Global integration

The article by Milan Brahmbhatt and Uri Dadush, “Disparities in Global Integration” (Finance & Development, September 1996) summarizes many valid aspects of economic development. Today there can be no question of the advantages of participating in the move toward global economic integration.

A crucial component of integration not mentioned in the article is the role of pre- and post-shipment export credits, guarantees, and insurance, and the important role played by the World Bank in catalyzing support for viable export credit agencies. After having helped establish or improve export credit agencies (ECAs) in over 60 countries, we have found that to avoid subsidizing exports, ECAs must have adequate capital for investment earnings to cover start-up costs; ECAs must be professionally managed; and they must be independent of other governmental activities. Also, ownership of ECAs need not affect a country’s export performance. In some countries, privately owned ECAs reinsurance their political risks with governments.

Small and medium-sized firms in many countries are often denied access to finance. Absence of an ECA means the smaller firms must choose between risky open account sales and costly letters of credit. In Central and Eastern Europe and the former Soviet Union, the World Bank is helping emerging economies to develop their financial infrastructure, including export finance support programs that enable them to earn much of the foreign exchange needed to pay for essential imports and to service external debt. This will contribute to an important area of economic development, paying dividends in future years to the developing and transition economies.

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Development and food security

While the article by Wendy S. Ayres and Alex F. McCalla, “Rural Development, Agriculture, and Food Security” (Finance & Development, December 1996) highlighted some interesting points, such articles make one wonder if the Bank will ever recognize that it cannot keep up with the growing needs (and demands) of an escalating population by simply implementing “fixes” such as improving irrigation efficiency, extending infrastructure, increasing agricultural research, expanding employment generation opportunities, and reducing car emissions, no matter how successful these efforts are made out to be.

Such fixes simply provide a little breathing space in which to act. But, if during this time, little is done to start restraining rather than catering to the excessive population growth and consumption that are already stressing our environment, these actions will be of little use.

A more menacing aspect of these fixes is that they artificially prop up the world economy and leave the impression that “business-as-usual” is addressing the problem. However, when one or more of these critical props eventually begin to fail—be it caused by a blight affecting a widely promoted high-yielding variety of rice or exhausting an essential aquifer—the global system will start collapsing. And the longer these fixes are implemented before addressing the excessive consumption and population growth issues, and the more dependent we are on these props for survival, the more disastrous this eventual collapse will be.

With a commitment and progress toward a sustainable scenario, there is hope. But if instead of acknowledging and addressing these critical issues, large international financial institutions like the Bank continue to play the development game, to boast of their short-term successes at implementing fixes, to maintain the rhetoric about keeping pace with population growth, and to even hold out the promise of eliminating poverty at the same time, they are simply encouraging Darwinian forces to eventually “resolve” these issues for us.

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Banking reform

“Banking Reform in Transition Economies” by Michael S. Borish, Millard F. Long, and Michel Noel (Finance & Development, September 1995) discusses an essential element in the move to a market-based economic system. For an emerging market economy to compete in today’s global marketplace, considerable thought must be given to how to structure the banking system to promote economic growth and national wealth.

A banking system should not simply be an instrument utilized by the government to carry out a state plan. This is a recipe for slow growth. An independent central bank, with legislation to operate as the controller of monetary policy, the protector of foreign payments, and the monitor of the banking system is an essential element in a market-based system. Central bank officials should not be appointed for political reasons.

Banking does not develop in isolation—the amalgamation of the banking and securities markets, and the emergence of a global marketplace, are complex and demand a level of expertise not likely to be available in emerging market economies. Information technology, which is playing an increasingly important role in international financial settlement and risk management, is highly capital intensive. Few, if any, domestic institutions could afford the investment necessary to compete in international markets without substantial state support. Association with a foreign bank would obviate the need for such support by providing the domestic bank with economies of scale, sophisticated computer systems, industry expertise, access to world capital, and foreign exchange and securities markets. This is why privatization must be encouraged in open market economies.

There should be integration and synergy between budding bankers. Bankers should be encouraged to discuss ideas and to look for a way to come up with solutions to problems that they face separately.

Regulators must ensure that banks’ corporate structure is not intended to conceal illegal transactions. Insider dealing should be dealt with severely and a system of deposit protection introduced to safeguard investors against bad investments by banks. The savings and loan crisis in the United States provides a salutary lesson on the consequences of failing to do so.

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