

TD(X)/Misc.7/Rev.2
19 February 2000

ENGLISH ONLY

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 12-18 February 2000

The General Debate was dominated by the perception that during the past decade the world has been transformed more rapidly and more profoundly than ever before and that economic and development policies as well as the activities of the international organizations have had to adapt to these changes. It was recognized that liberalization of trade and finance, and the rapid expansion of modern information technology, have drastically changed economic life and pose new challenges for policy makers at both the national and international levels. Much of the debate was related to an assessment of the implications of globalization for different groups of countries and segments of society, and the evolution of the international financial and trading environment. Delegations also made a large number of suggestions on how to address these challenges and on the role of UNCTAD in the coming years.

Assessment of recent developments in the world economy

The impact of globalization

While globalization was accepted as a fait accompli, it was not viewed favourably by all delegations. Many speakers pointed to the opportunities that globalization offers for growth and development in all parts of the world. Others, however, stressed that the hopes

and promises attached to rapid liberalization of trade and finance have not so far materialized in many developing countries. The developed, and some developing, countries have benefited from liberalization and globalization, but many developing countries have not shared in these benefits. There was serious concern that the income gap between the richest and the poorest, both among and within countries, has significantly widened over the past 15 years, and that the number of people living in absolute poverty in developing countries has been increasing despite unprecedented prosperity in other parts of the world.

The more vulnerable countries, especially the least developed, and other countries that rely heavily on exports of certain primary commodities, have been negatively affected by globalization and run the risk of being further marginalized. Growth rates of the least developed countries (LDCs) are lagging behind those of other economies, and their share in world trade has continued to fall sharply.

It was acknowledged that several developed countries have to cope with some globalization-related problems, such as the marginalization of certain social groups, high levels of unemployment, and difficulties in financing their social security systems. However, the problems of the developing countries were considered far more urgent and compelling because of the relative poverty of these countries. It was also stated that globalization is led by the developed economies and bears the imprint of the world's strongest economic power. Some speakers emphasized that globalization has increased uncertainty in the world economy, and that it is undermining social cohesion, traditional values and cultural diversity.

It was noted that globalization even affects the notions of statehood and government as they have hitherto been understood. It weakens the basis for effective domestic government and the scope for economic policies at the national level. Meanwhile, transnational corporations are increasingly dominating the world economy. There is a tendency for worldwide oligopolies or even monopolies to be created through mergers and acquisitions, but legislation to protect competition remains national. In this context some delegations from developing countries warned against extra-territorial application of domestic legislation by developed countries.

Some speakers said that capitalism and free markets alone do not lead to growth and development, nor do they solve the problem of poverty. Development policies based on the "Washington consensus" have not succeeded in coping with the challenges of globalization. In Africa, policy interventions by the international financial institutions have failed to address the vicious circle of commodity dependence, low savings ratios, an unsustainable debt burden, underdeveloped infrastructure and inadequate investment. Neoliberal reforms and fiscal and monetary tightening have seriously undermined many countries' ability to attain the necessary degree of competitiveness to benefit from

globalization. Rapid or premature liberalization has, in many cases, damaged emerging industries.

The global economic environment and developing countries

Recent trends in the global economy and their implications for developing countries are a source of grave concern: capital flows to many developing countries are insufficient; for many of them, especially in Africa, but also for some middle-income countries, the debt problem continues to be a major obstacle to development. Speakers from developing countries pointed to the fact that protectionism persists in many developed countries, and market access for a range of items of major export interest to developing countries remains restricted.

A large number of delegations shared the view that the international institutional infrastructure is badly equipped to deal effectively with the new complex problems and challenges of globalization. The existing financial architecture, in particular, was considered inadequate to cope with the effects of huge and volatile international financial flows. Moreover, the present international financial system, based mainly on market forces, does not generate sufficient and stable flows of finance for development. Foreign direct investment (FDI) is concentrated in a very small number of countries, where the financial returns are highest, rather than going to where it is needed most urgently to accelerate economic development and fight poverty. The least developed countries, in particular, continue to rely heavily on official development assistance (ODA) flows, but these have fallen to their lowest level in 20 years. At the same time, many developing countries that have been receiving large-scale private capital inflows have suffered from financial crises as a consequence of the volatility in international financial markets and speculative activities.

Several speakers expressed the view that the financial crisis in Asia, which had adverse economic effects on almost all developing countries, exposed major flaws in macroeconomic policies and weaknesses in national financial systems. Many others, however, considered the crisis to be systemic in nature. It had shown that even countries regarded as success stories of development and those with sound economic fundamentals are vulnerable to external shocks generated in the international financial markets. Some speakers believed that certain segments of the business community have sought short-term profits without regard to the damage done to long-term growth and stability. The East Asian experience has revealed the inadequacy of the international financial system to prevent such crises and to provide an effective response.

The crisis-hit countries, meanwhile, adopted strong economic measures and financial reforms to address the weaknesses that had emerged and to restore investor confidence. The IMF prescription of high interest rates and tight liquidity led to a severe

contraction of the real economy. In some cases, recovery was only achieved following a shift to unorthodox measures, including a relaxation of fiscal policy, a lowering of interest rates and selective exchange controls to check volatile short-term flows.

A large number of speakers from developing countries stressed that many of their countries have opened their markets, strengthened their institutions and oriented their economies to the challenges of external competition, without, however, benefiting from equal liberalization efforts on the part of the industrial countries. Trade preferences under the Generalized System of Preferences have been eroded, and the implementation of the Uruguay Round Agreements remains unbalanced. Trade policies of developed countries were perceived by some delegations to be increasingly influenced by domestic protectionist pressures. Concern was also expressed about the worsening terms of trade of certain primary commodity exports, which are still the mainstay for many developing countries.

What needs to be done

The new policy challenges

There was general agreement that all countries and social groups should share in the benefits of globalization, that the income gap between the rich and the poor countries must be narrowed, and poverty eradicated. It was observed that interdependence between North and South and between trade, finance, investment and development has gained in importance, as has the need for international support measures to allow developing countries, especially the least developed ones, to participate effectively in the international economy. The focus should be on creating an environment at the global and national levels that is conducive to long-term investment in productive capacity by both local and foreign private investors.

Some delegations stressed the need for paying more attention to the environmental dimension of development. Others pointed to the daunting tasks of rebuilding functioning economies in countries that have been suffering from armed conflict and civil strife.

Many speakers stressed that a well-functioning international financial system and a fair, equitable and predictable multilateral trading system are prerequisites for a sound and more balanced process of globalization. It was suggested that policies should be more responsive to the human, social and gender dimensions of development and that civil society should be appropriately involved in the debate on globalization.

There was general agreement that policies in both developed and developing countries should aim at maximizing the benefits and minimizing the costs and risks of

globalization. At the same time, the international community is facing the challenge of finding effective ways to support LDCs with a view to reversing the decline in their economic and social conditions, achieving structural transformation, diversification, and international competitiveness, overcoming their supply-side constraints, and, ultimately, accelerating output growth. The implementation of the United Nations New Agenda for Development in Africa (UN-NADAF), the Programme of Action for the LDCs, and the Barbados Programme of Action for the Sustainable Development of Small Island Developing States was also considered essential. Equally important is the need to address the specific problems of landlocked countries.

It was suggested that development depends increasingly on individual initiative, and that this should be taken into account when addressing the new challenges; creativity, information and knowledge play a greater role than ever before in economic activity.

Global economic governance

Many speakers stated that for globalization to be better managed in the future, a new global order to correct the effects of market failures and avoid marginalization is required. Consensus on the way in which the global system should function can only be reached by balancing competing interests, not by imposing an ideological agenda.

Several speakers called for a “new deal” for development and a review of the principles governing international cooperation. Developing countries must be given the opportunity to participate more effectively in the decision-making process in all international institutions. At the same time, this process must be made more transparent, and decisions should reflect not only the interests of big business and big Governments, but also those of small business and small Governments, with a greater involvement of NGOs.

There was widespread agreement regarding the need for reform of the international financial system, which, in the view of some speakers, should also include restructuring of the international financial and monetary institutions. Without such reform, there is a risk that financial crises could recur. Improved transparency and accountability alone were believed to be insufficient to prevent such crises in the future. The establishment of a 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. Indeed, the main objective of reform should be to reduce the volatility of capital flows, and to curb speculative short-term flows, should be the main objective of reform. In addition, the much wider issue of financing for development needs to be addressed, and a better balance sought in the

relations between strong and weak economies, and between creditors and borrowers.

It was also deemed necessary for the international financial institutions to shift their orientation from prescribing traditional fiscal austerity measures to proposing programmes incorporating social safety nets.

Several speakers stressed that international agreements should not reduce the flexibility of developing countries with regard to the choice of domestic policies and development strategies, in line with their political, social and cultural diversity.

National policies

Regarding domestic policies, it was pointed out that for many, if not most, developing countries, limited supply capacity has been a major constraint in their attempts to reap the benefits of globalization. Broadening and diversifying the productive base requires sustained investment as well as the continuous acquisition of technology and management skills. External financing, including FDI, can play an important role in this context, but sound domestic policies are the key.

Several speakers from developed countries stressed that development requires good governance, accountability, transparency, protection of human rights and the rule of law, and sustainable environmental practices. Others pointed out, however, that phenomena such as corruption are also influenced by an external environment that can encourage their advent and spread, and therefore require solutions based on the cooperation of all concerned. Some speakers advised developing countries to aim at greater political stability and democracy, and to strengthen their domestic institutions as well as their resilience to external shocks.

There was a convergence of views regarding the need for sound financial and banking systems capable of mobilizing and allocating savings efficiently. Equally important is investment in education, health and human resource development, science and technology capacities, and transport and telecommunications facilities, especially in Africa. There is also a need for measures to preserve the environment and use natural resources in a sustainable manner.

International trading environment

Many delegations considered trade to be a powerful tool for achieving economic growth and sustainable development; it was also suggested that demand growth in the world economy is a precondition for expanding trade and development.

It was widely felt that a development dimension should be incorporated as an overarching theme in the WTO agenda. The WTO decision-making process should be reformed with a view to taking better account of the concerns of developing countries. This will help to ensure that the pace of liberalization and the manner of integration into the world economy are commensurate with each country's level of development. The principles of gradual liberalization in the developing countries, and of differentiated and special treatment for LDCs, must be recognized and become an integral element in future trade negotiations. Several speakers also suggested that accession to WTO be facilitated for LDCs.

A number of delegations expressed the view that a new trade round offers the best opportunity to rectify imbalances in the trading system, but 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 a more equitable manner. They must agree to subject some of their own domestic economic policies and policy-making processes, for example in agriculture, to international disciplines. Reducing barriers to trade in agriculture, and textiles and clothing — sectors where many developing countries have a comparative advantage — will provide them with huge opportunities to increase their export earnings and reduce their dependence on capital inflows.

While some delegations from developed countries believed it is essential that global trade and competition do not create a downward spiral in social and environmental protection, many speakers from developing countries found it equally important to prevent measures in these areas from being used for protectionist purposes.

Many speakers called for bound duty-free and quota-free access for exports from LDCs to developed-country markets. Such measures, while significant for LDC exports, have only a negligible impact on industrialized countries given that the LDC share in world trade is less than 0.5 per cent. Indeed, several industrialized countries reiterated their commitment to duty-free and/or quota-free market access for all products originating from the LDCs, and urged the more advanced developing countries to do the same. Moreover, many developed countries signalled their willingness to provide financial and technical support to the developing countries, and in particular to LDCs. Industrialized countries might also support developing countries in meeting the new challenges of the global economy by facilitating access to knowledge and modern technology. Existing international agreements relating to the transfer of technology should be implemented.

A number of delegations recommended that developing countries should seek to strengthen their position in the world economy not only 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 and

stimulate trade, investment and human resource development. In this context the launch of a new round of negotiations concerning the General System of Trade Preferences was proposed. Increased trade and economic cooperation between developing countries and economies in transition may also be mutually beneficial. Moreover, intensified regional cooperation to complement multilateral trading arrangements may help to enlarge markets for certain products beyond national boundaries, and facilitate peaceful settlement of political conflict; this, in turn, would enhance economic development.

External financing and debt

The progress achieved with regard to debt relief for the poorest countries, particularly after the Cologne summit of the G-7, was generally recognized, and delegations from industrial countries reaffirmed their commitment to providing further relief under the enhanced HIPC Initiative. However, many speakers from developing countries stressed, however, the need for further debt reduction. In this context, some endorsed the proposal to establish an independent expert body to assess the debt capacity of African countries and write off their debt accordingly. The debt overhang continues to seriously constrain the ability of many low and middle-income countries to combat poverty, provide basic services in health and education, and to upgrade their social and physical infrastructure. Many African countries require additional financial support due to the burden of fighting the HIV/AIDS pandemic.

Developing-country delegations frequently expressed their disappointment at the fall in ODA compared to the 1980s. Additional financial and technical support was deemed necessary, especially for the LDCs, to enable them to share in the benefits of globalization. ODA flows should reach the level of 0.7 per cent of GDP of donor countries as agreed in various United Nations resolutions, and ODA must not compete with debt relief, emergency aid or other forms of assistance. The provision of incentives for FDI to LDCs was considered an essential element in supporting these countries' development efforts. Against this it was held that relatively small shifts in global trade and investment patterns could generate far more resources for development than any foreseeable increase in ODA.

The role of UNCTAD

Speakers from developed and developing countries stated that UNCTAD is of unique value both as a forum for discussion and consensus building, and as a source of policy-oriented research and technical assistance. It is the only international institution dealing with trade, finance, investment, technology and development in an integrated manner.

UNCTAD's main function should be to help achieve a balance of interests between different groups of countries and actors in the global economy. The organization could serve as a "Forum of Globalization", fostering a better understanding of the phenomenon and identifying the most appropriate policies to deal with it. It was suggested that UNCTAD could benefit from its relations with non-governmental organizations, which are closer to it than they are to other international organizations, such as the IMF and WTO.

The reform of UNCTAD has allowed the secretariat and member States to sharpen their focus on key priorities in trade and development, and the organization should continue to adapt to the permanently changing world economic environment, taking into account the needs of different groups of countries. Some delegates from developing countries suggested that UNCTAD be given a more important operational role in decision-making processes relating to the global trading system and the reform of the international financial system. However, several speakers from developed countries disagreed.

Research and analysis, and technical assistance activities by UNCTAD should help developing countries and economies in transition in the design and implementation of appropriate and coherent development policies, in drawing up a positive agenda for future trade negotiations and in strengthening their economic, administrative, institutional and negotiating capacities with the view to facilitating their smooth integration into the world economy.