TD(X)/Misc.7
14 February 2000

Original: ENGLISH

United Nations Conference on Trade and Development
Tenth session
Bangkok, 12-19 February 2000

PLENARY

Summary

Prepared by the UNCTAD secretariat. Not an official record.

General Debate 12/13 February 2000

Assessment of recent developments

The General Debate was dominated by the perception that during the past decade the world has been transformed more rapidly and in far more profound ways than ever before in the history of mankind. Consequently, much of the debate was related to the phenomenon of globalization and its implications for different groups of countries. While globalization was accepted as a fact of economic life, it was not viewed favourably by all countries. Some delegations stressed the opportunities that globalization offers for growth and development, while others expressed the view that the hopes pinned on rapid liberalization of trade and finance did not so far materialize in many developing countries. While some countries have benefited from liberalization and globalization, many others, because of their low level of development, have not managed to share in these benefits. Global wealth and income inequalities are growing as a result of unequal production and trading opportunities. The more vulnerable countries, especially exporters of certain primary commodities and economies that depend heavily on financial inflows, have been hurt by some features of the globalization process, and run the risk of being further marginalized .

It was also stated that globalization is led by the developed economies, and bears the imprint of the strongest economic power. However, while the problems of the developing countries

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are more urgent and compelling because of their relative poverty, developed countries face similar problems, such as the marginalization of certain groups of the population, high levels of unemployment, and difficulties in the financing of their social security systems.

Some speakers noted that globalization even affects the notion of statehood and government as they have hitherto been understood, and weakens the basis for effective domestic government in general, and that of domestic economic management in particular. In a globalized economy, financial geography and economic geography no longer coincide with political geography.

The warning was expressed that admiration for the success of capitalism and free markets must not go too far, since it carries with it the seeds of its own destruction. Free markets do not guarantee solutions to all problems, either domestically or internationally.

Recent trends in the global economy and their implications for developing countries are a source of grave concern for many delegations, given, *inter alia*, insufficient capital flows to many developing countries, the persistence of the debt problem for many others, and continuing restrictions of market access for many developing-country exports in the developed countries. An issue of particular concern was the widening income disparity between the developed and developing countries, combined with increasing poverty.

There was broad agreement that the international institutional infrastructure is inadequate to deal effectively with the complex problems resulting from globalization. International institutions, including the United Nations, the IMF and the World Bank, have not been able to cope with the new challenges. In particular, shortcomings in the IMF's approach in dealing with the Asian financial crisis has seriously affected its credibility.

One major concern was related to transnational corporations, which appear to be best placed to take advantage of liberalization and globalization. Mergers and acquisitions have reinforced the dominance of worldwide oligopolies. This process, if allowed to continue unchecked, could lead to global monopolies, while legislation to protect competition remains national.

It was underlined that the process of globalization has brought increasing uncertainty to the global economic environment, and developing countries have little control over that process. The existing financial architecture was also considered to be inadequate to deal with the huge and volatile financial flows resulting from financial liberalization. The present system, based exclusively on market forces, does not generate sufficient financing for development. Capital is flowing to where the financial returns are highest and not where it is needed most urgently to accelerate economic development. At the same time, the developing countries that have been receiving large-scale private capital inflows have suffered from financial crises as a consequence of the volatility of international capital flows and speculative activities.

The financial crisis in Asia was considered to be a crisis resulting from globalization. It had demonstrated the inability of the developed countries and the international institutions to respond to and prevent such crises and their subsequent "contagion" effects.

It was pointed out that the countries affected by the crisis had adopted strong economic measures and financial reforms to address the weaknesses that had emerged and to restore confidence. IMF prescriptions were not always successful in restoring growth and stability; in fact, in one country the situation deteriorated even further. The IMF's approach of high interest rates and tight liquidity led to a severe contraction of the real economy; as a consequence, unorthodox measures were introduced, which put the economy on the path to recovery. These measures included a relaxation of fiscal policy, a reduction of interest rates, and selective exchange controls to reduce volatile short-term flows without putting constraints on trade-related financial flows and FDI.

Developing-country delegations expressed concern about the recent declines in the terms of trade of commodity exports, which are still the mainstay for many of them.

It was stressed that many developing countries have opened-up their markets, strengthened their institutions and oriented their economies to the challenges of external competition, but they have not benefited from equal liberalization efforts on the part of the industrial countries. On the occasion of the WTO Ministerial meeting in Seattle many political leaders succumbed to domestic protectionist pressures.

What needs to be done

It was observed that, with the globalization process, interdependence between North and South and among trade, finance, investment and development has gained further importance, and so has the need for international support measures to allow developing countries, especially the least developed ones, to participate effectively in international economic relations. It is essential to focus on creating an economic environment at the global and the national level that is conducive to long-term investment in productive capacity by both indigenous and foreign private investors. In this context it was also considered important to draw appropriate lessons from the recent financial crisis and to address the downside risks of globalization and the systemic imbalance in the international economic system.

Regarding domestic policies, developing countries were advised to undertake the structural adjustment necessary for meeting the challenge of globalization. They should aim at greater political stability, democracy, an effective legal system, and sound financial and banking systems that are capable of mobilizing and allocating savings efficiently. They must also continue to enhance their domestic institutions and strengthen their resilience to external shocks. Equally important is investment in education, health and human resource development, and science and technology. However, it was stressed that in their approach to development, countries need to be allowed flexibility with regard to their domestic policies, to conform with their political, social and cultural diversity. Industrialized countries might support developing countries in adjusting to the new challenges by facilitating access to knowledge and modern technology.

Several delegations called for a “New Deal” for development and a review of principles governing international cooperation. Developing countries must be able to participate more effectively in the decision-making process in all international institutions. At the same time, the decision-making process itself must be transparent and not just reflect the interests of big business and big Governments, but also those of small business and small Governments. Moreover, Seattle has shown that NGOs, too, should be involved in that process.

There was broad agreement about the need for policies that help maximize the benefits and minimize the risks and costs of globalization, and ensure that its benefits be enjoyed by all countries and social groups. International organizations will also have to play an important role in these efforts, through training and human resource development, and through the enhancement of national scientific and technological capacities, especially in the least developed countries.

It was also suggested that the international financial institutions should be encouraged to shift their orientation from prescribing traditional fiscal austerity measures to proposing programmes incorporating social safety nets. And it was considered essential that more resources be devoted to the poorest countries to enable them to grasp the opportunities offered by the global trading system in a way that fosters their development.

It was argued that a global market economy requires a new global order to correct the effects of market failures and avoid marginalization. Consensus on the way in which the global system should function can only be reached through balancing competing interests, not by imposing an ideological agenda. Unilateralism or hegemonic leadership would only provoke resistance, and not only from developing countries.

There was agreement among a large number of delegations about the need for reform of the international financial system. Without such reform there is a risk that financial crises in developing countries could recur.

Improved transparency and accountancy alone were believed to be insufficient to prevent such crises in the future. The establishment of the Financial Stability Forum and the G-20 were welcomed as useful steps towards a new financial architecture, but there was also concern that the G-20 is dominated by the views of the developed countries. Moreover, the G-20 agenda should not be limited to promoting information exchange and coordination among national authorities, international institutions and international regulatory or expert bodies. Reducing the volatility of capital flows should be the main objective of reform. A better balance in the relations between strong and weak economies, and between creditors and borrowers, should also be sought.

With regard to the future of the international trading system, it was widely felt that a development dimension should be incorporated as the overarching theme in WTO activities. A fair rules-based multilateral trading system is essential and the WTO decision-making process should be reformed with a view to taking better account of the concerns of developing countries. The pace of liberalization and the manner of integration into the world economy should be commensurate with each country's level of development. The principles of gradual liberalization in the developing countries, and of differentiated and special treatment of the least developed countries, must be recognized and become an integral element in future trade negotiations. Several delegations expressed the view that, for such negotiations to be successful, developed countries must find the political will to overcome narrow domestic interests and deal with the concerns of developing countries in an equitable manner. Developed countries must agree to subject some of their own domestic economic policies and policy-making processes, for example in agriculture, to international disciplines.

Some delegations from industrialized countries reiterated their commitment to quota-free market access for all products originating from the least developed countries and urged the more advanced developing countries to do the same.

It was felt, however, that developing countries should not only seek to strengthen their position in the world economy through global trade negotiations and the reform of the international financial system, but also through other forms of international cooperation. South-South cooperation can create important synergies in services, trade, investment, information technology and human resource development. Moreover, regional cooperation should be strengthened further as it offers the potential for shared growth and prosperity, and avenues for settling political and security disputes peacefully; this, in turn, enhances economic development.

While many regretted that FDI was concentrated in a small number of countries, the progress achieved with regard to debt relief for the poorest countries was recognized, and delegations from industrial countries reaffirmed their commitment to providing further relief under the enhanced HIPC Initiative. However, additional international support measures were deemed necessary for the least developed countries to share in the benefits of globalization. The focus of such measures should be on poverty alleviation and sustainable development.