SOUTH CENTRE

South Unity, South Progress.

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Monetary and Financial Issues in UNCTAD under Gamani Corea

By

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Gamani Corea came of age as an economist at the time when the International economic system, as we know it, was established. It was clear to him and his generation of economists, hailing from the South, that the Bretton Wood Conference produced institutions with incomplete mandates designed with no reference to development problems. Corea, I.G. Patel, Manmohan Singh, Amartya Sen, and Mahbubul Haq wrote and spoke about the shortcomings of the system throughout their careers.

In order to understand their stands, a little history might be in order.

In the Bretton Woods Conference, Committee I of the Conference produced the IMF agreement which set forth the present-day International Monetary System (IMS). The central Institution, the IMF, had decision making and qualified majorities all based on the size of a member quota. Thus, Sovereign political decisions of the main members dominated its work.

The prevailing IMS did not have a true international reserve system; the IMF cannot increase or decrease international liquidity. Rather, it has a pool of contributions whose size and deployment are subject to the sovereign decision of the big quota members. In effect, this implies that it had no mandate to decide the pattern of international adjustment of the world economy and to finance it.

The exchange rate system was a hybrid based on the US dollar which in turn was based on gold as long as the US accepted this link at the price it chose. In August, 1971, US Treasury Secretary John Connelly abandoned the agreed price and thus brought down the system. The US at the time had a gold stock of $13 billion and official dollar liabilities in excess of $100 billion. This dollar system was plagued from the start with the Triffin dilemma of uncertainty and credibility.

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It also had no relationship between the exchange rate and a country's competitive position and this was particularly so for the surplus countries. The scarce currency clause did not amount in reality to an enforceable symmetry.

When the IMF adopted in the 1960's its concept of adjustment through deflation rather than expansion or financing, it overlooked the difference between a one country case and the case of many countries. This led to a fallacy of composition: what is valid for one country might not be so for many countries all at the same time. There is no analytic basis to accept that one size fits all. Thus, the conditionality that stemmed from all that was inappropriate in numerous cases. Furthermore, up to the 1980's, the IMF considered itself a monetary institution which can only lend for short term, usually less than a year. As a political institution, the IMF help was in any event, subject to the sovereign decision of the big quota members rather than anything else.

Committee II produced the IBRD, an official multilateral institution for reconstructing Europe and helping finance, under certain conditions, the infrastructural needs of the developing countries. There was nothing about private finance in its report, in particular capital markets.

Committee III, the Trade Committee, failed to agree on establishing an international trade organization. It referred the matter to a meeting two years later in Havana, Cuba. When the Havana Charter was drafted, it annexed trade issues of importance to the developing countries: commodities, trade in agricultural goods, terms of trade, transnationals, transfer of technology and restrictive business practices. These and the development issues raised in chapter IV, were subjects unacceptable to the US Senate. The Havana Charter therefore fell by the side.

Realizing that an agreement was not at hand, the developed countries set up in 1949 the GATT in order to generalize the MFN clause and boil down the trade problems to those of market access.

Corea's career

Gamani Corea's first intellectual work was his Ph.D. dissertation on the integrated commodity program, an international topic steered under the guiding hands of Ursula Hicks and the advice of Joan Robinson, two economists outside the main stream. This topic was to guide the professional interest of the man throughout his professional life.

Returning to Sri Lanka, he joined the Central Bank and stayed there for several years. In the early 1950's, he joined the Planning Commission and in short time became its Executive Secretary reporting directly to the Prime Minister. Corea's work in the planning commission, set the course of the Sri Lankan economy for years to come. Under Corea, at the advice of I.G.

Patel, Gunnar Myrdal, Nicholas Kaldor and Jan Tinbergen, the Plan used Keynesian models with a prominent state role within a market framework. This planning was not soviet type; it was dirigisme with limits akin to French indicative planning. After a decade of such a work, he returned to the international scene by becoming Sri Lanka's ambassador to the European Community in Brussels.

Corea met in Cairo in 1962 Raul Prebisch, a prominent Latin American economist, who, despite his conservative central banking background, was an internationalist with trade views favorable to development.

The two hit it right and complemented each other. Prebisch had three principal elemental planks: a trade system that grants the developing countries a favorable, non-reciprocal treatment, an integrated commodity program for commodity trade and external financial flows that solve the two gaps problem of developing countries the savings and Payments' gaps. Corea whole heartedly subscribed to all three. His expertise in commodity issues and interest in money and finance had in fact enriched and added to Prebisch's planks.

Prebisch, impressed by Corea's elegant "*anglophonie*", asked him to write the final conclusions of the Cairo Conference on convening a UN conference on trade and development. And he was to draft again at the request of Prebisch, the position of the Group of 77 in the General Assembly regarding convening the Geneva Conference of 1964 to establish UNCTAD.

In 1965, Corea contributed to Prebisch's report to UNCTAD I. In 1966, Raul Prebisch convened an expert group meeting, under Corea, to look into the financial and international monetary aspects of development. With the able help and back stopping of Sidney Dell, the director of the UNCTAD's office in New York, Corea's expert group report explored the relationship between the monetary and financial systems and development. Its conclusions and proposals were to guide UNCTAD's work till the mid 1970's.

Two separate outcomes hail from the work of this group and similar other work in UNCTAD and elsewhere: the establishment of the Complementary Financing Facility (CFF) in the IMF and that of the commodity stabilization facility.

The thoughtful observations of the report on the prevailing IMS were very much in line with shortcomings outlined above. The report also broached the subject of creating an international currency and linking it to the financial needs of development. It should be recalled that the question of international liquidity and the basis of the international reserve system were subject of wide ranging debate at the time.

After Prebisch, Manuel Perez Guerrero pursued this work in UNCTAD with vigor and determination. Under the able leadership of Sidney Dell, assisted by Gerry Arsenis, the division of Money and Finance of UNCTAD participated in the Committee of 20, (C20) meetings on international monetary reform held in 1972- 1974. Among other things, UNCTAD articulated the SDR Link Proposal in its two versions.

At this time, the Money and Finance Division of UNCTAD succeeded in developing a simple quantitative model for estimating the needed flows of external finance for achieving the UN target of development at 5% which was dubbed in the Press as the Sidney Dell model. In fact, the origins of this work were due to the work that Gerry Arsenis did in ESA in the early 1960's and published in 1964. The estimates made by Arsenis were referred to in Prebisch's 1965 report. Thereafter, under the leadership of Sidney Dell, the division of Money and finance made annual calculations of developing country capital requirements. In the New Delhi Conference, the Division made more systematic presentation of its calculations.

The so called Dell model estimated the external financial needs of developing countries over and above their internal savings necessary to fulfil the UN development target of 5%. To finance the requisite investments, it asked for external inflows of 1 % of the GDP of developed countries, of which 0.7 is in ODA (Official development aid).

After Corea succeeded Perez Guerrero as the Secretary General of UNCTAD 1974, he collaborated with the UNDP in setting up in 1975 the G24 project. This project has backstopped the representation of the G.77 views in money and finance in Washington ever since. And this coincided with the establishment of the Development Committee which gave UNCTAD an observer status as in the Interim Committee.

The 1970's were years of intense activity in UNCTAD and of significant international developments. The eruption of the oil crisis created major balance of payments problems for the oil importing developing countries. UNCTAD under Corea, had an influence in promoting the establishment of the oil facility in the IMF and in modifying the formula for calculating export short falls of developing countries in the CFF. In the same decade, under the impulse of the Non Aligned Movement (NAM) and the President of Mexico, the United Nations General Assembly adopted the charter of rights and duties in the New International Economic Order (NIEO). Corea was one of the early supporters. He tried, to the extent possible, to bring through UNCTAD elements of that into the intergovernmental dialogue.

The oil deficit was financed largely by borrowing from the international capital markets. The accumulation of private debt by developing countries presaged the development of the debt problem in 1982. Corea warned of this impending problem in his report to the Nairobi Conference in 1976.

After Nairobi, UNCTAD pursued this anticipation in the annual reports to the TDB and CIFT. In 1980, Gerry Arsenis, succeeded in obtaining the TDB decision number 222 to set up in collaboration with the UNDP, a project to restructure and revise the terms and conditions of the official debts of developing countries. The gains for developing indebted countries were in excess of 6 billion. Subsequently, UNCTAD enlarged this work and systematized it by establishing the Debt Advisory Services. Through this project, UNCTAD helped organize a data base for the countries involved and extended technical help to their Paris club negotiations (official debt) and those of the London Club (Private).

The documentation to the Manila Conference in 1979 had proposals on IMF conditionality, on the terms and conditions of aid and other external financial flows, on debt and on international monetary reform. Except for the reform, progress was made on all these topics. As to reform, the developed countries raised the issue of the appropriate forum and did not enter into the matter.

After the Manila Conference of 1979, Corea established a division in UNCTAD for developing country cooperation. He envisaged such a cooperation to cover monetary and financial cooperation and trade cooperation. In trade, the Division was also to take up the evolution of the GSTP and service all the regional and sub-regional groupings. In the monetary area, the Division serviced the clearing and payments arrangements and their Multilateral Coordination Committee as well as the monetary unions schemes of developing countries. This work continued after the departure of Corea and in 1990-1991 produced path breaking series of studies (four studies) on establishing an International Trade Financing Facility.

Unfortunately, despite the technical and substantive merits of this work, the intergovernmental expert group convened in 1991 in UNCTAD did not reach agreement. The developed countries, acknowledging the merits of the studies, held that they would consider participation after this agency is established by the developing countries, while the developing countries wanted the developed countries to participate in the initial funding of the facility. Near the end of his term, Corea convinced OPEC countries to set up in UNCTAD a Fund for South- South cooperation.

Corea guided UNCTAD into exploring the interdependence of trade, money and finance. In the last Conference of UNCTAD under Corea held in Belgrade in 1983, there was a separate and independent agenda item, " item 8", for interdependence on the agenda.

In this regard, Gerry Arsenis in a characteristic inspired form, started in 1981 the annual exercise of the Trade and Development Report. This report developed and pushed the boundaries of interdependence and provided intellectual underpinning of a right conception of the globalization of the world economy as this process unfolded in the late eighties and the first half of the nineties. Numerous topics in money and finance found treatment in the various issues of the TDR. Under Shahen Abrahamian and later, Yilmaz Akyuz, Corea's ideas on interdependence found their full expression.

Corea's interests in south-south cooperation came to dominate his work after his departure from UNCTAD. He was an active supporter of UNCTAD's work in this domain like he was of the work of the South Centre. He came to realize that the North-South dialogue has reached its high water mark in the early years of the 1980's. After the Cancun Conference, Mrs. Thatcher and Mr. Reagan abandoned this dialogue and recast the development paradigm in terms of the Washington Consensus in which the problems of developing countries were considered as ones of mismanagement and inappropriate macroeconomic policies and later on, non-market oriented policies. The North-South dialogue thereafter came to a halt. But Corea still remained a firm believer in the common interest of the North and the South and the possibilities of this cooperation. He held that this cooperation along with South-South cooperation are the two sides of the solution of development problems.

UNCTAD's achievements in its first 25 years were not negligible: the GSP, the Common Fund, the debt relief, The G24 Project, the framework of the Code for the TNC's, the GSTP backstopping, the backstopping of ECDC, the indirect influence on the IMF facilities and conditionality and its own TDR and Least Developed Country Report. These are significant, but surely fall short of what was hoped. A fruitful productive dialogue requires two committed parties, which was not the case in the UNCTAD inter-governmental machinery on most issues. However, it cannot be argued that UNCTAD did not change the terms of the debate on development. UNCTAD's TDR has voiced out a unique tune in challenging the Neoliberal views of the Bretton Woods institutions and offered a valid consideration of the interdependence of money, finance and trade in the "*problematique*" of development.

Corea, the Man

Gamani Corea was a gentleman from the South. He combined in his personality the influence of his education in Oxbridge and his experience of the development challenge in his native Sri Lanka. He believed in the possibilities and power of diplomatic persuasion. He believed that market capitalism has limits and frequently suffers market failures. His advocacy of state role was not in any sense one of anti-market ideology; It was a realistic and pragmatic assessment of the conditions of developing countries.

Gamani Corea was a non-pretentious man capable of appreciating the conditions of the poor, despite his aristocratic and wealthy background. His humanism marked his work in development economics, the environment, South- South and north south cooperation. He was a man capable of establishing enduring friendships. He was also a man of sharp intellect and great dry wit. His shyness and polite demeanor masked tenacious and brave convictions. His refusal to accept organizational independence from the General Assembly for UNCTAD and his firm stand that while the Secretariat is neutral in respect of member states, it stands committed to development are cases in point. In the years I worked in his office and after that, I always enjoyed our forays into economics, politics, and many cultural issues. He was well read and soundly trained.

He visited Italy in his early career to ask for food aid. On observing his prosperous presence, an Italian counterpart remarked that looking at him one cannot believe that Sri Lankans have a food shortage. Corea flashed his usual smile and said "but I represent their aspirations." After the Rio Conference on the environment, I saw him in Geneva. I asked him about his evaluation of the Conference. He smiled and said we succeeded in defining the zero. Many such sharp witticisms marked his encounters and conversations.

For us all, Gamani is no more, but his life journey left his imprints on UNCTAD, on his friends and on the institutions associated with him. In the short span of his life on earth, he enriched our lives. Blessed be his memory.

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