tariff levels, though it may result in price rebalancing which adversely affects the poor in the short term.

State owned provision of utilities and subsidised tariffs did not necessarily benefit the poor because provision did not reach low income and rural consumers

Reforming utilities can improve poor people's access to services

The number of poor households connected to services increased after privatization, especially in telecoms

Gains in access by the poor were negated by tariff increases or rebalancing, particularly when pre-reform prices were below costs

Regulators may have to choose between efficient prices and protecting some vulnerable consumers in the short run.

Where feasible, competition is more efficient than regulation, but may mean rapid price rebalancing and substantial immediate losses for some groups as cross-subsidies are eroded

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Standards, Codes and Pension Flows

by Helmut Reisen

The case for mutual benefits arising from the global diversification of portfolios holds well for funded retirement savings. While in the developed world unfunded (pay-as-you-go) pension schemes are locked into the ageing economy, fully funded pension schemes would not escape demographic pressures if their assets were to remain invested in ageing countries alone. Indeed, when only ten years from now the baby boom generation will start to draw on the funded pensions, the impact of that decumulation on local asset prices and thus on pension benefits might be negative.

The superior growth performance of the developing countries and the low correlation of returns generated by the emerging stock markets with those of the developed stock markets promise higher pension benefits. Differences with respect to the exposure to country-specific shocks, the stage of economic and demographic maturity and the (lack of) harmonization of economic policies suggest that the diversification gains will not disappear quickly.

Portfolio Equity Flows and their Benefits

Portfolio equity flows have played an important role for external firm finance in emerging countries. Increases in equity flows have been associated with significantly lower cost of capital and higher per capita economic growth. Deep and liquid stock markets facilitate capital re-allocation from low-return to high-return activities and the incubation of new start-ups. Recent empirical research for a panel of developing countries has found that portfolio equity flows exert a higher independent growth effect than even foreign direct investment flows (while the benefit of other forms of flows is contingent on the health of local banking systems).

Until the mid 1990s, emerging-market assets have delivered superior returns to investors but subsequently have suffered from a series of financial crises. The recent poor performance of emerging markets has often been attributed to weak local banking systems, lack of transparency and poor corporate governance practices. This has prompted the current international effort to codify best practices and to disseminate them widely. The Financial Stability Forum (FSF), itself established in April 1999 as part of the effort to strengthen financial systems and improve coordination among the agencies responsible for them, posts on its Web site the *Compendium of Standards* (www.fsforum.org/Standards/Home.html), citing 69 (!) standards. Of these, twelve have been highlighted as key for sound financial systems.

LEHTIKUVA / REUTERS/Alejandro Kaminetzky

Banks in Argentina halted operations during the crisis

Standards and codes so far seem to have found little investor attention; since the process started private capital flows to developing countries have been declining steadily; Argentina, which has been the emerging-market champion for its adherence to financial standards, is now effectively excluded from global capital markets. But there are signs now that institutional investors are starting to pay attention to standards and codes.

At the end of February the California Public Employees' Retirement System (CalPERS), the biggest public pension plan in the US with an investment portfolio of US$ 151 bn, decided to withdraw from Indonesia, Malaysia, the Philippines and Thailand, while taking new equity positions in Hungary and Poland. CalPERS' move followed a review of its 'permissible country' criteria, increasing the weight of elements that qualify for 'socially responsible investment'. While CalPERS' investment in Asia has been modest, its eminent position will provide an important signal to other institutional investors.

In the new model adopted by CalPERS for investing in emerging markets, market liquidity and volatility, market regulation and investor protection, capital market openness, settlement proficiency and transaction costs account for 50 percent of the scores. Political stability, financial transparency and labour standards account for the remaining 50 percent. Only 13 emerging markets have been defined as 'permissible'. Of these, curiously, Argentina (currently rated by Moody's and other agencies in 'selective default') scores best according to the investment criteria. The choice of emerging markets in which the model allows CalPERS to invest will be reviewed annually.

Accounting Transparency in Top US and Asian Companies, 2001

	Nasdaq Top Five [1]	S&P 500 Top Five [2]	Asia Top Five [3]
GAAP P/E Ratio	159	37	8
Pro Forma P/E Ratio	52	31	9
Earnings gap, in %	-206	-19	+3

Source: Credit Lyonnais Securities Asia; SmartStockInvestor.com

[1] Microsoft; Cisco Systems; Intel Corp.; Dell Computer Corp.; Oracle Corp.
[2] General Electric Co.; Exxon Mobile Corp.; Microsoft; Wal-Mart Stores Inc; Intel Corp.
[3] China Mobile Ltd, Taiwan Semiconductor Manufacturing Co.; Hutchison Whampoa Ltd; PetroChina Corp.; Cheung Kong (Holdings) Ltd.

The table above indicates that blue-chip Asian companies now seem to keep more transparent accounts than their US counterparts, while investors have been paying a premium (in terms of higher price/earning ratios) for US stocks partly because of the perceived superiority in the quality of their earnings reporting. Last year, however, the gap between pro forma earnings, which exclude many expenses (such as stock options), and actual earnings, reported according to generally accepted accounting principles, was considerable in blue-chip US firms while even mildly negative in the top Asian firms.

CalPERS' country blacklist can be compared to the long-practised *country ceiling policy*, that the major rating agencies have just started to give up for good reason. Recently, both Standard & Poor's and Moody's announced that they will allow certain borrowers to 'pierce' the country ceiling, i.e. to obtain better ratings than foreign-currency bonds of the government in their respective domiciles. In a globalized economy, national jurisdictions have lost importance in determining a company's ability and willingness to honour liabilities.

Pension Funds and Emerging Markets

By pronouncing young developing nations, rather than single companies, unfit for their investment, an ageing country's pension fund will hurt its pension beneficiaries and developing-country workers alike. It severely limits its global portfolio diversification benefits and withholds capital from the poor in developing countries, possibly making labour conditions even worse. Some of the investment criteria emphasised by CalPERS are endogenous to their own investment attitude: to develop deep and liquid stock markets in poor countries with a small local investor base requires the help of inflows. Pension funds, based on their long-term liability structure, are investors cherished by emerging markets, as pension flows do not belong to the hot-money variety and can help improve market infrastructure and corporate governance in the recipient countries.

Moreover, the ban will not prevent capital to flow; it just deteriorates the terms (by raising capital cost in the excluded country) and alters the form of the flow (by discouraging portfolio equity but implicitly encouraging foreign direct investment). To the extent that the withdrawal of pension funds from emerging stock markets depresses stock market valuations, capital cost will rise in the affected countries. This makes emerging-market companies cheaper acquisition targets. Pension funds will stay invested in countries even if these are deemed not to be 'permissible': through their investment in, for example, US companies with significant manufacturing presence and affiliates in those same places that become a cheaper host to foreign direct investment.

At the margin, however, country-specific investment criteria may provide a catalyst for changes in governance, openness and transparency practices. The authorities of those countries on the radar screen of institutional investors that are close to making it onto the list of investible countries may be enticed to carry out final steps, for example in bank regulation or market openness, to push them into the investible-market league.

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The Euro's Impact on the Developing and Transition Economies

by Charles Wyplosz

With all the hype in Europe and on financial markets worldwide, what does the birth of the euro mean for the developing and transition countries? Good news? Bad news? Or no news at all? This article summarises some of the results emerging from a recently completed WIDER project on the European Monetary Union (EMU) and its impact on Europe and the rest of the world.

Three Effects on Developing Countries

There are many ways in which the single currency could affect the developing countries. First comes trade. If the euro indeed reshapes specialization and trade patterns, this could change market shares for every one of its trade partners. For example, if the euro encourages further trade integration within Europe, the result will be some degree of trade diversion, most likely at the expense of developing countries. If, on the other side, the euro re-dynamizes Europe, this could mean a growing market. Second, what about a possible reshaping of the international monetary system as we see a recent trend towards polar exchange rate regimes—floating rates and currency boards or dollarization? Third, is the possible replacement of the dollar as a currency of invoicing and of setting commodity prices, an important development for countries whose exports are little diversified?

We find that the trade links of developing countries with Europe are too weak to have much of an effect, positive or negative. Possible exceptions are a few countries, mostly around the Mediterranean basin and in Africa's CFA zones. Financial linkages are potentially more substantial. Flows of private savings from developing countries are likely to be diversified away from the dollar and into the euro, including in offshore markets. European savings, so far diversified across many European currencies, could look for new support currencies, opening up a niche that some developing countries could be able to exploit. This would increase the already existing trend towards emerging markets in Asia and Latin America, but the size of the effect is unlikely to be earth-shaking. At the official level, diversification of foreign exchange reserves is found to be slow and small. More substantial, maybe, is the possibility that a deep and efficient bond market in euro will allow some developing countries to match the currency denomination of their indebtedness with their trade flows.

New Currency Areas May Emerge

The interplay of politics and economics when it comes to the choice of an exchange rate regime cannot be ignored. There is a looming rivalry between the US and Europe to offer their currencies as the reference for a peg, and possibly for outright adoption, with the yen as a third contender. The argument here concerns not only the economics of an exchange rate regime and the anchor currency, but the political aspects too. Politicians are sensitive to influence, protection and prestige. Developing countries might exploit this rivalry in a number of ways. One possibility is to keep equal distance between the euro and the dollar by adopting basket pegs. Another is the emergence of two or three very large currency blocks, Latin America becoming dollarized, part of Africa and of the Mediterranean basin being euroized, and Asia being on the yen or even the Chinese renminbi. Yet another possibility includes currency areas among developing countries.

One such currency area has been in existence for decades. The CFA zones, which regroup most of the francophone part of the African continent, have operated as currency areas tied to the French franc, and they are now de facto tied to the euro. Our study asks how this choice could be affected by the creation of EMU. African countries have very little trade with each other, so the intra-regional appeal of a currency union is very modest. Most of sub-Saharan Africa's trade links are with Europe. Thus, for those countries which wish to adopt a fixed exchange rate regime, the euro is the obvious choice. This choice would be reinforced were the United Kingdom to join EMU. It could bring the francophone and anglophone countries under the same roof. Such a move could well succeed in triggering economic cooperation throughout much of the continent, a feature that has been conspicuously lacking so far. EMU might have a demonstration effect, promoting currency boards or even full euroization. However, our study casts doubt on this effect.

Impact on Primary Commodity Prices

What of the impact of the euro on primary commodity prices, a vitally important question for many developing countries? Europe is an important player in commodity markets, on both the demand and supply sides. Commodity prices are highly volatile, as volatile as exchange rates, and WIDER's project has analyzed the sources of volatility. The study finds that, in the past, major changes in exchange rate regimes (during the post-World War II era) have significantly affected the behaviour of commodity prices—the effect varies from commodity to commodity—and this is an important starting point. It is also the case that commodity prices are sensitive to

Share of EMU in exports from and imports to Africa

	Imports to Africa Average	Minimum	Maximum	Exports from Africa Average	Minimum	Maximum
EMU as % total	35.6	4.9	71.8	38.4	3.9	88.1
EMU as % industrial countries	63.1	19.9	96.6	67.0	14.0	99.3
EMU+UK as % industrial countries	74.7	32.7	97.3	75.0	14.4	99.4

Note: Unweighted country averages
Source: *The Impact of EMU on Europe and the Developing Countries*, edited by Charles Wyplosz, OUP, 2001
Chapter 12, 'Will the Euro Trigger More Monetary Unions in Africa?', by Patrick Honohan and Philip R. Lane

changes in the volatility of the main currencies. As a major, historical, step in monetary arrangements, the euro is therefore likely to have an impact on commodity prices, but which one? One possibility is that the advent of euro could foster more overall exchange rate stability. This would certainly be good news for the developing countries if it led to reduced export income volatility.

Impact on the Transition Economies

The transition countries are particularly interested in the adoption of a single currency. Europe is their main trading partner, by a large margin. Many transition countries are already in the process of accession to the European Union; they will have to determine their position vis-à-vis the euro, which they will eventually adopt as their own. What is the proper exchange rate regime for the transition economies on their way to full EMU membership? This is a topic whose importance is likely to grow in practical importance and is much in need of research.

The place to start is to ask what is special about the transition countries and, in particular, how different are they from countries which were previously in accession to the European Union. Several considerations arise. Having initially suffered from high inflation, most transition economies have had to restore their credibility. Some have adopted tight currency pegs, in some cases even currency boards, others have pursued independent stability-oriented macroeconomic policies. They have tightened their monetary policies, of course, but many also managed to close down often huge budget deficits. At the same time, the transition countries have had to undertake the massive structural changes required to establish a market mechanism and to change their industries and trade patterns. While a few have a gone a long way down that road, they are not home yet, and several others are still in the early stages.

Three of the most important challenges faced by transition economies are: building up central bank credibility, disciplining fiscal policy, and structural reforms. These three tasks are inter-related. Low inflation implies little seigniorage, hence the need to resort more heavily to distortionary taxation. Poor, unreformed, economic structures imply high tax distortions. In such a situation, research shows that many standard results are challenged. It is no longer clear that a conservative central banker is desirable: the best degree of conservatism is not set forever, it rises as reform progresses. Nor is an independent central banker optimal; the optimal central bank recognizes that inflation affects tax distortions. Monetary and fiscal policies can be too tight in the sense that a shock may prompt the government to renege on its commitment to reform.

On the way to EMU, these results matter a great deal for the relationship between the transition countries and the European Union. The conventional wisdom is that the accessing countries must converge in the sense of Maastricht: low inflation, low budget deficits and ERM membership, including full central bank independence as defined in the treaty. Our research shows that these constraints work as a commitment device and, as such, may be useful where governments cannot restrict themselves to a set of consistent policies. But these constraints leave out the reform process, quite possibly the transition countries' critical policy objective. As reform progresses, overlooking the need to pursue an active reform process becomes of second order of importance, but it is not so as long as serious distortions survive. The best trajectory might be one where the accession conditions put heavy emphasis on structural reforms and much less on traditional Maastricht-type criteria. In particular, straight-jacketing monetary policy within the ERM may have counterproductive effects on fiscal discipline, or lead to highly distortionary taxes, and could possibly slow down the reform effort.

In summary, EMU has significant implications for the developing and transition economies. Some of these can be predicted now, but others will take many years to emerge.

Professor Charles Wyplosz is with the Department of Economics at the Graduate Institute of International Studies, Geneva. He was the project director for the WIDER study on EMU, and is the editor of The Impact of EMU on Europe and the Developing Countries, *Oxford University Press for UNU/WIDER.*

By Invitation

Modest Hope at Monterrey

by John Langmore

Despite the weakness of the outcome document, called the Monterrey Consensus, a sense of modest hope grew during the International Conference on Finance for Development, held in Monterrey, Mexico, from 18 to 22 March.

Fifty-one heads of state and government attended, including Presidents Bush, Castro, Chirac, Fox, Halonen, Mbeki and Obasanjo and Prime Ministers Aznar and Chretien and many others and over 200 finance, foreign, development cooperation or other ministers, including not least US Secretary of State Powell and US Treasury Secretary O'Neill.

Strengthening the UN

The principal significance of this Conference is that it is the first time for two decades—since President Reagan's condemnation of the Brandt Report at Cancun in 1980—that the US and other powerful developed countries have allowed substantive discussion of economic and financial policy issues outside the IMF and World Bank in the more representative and transparent UN.

Another benefit is that there has been growing cooperation between countries, business and civil society organisations, and strengthened coherence within the UN system, between the UN Secretariat, the funds and agencies and the IMF and the World Bank, around the commitment to the Millennium Development Goals for poverty reduction.

The Monterrey Consensus is certainly a disappointing document. It is general and imprecise and fails to address systemic issues. This was noted in speeches by delegates from a considerable number of countries, not all of them developing. It includes few concrete initiatives.

However many systemic issues are still mentioned, suggesting willingness to keep talking about them, and many delegations explicitly said this. Subjects mentioned but not discussed include not only many aspects of domestic resource mobilization, foreign direct investment, trade, aid and debt reduction, but also international financial stability, improving the representation of developing countries in the governance of international financial institutions, cooperation about domestic tax matters between countries, and new and innovative sources of financing.

The Spanish Prime Minister, for instance, speaking on behalf of the EU, said that the Union will explore innovative sources of financing and will 'strengthen the voice of developing countries in international economic decision-making'. So foundations were laid for future discourse at United Nations forums such as the Economic and Social Council.

Increased ODA

The conference provoked many donor countries to announce increases in official development assistance (ODA). The EU has decided to increase average ODA to 0.39 per cent of GNI by 2006, with all Member Countries aiming for a minimum of 0.33 per cent by the same year. This will increase the Union's annual aid by US$ 7 billion by 2006, in addition to the current US$ 25 billion. Ireland announced that it would reach 0.7 per cent by 2007, Belgium by 2010. France has undertaken to keep ODA above the EU average.

The United States plans to increase current ODA of US$ 10 billion by US$ 1.6 billion in fiscal 2004, US$ 3.2 billion in 2005 and US$ 5 billion in 2006 and to maintain that level. President Bush said that ways would be sought to begin this increase immediately (this will still leave the US as the lowest per capita donor, however). The Canadian PM said that his country would increase aid by 8 per cent a year in the coming years.

Innovative Proposals

One of the most significant benefits of the Conference was that it provided a forum for presentation and discussion of new ideas. There was much interesting advocacy of innovative proposals in speeches at the plenary sessions, at the Ministerial Roundtables and at side events. Governments made some proposals, and civil society, business and scholars made others. Some examples follow.

There was widespread support for a new issue of special drawing rights, to be allocated to developing countries. George Soros has been actively and effectively campaigning for this for the last few months, after years of advocacy by many others. Countries with about 70 per cent of the votes at the IMF support such an issue. An attempt was made by European allies during the Conference to persuade the US Administration to seek Congressional support for a new issue. The US has 17 per cent of votes, which would have taken support over the 85 per cent required to authorize an issue. They have not yet agreed.

There was general interest in more discussion about strengthening and extending global public goods. Despite earlier American opposition, the European Union 'will promote setting up of an international task force on global public goods'. This is certainly going to happen.

President Chirac, the German Development Minister Wieczorek-Zeul and a number of other national spokespeople supported the establishment of an economic and social security council.

Quite a number of countries expressed support for a currency transaction tax (CTT) and/or a carbon tax. Germany organized a presentation of a supportive report on a CTT commissioned by their Development Cooperation Ministry.

Many countries supported improved cooperation between national taxation authorities to facilitate reduction of tax avoidance and evasion and China, Algeria and others supported establishing an international tax cooperation forum.

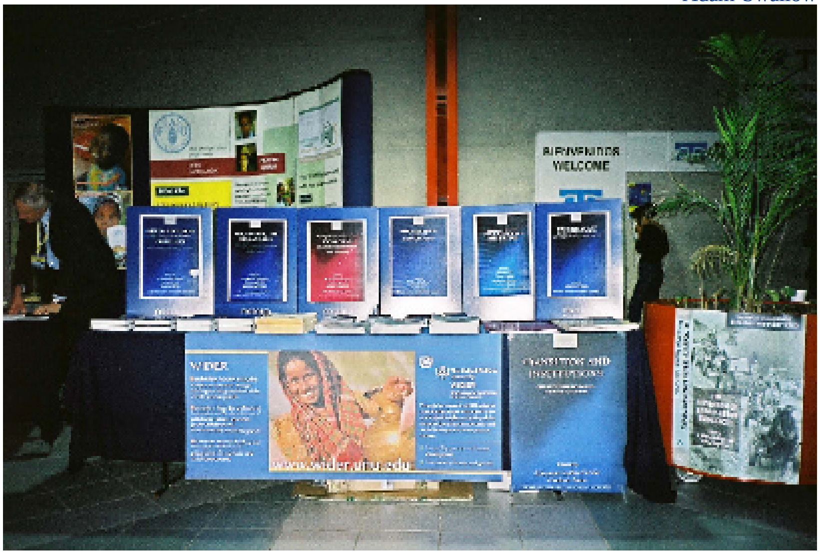
Fifteen detailed proposals for innovative ways of mobilizing private finance were presented at the Business Forum, many involving partnership between the public and private sectors.

Implementation, monitoring of outcomes and further consideration of the undecided issues are now up to donor and developing countries, to international organisations, to business, to civil society and to all of us who are concerned with the great immediate global moral challenge, to halve the number of people living in poverty by 2015.

John Langmore is Representative of the ILO to the UN in New York. John Langmore was Director of the Division for Social Policy and Development in the Department of Economic and Social Affairs in the UN Secretariat. Previously he was a member of the Australian House of Representatives where he chaired several committees on economic policy, trade, social justice and the environment. He also worked for many years in Papua New Guinea. His books include Work For All *and* Wealth, Poverty and Survival. *E-mail: langmore@nycilo.org.*

WIDER at the UN Financing for Development Conference, Monterrey, Mexico

Adam Swallow



WIDER's stand at Monterrey

A group of 171 nations, over 300 ministers of state including 58 heads of state, country delegates, and representatives of international organizations including the World Bank, IMF, EU, FAO, IFAD, UNICEF, and WHO, participated in the United Nations International Conference on Financing for Development in Monterrey, Mexico 18-22 March 2002, to discuss all aspects of the Millennium pledge to halve poverty in the world by the year 2015 and the means to strengthen the United Nations.

UNU/WIDER participated at the Conference. WIDER was represented by Ara Kazandjian and Adam Swallow. The Institute's publications were presented to the conference participants and the audience at a special exhibition stand in the main lobby of the conference hall.

Adam Swallow

WIDER's stand at Africa 2002

WIDER participated in the Africa 2002 event in Helsinki, organised by the Ministry of Foreign Affairs of Finland, 18-21 April 2002. The media reported over 27,000 visitors to the seminars, lectures, discussion forums and the extensive cultural programme. Pictured with the WIDER display is Mirka Laasonen, answering questions about our research and publications.

ICT and Economic Growth in Asia

by Sailesh K. Jha

Exports have been one of the key drivers of economic growth in several Asian DMCs in the 1990s. During this period the composition of exports, in value terms, has become more concentrated in Information, Communications, and Technology (ICT) products. As a result, countries such as Korea, Malaysia, Philippines, Singapore, Taipei-China, and Thailand benefited from the global ICT capital spending boom of 1990-1995, in terms of strong real GDP growth. Symmetrically as global demand for these products slowed in 1996-1998, along with other country specific and regional factors, growth slowed during this period in these countries, only to pick up once again in 1999 as demand began to recover. In 2001 as the global economy slowed, demand for ICT products slowed once again. In the short to medium term, the policy concern is whether the ICT export dependent economies can continue to rely on these narrow product lines for boosting their real GDP growth performance.

Asia's ICT Exports

The Table shows that there is a significant difference in nominal export shares of ICT products in comparison to their counterpart in real terms. Hence, a distorted view of exposure to ICT exports would emerge if nominal values were taken as the benchmark. For example in Singapore, the nominal share of ICT exports to nominal GDP stood at 80.69 per cent in contrast to the corresponding figure in real terms at 129.20 per cent in 1999. It can be argued that 1999 was a boom year globally for ICT product demand, however data from earlier years also suggests the under representation of ICT exports as a share of GDP when nominal figures are utilized. This finding holds for all the other countries in the sample used in the study. The extent of the actual downturn in GDP growth in 2001 (which was much more severe) in comparison to the forecasts made for these countries in the first half of 2001 may be partially due to the use of nominal ICT export figures. The divergence results from the difference in movements of ICT export prices versus overall prices of exports of goods and services. On average, the findings suggest export prices of ICT products have been falling since the mid 1990s, while that of all goods and services has been quite volatile and no trend is observable. The most highly exposed economy to ICT exports is Singapore, followed by Malaysia, Taiwan, Korea, Thailand, and Philippines. This is consistent with the weak GDP growth performance observed for Singapore, Malaysia, and Taipei-China which ranged from –2 to 0.4 per cent in 2001. While in Korea, Philippines, and Thailand GDP growth ranged from 1.5 to 3.4 per cent in 2001.

To further illustrate the reason (partially) for the divergence in 2001 GDP growth performance across the countries, the contribution of real exports of ICT products to GDP growth is calculated. In Korea, ICT exports contribution to GDP growth historically has been significantly lower in comparison to Singapore, Malaysia, and Taipei-China since exposure as a percentage of real GDP, as mentioned above, has also been lower in comparison. The case of Thailand is interesting since its exposure is similar to that of Korea, however GDP growth in 1999 and 2000 (which were boom years for global ICT product demand) was relatively subdued. Structural factors (related to reforms) and domestic demand conditions may partially explain the divergence in growth performance. However, it may also be that the value added of ICT exports is low in comparison to Korea, partially due to the high import content of exports and the assembly type of products being shipped from Thailand. For the Philippines, this line of reasoning is supported by the evidence presented below for explaining the subdued GDP growth performance in 1999 and 2000, in addition to its relatively lower exposure to ICT exports. However, for Thailand, the common perception that ICT exports are mainly assembly type goods is not supported by the evidence.

Asia's Comparative Advantage

In terms of comparative advantage, the calculations show that countries, including the PRC, as a whole are relatively more specialized in the manufacture of ICT products as opposed to the common perception that the region has a comparative advantage in mainly assembly operations. This masks intra-regional differences in comparative advantage between manufacturing versus assembly type operations.

Korea, Malaysia, Taipei-China and Thailand specialize in primarily manufacturing type operations. In the case of Korea, Malaysia, and Taipei-China their comparative advantage has increased in the exports of PC and office equipment over the last five years, while in other categories such as telecommunications and electrical machinery and components the trend has been on the decline. In Thailand, not much in the way of changes in comparative advantage have taken place across the three product lines until now.

The anomaly is Singapore, where it was ex-ante expected that it would have a strong comparative advantage in final goods production, given its high skill base and involvement in research and development activities, but our

ICT Exports/GDP Ratio (Real Exports of 1975-1977/Real GDP)	1993	1995	1997	1999	2001
Korea	5.77	8.66	10.57	20.67	35.72
Malaysia	26.58	40.26	43.52	62.80	63.07
Philippines	2.93	4.71	21.47	16.53	na
Singapore	72.52	97.86	110.28	129.20	na
Taipei	na	13.99	18.14	28.66	32.19
Thailand	5.85	8.92	11.60	16.03	27.37

Source: Sailesh Jha, ICT Export Prices and Volumes in Select Asian DMCs: Time Series Evidence and Implications for Economic Growth.

calculations show that it has only a mild comparative advantage. It is also of concern that Singapore has been losing comparative advantage across all three product lines.

The Philippines has been moving more towards assembly type operations in the ICT sector, specializing in PC and office equipment and exports of components.

In PRC, the evidence is inconclusive in determining whether specialization is in final goods or assembly type operations. The calculations do suggest that the PRC has been gaining quite rapidly in the production of final ICT goods in the form of PC and office equipment, and telecommunications and sound recording equipment over the last five years.

Asia's ICT and Growth

There is substantial variance across major Asian economies in terms of the ICT export sector's ability to serve as a primary engine of growth in the short to medium term. In the case of Korea, Malaysia, and Taipei-China, which specialize in exports of PC and office equipment, prospects for the ICT export growth remain favorable since comparative advantage has been rising within this product line and mainly in high value added final goods production. The boost to GDP growth will be relatively larger in Malaysia and Taipei-China since their ICT exports to GDP ratio is higher than Korea's. For Thailand, historically the ICT export sector has not provided much of a boost to GDP growth, even though its exposure to the sector is comparable to that of Korea, although concentrated in electrical machinery and components production. Further research is needed to address this dichotomy between Korea and Thailand. For Singapore, medium to long term prospects for the ICT sector are quite precarious since comparative advantage has been on the decline across product lines. The Singapore government's new Economic Advisory Committee is in the process of addressing competitive related issues for the island economy, which includes examining future prospects of the ICT sector. For the Philippines, the threat from the PRC and low labor cost economies such as Vietnam is formidable since it engages in mainly assembly type production.

Lastly, the perceived threat from the PRC in terms of its ICT exports out competing Southeast Asia is credible for some countries. For countries such as Malaysia, Thailand, and Singapore which export a substantial amount of final ICT products, the competition from the PRC is severe since the evidence suggest that the PRC is gaining comparative advantage in goods production such as PC and Office equipment. For the Philippines, there may be some positive spillovers from the PRC in the area of PC manufactures. The PRC does not have a comparative advantage in exports of parts and components, while the Philippines does. As PRC PC exports rise, the demand for parts and components will also pick up, which will boost Philippine ICT exports.

Sailesh K. Jha is an Economist with the Macroeconomics and Finance Research Division, Economics and Research Department, Asian Development Bank (www.adb.org). This article is based on his 2002 study 'ICT Export Prices and Volumes in Select Asian DMCs: Time Series Evidence and Implications for Economic Growth'. The views expressed are those of the author and should not be attributed to the Asian Development Bank or its Executive Director.

2002 WIDER ANNUAL LECTURE

Winners and Losers in Two Centuries of Globalization

Jeffrey G. Williamson

5 September 2002, 14:00 - 16:00 hours

University of Copenhagen
Ceremonial Hall *(Festsalen)*
Vor Frue Plads

There have been two globalization booms over the past two centuries, and one bust. The first boom ended with World War I and the second started at the end of World War II, while the years in between were ones of protectionist backlash. The lecture summarizes what we know about the winners and losers during the past and present booms, including an aspect almost always ignored in modern debate – the prices of consumption goods and the expenditure side of the economy. It then discusses two responses by the winners to the losers' complaints. One concession to the losers took the form of anti-globalization policy manifested by restriction of immigration in the high-wage countries and restriction of trade pretty much everywhere. Other responses to the losers involved a "race towards the top" whereby legislation was passed to strengthen the losers' safety net and ease their pain. One can only hope that the second political response will characterize globalization trends in the next century.

Jeffrey G. Williamson is the Laird Bell Professor of Economics and Faculty Fellow at the Center for International Development at Harvard University. After receiving his PhD from Stanford University in 1961, he taught at the University of Wisconsin for twenty years before moving to Harvard in 1983. Professor Williamson is the author of more than 150 articles and twenty scholarly books on economic history and economic development, including *The Age of Mass Migration* (with T. Hatton), *Growth, Inequality, and Globalization* (with P. Aghion), *Globalization and History* (with K. O'Rourke), and *Globalization in Historical Perspective* (with M. Bordo and A. M. Taylor).

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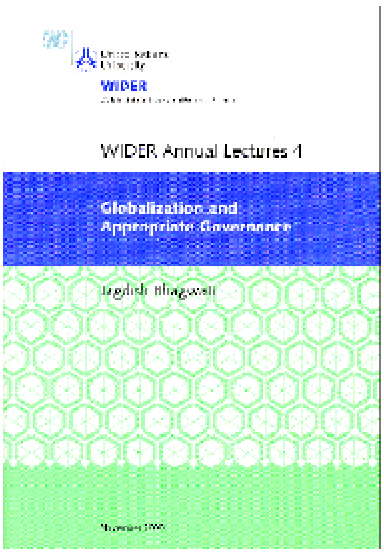
Jagdish N. Bhagwati, 2000



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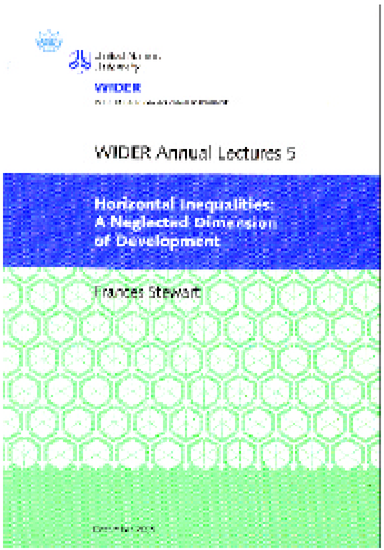

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Policy Brief 4 *Governing Globalization: Issues and Institutions*, by Deepak Nayyar and Julius Court, June 2002

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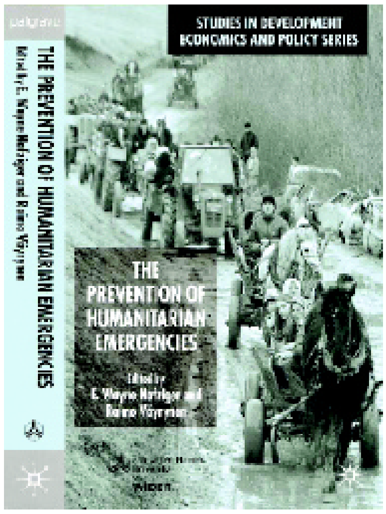
Edited by E. Wayne Nafziger and Raimo Väyrynen

Studies in Development Economics and Policy, Palgrave Macmillan, February 2002



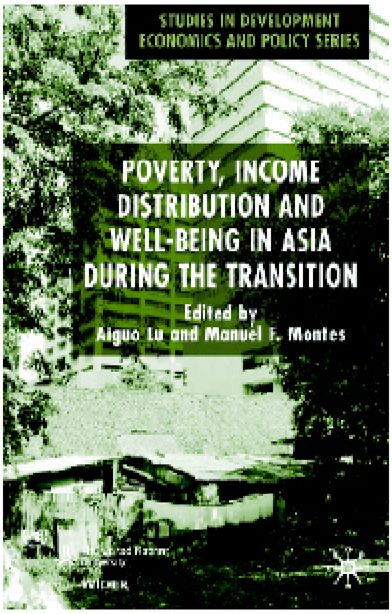
Since the end of the cold war, civil wars and state violence have escalated, resulting in thousands of deaths. This book provides a toolbox for donors, international agencies, and developing countries to prevent humanitarian emergencies. The emphasis is on long-term development policies rather than mediation or reconstruction after the conflict ensues.

Policies include democratization, reforming institutions, strengthening civil society, improving the state's administrative capability, agrarian reform, accelerating economic growth through stabilization and adjustment, reducing inequalities, and redesigning aid to be more stable.

Poverty, Income Distribution and Well-Being in Asia during the Transition

Edited by Lu Aiguo and Manuel F. Montes

Studies in Development Economics and Policy, Palgrave Macmillan, May 2002



The Asian road to the market has generally been seen as a model of success and the object of wide-spread admiration. This volume evaluates the actual experience and debunks some of the most widespread myths. It does so by identifying the link between alternative transition models, public policies and household responses on the one hand, and key welfare changes on the other. Even in countries experiencing sustained growth, there have been unmistakable signs of deep social strain.

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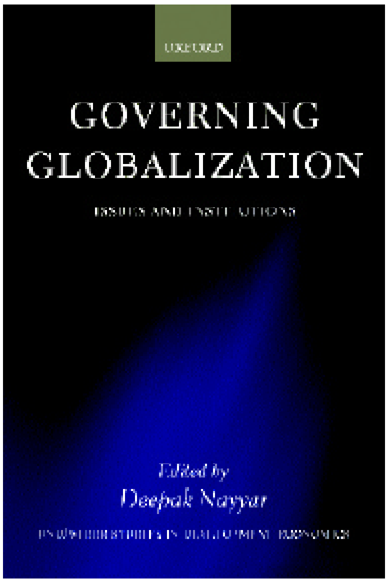
Governing Globalization: Issues and Institutions

Edited by Deepak Nayyar

WIDER Studies in Development Economics, Oxford University Press, July 2002



This timely book is among the first to examine in depth the governance needs of the world economy and polity. It evaluates the experience of institutions, with a focus on the UN, the IMF, the World Bank, and the WTO, to sketch the contours of reform and change necessary in the existing system. It analyses issues of emerging significance, such as global macroeconomic management, transnational corporations, international capital movements, and cross-border movements of people, to suggest that there are some missing institutions which are needed.

Globalization, Marginalization and Development

Edited by Mansoob Murshed Routledge, July 2002

This book focuses in on how to harness globalization for the benefit of present day marginalized countries and enhance their meaningful participation in the globalization process.

Group Behaviour and Development

Edited by Judith Heyer, Frances Stewart and Rosemary Thorp

WIDER Studies in Development Economics, Oxford University Press, September 2002

Reforming Africa's Institutions: Ownership, Incentives, and Capabilities

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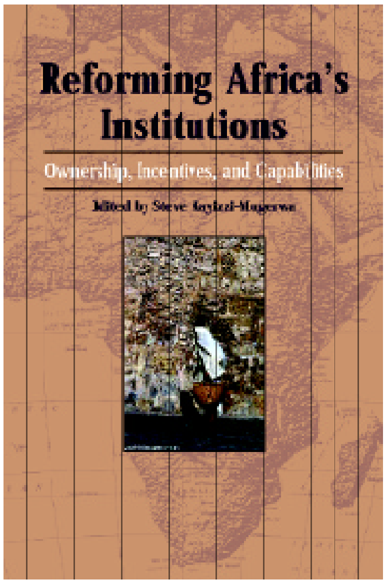
United Nations University Press, December 2002



Forthcoming Journals

Information Economics and Policy, New Economy special issue, June 2002. Vol. 14, No. 2.

Journal of Peace Research, special issue on Civil War in Developing Countries, Vol. 39 No. 4, 2002.

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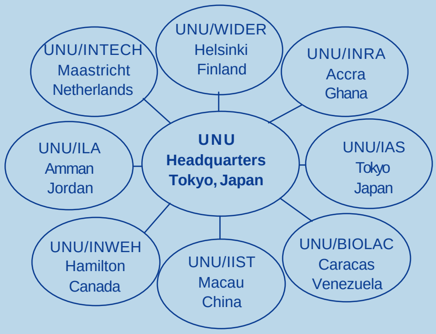

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