

Lessons from the Asian Crisis

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This is the last speech of the day. It is also the last time I will be speaking at this forum which I have had the honour of addressing on several occasions.

Today I simply want to discuss some of main considerations relating to France's official development assistance in Asia, whose financial co-ordination has been my responsibility in recent years.

I will not make any general comments on globalisation. Instead, I would like to focus my remarks on the lessons drawn from development policies and on the strategy we have adopted in France. But I do not deny that we need to improve our system of aid in Asia, whose shortcomings are undoubtedly due to the fact that Asia is far from France.

The first lesson we have drawn is that the struggle against poverty requires international rules and transparency. How can substantial means be mobilised without a framework for insuring the eventual success of reforms? After the financial crisis, the rigour and force of fundamental economic laws are felt again. Let us try to put the crisis behind us for a long time without going back to one.

The second lesson that we have learned is that it is necessary to save to invest and avoid debt. For three or four years the international community has recognised that an unfortunate lack of savings caused the poorest countries to become over-indebted and it has launched a major initiative for the highly indebted poor countries (HIPC) to eliminate that. This has had several consequences. In particular, Asia is in a way a victim of that initiative, because Asian wisdom, its encouragement of saving, means that almost no Asian country can benefit from this initiative which soaks up a good part of our official development assistance. Regretfully, it must also be recognised that virtue sometimes has unexpected effects.

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The third observation is that official development assistance budgets have decreased. We are among several countries in the OECD, notably in the Development Assistance Committee, who plead for an increase in official development assistance flows but, despite these calls, in reality the flows are falling significantly and therefore greater efficiency is necessary, which means doing the same thing with less. In this effort, all international organisations, including the Asian Development Bank, will have to “demonstrate economy”, giving countries fewer resources but requiring them to do more in the domain of reform. That is still the reality and our statements cannot change it. I would like to discuss two additional points about this global assessment which are challenges, not objectives.

- The first is the fight against tax havens, protection against international criminality. This is an growing issue. The French Treasury in 1988 introduced the idea for an International Financial Action Group to fight international financial fraud. I remember that then few believed in it. Today, 12 years later, however, an initial list of countries has been published, and it has credibility. It has authority since everyone refers to it. It shows the power of ideas. Actually, 12 years ago few people believed in it. Today it is considered dishonourable to be on this list. It was featured at the front of newspapers and that has an effect on the investment policies of the private sector and on the behaviour of financial centres. That shows the power of ideas like those that the OCDE wants to use and underlines that this struggle against international misappropriation of public funds will be intensifying.
- Opening of trade is the second idea which will be spreading. One can say whatever one wants about that. Official development assistance budgets are decreasing but it can be verified that the opening of borders to trade contributes the most to development. Many ministers say that. The new round of the WTO will provide a major opportunity for that, and I fully believe that those having a generous position on official development assistance should, to be consistent, become progressively generous with respect to the opening of trade. That will take some time, some years, but it will become accepted.

In this context, what has France done vis-à-vis the Asian continent?

We have clearly decided not to provide much bilateral official development assistance. For cultural and historic reasons we have chosen the former Indochina, considering Cambodia, Lao (People’s Democratic Republic) and Viet Nam as a zone for priority solidarity, and we have chosen multilateral official development assistance, which I will return to, for the other countries where we alone could not have a significant impact. This is a French political decision, a very European choice but one that at the same time must be accepted.

With respect to trade, we also think that Asia is one of zones of greatest economic expansion, not because of its large population and economic power but because there are major motors of economic development. The value of labour on this continent is recognised. I do not know what will occur in Europe in the coming years but, for the

moment, I believe that in China labour is used to greater advantage than in France, and clearly therefore very large productivity gains can be expected from investments made in Asia. That is why in the domain of commerce, France has tried to sign an agreement for investment security with each country (already 15 have been signed). That is why most of the large Asian markets are eligible for the instruments of support for our exports. China, the Philippines, Indonesia, Thailand and India are eligible for the procedure known as support “reserved for emerging countries”. For the others, we would like to have the closest possible relationship between Asian and European decision makers. One of the best ways of doing that is obviously the European way, which allows me to turn to the multilateral.

Today is 3 July, that is, just at the beginning of the French presidency of the European Union. But that is not just a coincidence which would be a little too simple. It is clear that we have such stakes in Asia that only a union of sovereign European states can “compete on equal terms” with other major partners like the United States. That is why, even if a matter like the ASEM is still evolving today, having begun well but still evolving, we think that the large European contributions, in the order of nearly a billion euros a year, will enable us to be major partners of the Asian countries. As Europeans we believe that, but we obviously think it holds at the organisational level. Thus we would like to see four principles become more widespread.

First, there should be co-ordination between international organisations. That goes without saying, but that is not the case today in practically all the interventions which are carried on. This is seen in an example as simple and urgent as aiding East Timor. It was necessary to use all our leverage as a member to get the World Bank and Asian Development Bank to work together and not at cross purposes. We achieved that, but the institutions did not want to, since each institution has its own projects or particular aims. Thus co-ordination should continually be a watchword. The second watchword, complementarity, is obviously related. One is always ready to co-ordinate with another if one is smaller and ready to follow its own procedures. That is something that I often hear, for example, coming from the World Bank. Our position is slightly different, that of relative added value. Let each institution show where it is exceptionally efficient, and it should be the leader in the domains where it is exceptionally efficient, and the other partners should recognise its leadership. That is why I hope that we will soon have a co-operation agreement between the World Bank and Asian Development Bank for each to recognise the other’s leadership in some sectors.

The third important rule for multilateral action is obviously transparency. We require it of governments, ours and those benefiting from official development assistance. International organisations should also be exemplary. Every institution must do more in this respect. Finally, it is necessary to have a regime which is attractive and includes sanctions. This means that official development assistance grants should be related to a country’s real performance. We tend to expound that as a principle, but hesitate as soon as it is necessary to cut an aid programme because of the risk of not being able to support an economic recovery. Taking the example of Pakistan, it is

clear that the country's present efforts merit "special" help in relation to previous years, because Pakistan is in a difficult phase. We must make an exception, by now providing the resources necessary to get out of the crisis. The same reasoning could be applied to Indonesia. However, as these resources are not unlimited, from time to time it is necessary to sanction changes which take too long because some regimes have not understood that we have a world capitalist economy and that there is no other way to develop today. But that is obviously more difficult.

In sum, beyond the imperatives of fighting poverty, recognised by all, concessional windows which do not intend to lower their resources, and a need for co-ordination, we have a formidable challenge in trying to have constituencies in our own countries who support official development assistance. It must be recognised that we do not entirely have them today, and our development partners do not campaign for public opinion in favour of official development assistance. That leads to reductions in budgets for official development assistance. That is not the fault of others, but the confrontation of different aspirations in a market economy. But there will be inevitable reductions in official development assistance if enterprises, governments, non-governmental organisations and official agencies together cannot get the long-understood solidarity and development needs to be put before other needs, just as worthy, which I prefer not to name. Thus there are things to say and lobbying needed in all our societies, and the Development Centre is one of the possible and desirable places for that.

With respect to Asia, it is highly desirable for Asian countries not to draw up their development aims alone. It is indispensable to do that in full consultation with non-regional countries. A good balance would be a body having regional countries in the majority, and where non-regional countries are present and demonstrate their solidarity in a practical way, but are in the minority. You will have surely guessed that I have sketched a picture of the Asian Development Bank which should have the courage to be more oriented towards development policies and not only on development projects. For that, I believe that it could count on the support not only of France but all the European member countries.