UNITED
NATIONS

TD

United Nations
Conference
on Trade and
Development

Distr.
LIMITED

TD/B/47/L.6/Add.1
13 October 2000

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Forty-seventh session
Geneva, 9 October 2000
Agenda item 10

DRAFT REPORT OF THE TRADE AND DEVELOPMENT BOARD ON ITS FORTY-SEVENTH SESSION

Rapporteur: Ms. Uchanya Wichayachakorn (Thailand)

Speakers:

Acting Director on the Division on Globalization and Development Strategies
Group of 77 and China (Islamic Republic of Iran)
Latin American and Caribbean Group (Jamaica)
France (on behalf of the European Union)
European Commission
Japan
African Group (Ethiopia)
Switzerland
Asian Group and China (Philippines)
Russian Federation
Pakistan
China
India
Bangladesh (on behalf of the least developed countries)
South Africa
United States of America
Norway
International Confederation of Free Trade Unions

Note for delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments to statements of individual delegations should be communicated by **Wednesday, 25 October 2000 at the latest** to:

The UNCTAD Editorial Section
Room E.8106 - Fax No. 907 0056 - Tel. No. 907 5656/1066

INTERDEPENDENCE AND GLOBAL ECONOMIC ISSUES FROM A TRADE AND DEVELOPMENT PERSPECTIVE: CRISIS AND RECOVERY IN EMERGING MARKETS

(Agenda item 3)

1. For its consideration of this agenda item, the Trade and Development Board had before it the following documentation:

Trade and Development Report 2000 (UNCTAD.TDR/2000 and Overview).

2. The **Acting Director of the Division on Globalization and Development Strategies**, introducing the item, said that a number of lessons could be drawn from an examination of the recovery process in the emerging markets. Monetary tightening had aggravated the impact of the currency crisis and served to depress production and employment further without bringing stability. The hike in interest rates had been much more damaging than declines in currencies, while the subsequent stabilization had been a result not of increases in interest rates but of the build-up of reserves due to massive import cuts and the reduction in foreign claims resulting from debt rescheduling. Provision of adequate international liquidity at an early stage, together with temporary and selective exchange controls, debt standstill and maturity rollover, would have been much more effective than the policy of high interest rates. The imposition of capital controls had been successful in Malaysia. The speed of the subsequent recovery suggested that initial policies had created an unnecessarily tight squeeze. The economies had bounced back rapidly when that policy had been reversed. This policy reversal had not been a component part of a carefully sequenced policy package. Rather, it had been brought about by the deepening of the crisis and widespread criticisms of the initial policy approach. The present recovery in emerging markets was highly fragile, because structural weaknesses continued to pervade. These weaknesses had been further aggravated by the initial interest rate hike. Moreover, the recovery had so far been supported by relatively favourable conditions in the world economy, but these were expected to change. Continued increases in foreign interest rates could pose a serious dilemma: attracting foreign capital would call for a reversal of the easy monetary stance, which in turn could stifle growth by blocking the domestic forces of recovery. Although in most East Asian countries affected by the crisis per capita incomes were now above or close to pre-crisis levels, income appeared to be less equally distributed than before.

Employment and labour earnings were lagging behind aggregate income, and poverty remained considerably above prior levels. This was a confirmation of the general observation that boom-bust-recovery cycles in emerging markets tended to be regressive in terms of income distribution and poverty. A fundamental lesson to be drawn from the crisis must be that excessive reliance on foreign resources and markets increased a country's vulnerability to external shocks. Policy makers in emerging markets had rightly rejected a retreat into protectionist solutions, but it would be just as wrong to allow global market forces to dictate future growth and development. Regional economic ties were likely to remain significant and should be strengthened.

3. The spokesperson for the **Group of 77 and China (Islamic Republic of Iran)** said that the central challenges before the international community were to ensure that the development dimension was taken into account in the process of globalization, to redress the asymmetries and imbalances in international economic relations, and to counter the widening of the income gap between North and South. This required urgent action through more transparent, inclusive and broad-based mechanisms. While the world economy had picked up in 1999 and the developing world as a whole had improved its performance, there were considerable variations in growth among the developing countries. In many cases there was little leverage for policy makers to influence future prospects. Despite considerable efforts by developing countries to become full participants in an increasingly interdependent world economy, their progress had been hindered by systemic biases and asymmetries in the global economy. The reluctance to move towards a new round of multilateral trade negotiations that gave priority to the development needs of the poorest countries had become apparent in Seattle. Without greater trade opportunities and better market access, growth in developing countries was more dependent than ever on capital flows, a situation that was aggravated by the debt problem, especially in least developed countries. While policy makers in the small number of emerging market economies had been alerted to the dangers of volatility by the recent events in East Asia, for the vast majority of developing countries official flows remained instrumental to growth. These flows had been on a downward trend for much of the past decade, barely compensating for adverse shifts in the terms of trade.

4. The reaction in many industrial countries to the rise in oil prices was an indication of the double standards that characterized the international policy dialogue. For a long time, the

Group of 77 and China had been asking for concerted international efforts to stabilize primary commodity prices. Today, higher oil prices, by themselves, were unlikely to repeat the dislocations of the past since adjustment in the industrial countries was much easier today. It was also important to recognize that the price to be paid by the final consumer was not only determined by the producers but also influenced by speculation, corporate margins and taxation. There was a need at this juncture for prudent macroeconomic adjustment in the North to ensure that this temporary shock did not spiral into inflation or deflation. In addition, oil-importing developing countries, many of whom were caught between a rising import bill and declining prices for their own export commodities, needed compensatory financing through the multilateral financial institutions.

5. The health of the world economy depended very much on correcting the persistent macroeconomic imbalances among the world's richest economies. Disparities in growth rates within the industrialized world had resulted in growing and unsustainable trade imbalances, while technological and financial innovations had aggravated the underlying fragility of current financial and trade flows. The risk of another episode of global economic turbulence resulting from this situation was an obvious concern of the developing countries, who would be the biggest losers in such a scenario. The analysis contained in the *Trade and Development 2000* of the recovery in East Asia showed the extent of the social damage that could result from fighting crises with the wrong medicine. The persistence of that damage, even with the strong growth across the region in 1999, was a reminder of how difficult it was even for the strongest developing economies to cope with the downside risks of globalization. The ongoing vulnerability of these economies to policy shifts in the North only highlighted the urgent need for better policy dialogue and coordination at the international level.

6. The spokesperson for the **Latin American and Caribbean Group (Jamaica)** said that development in the countries of Latin America and the Caribbean relied heavily on a favourable external environment. The East Asian financial crisis had been transmitted to the region. It had led to rapid capital outflows and currency attacks, and had caused major Latin American stock indices to fall by over 40 per cent between October 1997 and March 1999. The financial effect had been somewhat dampened by the fact that two-thirds of the capital inflows to the region were accounted for by long-term capital and relatively stable flows of foreign direct investment. The financial crisis had also affected Latin America and the

Caribbean through its impact on trade and commodity prices. Consumption and investment had both fallen, and there had been a steep decline in the value of intra-regional trade. Many countries in the region had felt the impact of the financial crisis even though they had quite strong and improving fundamentals in the form of declining fiscal deficits and inflation and in many cases an improving debt profile. Far-reaching structural reforms had also been undertaken, but in an interdependent global economy shocks and disequilibria reverberated easily and were quickly transmitted. Even the more advanced developing economies were vulnerable in that respect. If the current global imbalances were not addressed or were corrected too abruptly, this would pose a serious new threat to the growth prospects of developing countries.

7. The international community must attach higher priority to identifying and implementing measures to correct these imbalances. A key priority should be the establishment of an appropriate mechanism to regulate financial flows, and UNCTAD could make an important contribution in this regard. It was also important to ensure that the multilateral trading system was fair, equitable and free from protectionism. The World Trade Organization had to be strengthened, and the link between trade and development as well as the specific needs and concerns of the developing countries had to be taken into account in the design of the multilateral trading system.

8. The effects of the financial crisis had not been felt uniformly across the Latin American and Caribbean region. Mexico and some Central American and Caribbean economies had been insulated somewhat by their stronger links in some sectors with the United States economy. 1999 had been one of the most difficult years for the economies of Latin America and the Caribbean, but there were now signs of some improvement in the economic situation. Much would depend, however, on the external environment and on appropriate demand management. The region continued to face a number of challenges, such as reducing its dependence on external resources, increasing productivity and competitiveness, improving income distribution and reducing poverty. In the face of these challenges, a better international environment was essential. This required strengthened international cooperation to attain greater stability of financial flows, improved market access in the developed world for exports from the region, a strengthened multilateral trading system, and an easier transfer of technology, which was increasingly important for

productivity growth and wealth creation. The technological advances and the globalization of trade, finance and productive activity had contributed to the creation of unprecedented wealth in the developed countries, but so far it had not had the same impact in the developing world. The unprecedented prosperity in the North must not lead to complacency. Rather, it should be taken as an opportunity for reshaping international economic relations and wealth creation in the interest of all countries.

9. The representative of **France**, speaking on behalf of the **European Union**, said that the general tone of the *Trade and Development Report 2000* was less alarming than that of previous issues. Many disequilibria persisted in the world economy, but global economic growth and trade expansion remained strong. Not only the economies in South-East Asia, but also several countries in Central and Eastern Europe had made remarkable progress. In its analysis of recent trends in the world economy, the *Report* showed some convergence with the reports of other international institutions, while preserving the specificity of its perspective. The search for strong and non-inflationary growth was always difficult in both developing and developed countries, but the capacity of the world economy to resist crises had been quite remarkable. The rapid and almost general recovery in South-East Asia was a good example of that. Paradoxically, some observers attributed the recovery to orthodox policies, while for others it was due to more “heterodox” policies. In any case, there were indications that the cycles of overheating, recession and recovery tended to aggravate income inequality and poverty. It should be recognized that mistakes had certainly been made in the diagnosis of this unconventional crisis, and the policy recommendations had not always been optimal. Economic history showed that most of the time one knew quite well how to deal with the last crisis, but much less was usually known about the right remedy for any new crisis.

10. It was regrettable that the *Trade and Development Report 2000* did not deal in greater detail with trade issues. The World Trade Organization was of universal importance, and the Uruguay Round Agreements were not without consequences for international trade flows. The multilateral trading system had helped many developing countries to integrate successfully into the world economy. The importance of the multilateral trading system for the developing world was obvious from the fact that the great majority of WTO members were developing countries. The recently approved Cotonou Convention between the

European Union and 71 ACP countries, which succeeded the Lomé Convention, was also important for world trade in general and for many developing countries and least developed countries in particular. The *Trade and Development Report* should regularly contain a section on the evolution of the institutional framework for international trade, which would make it possible to draw conclusions with regard to the positive effects of multilateralism.

11. The representative of the **European Commission** said that the economic prospects of the European Union were more positive than suggested in the *Trade and Development Report 2000*. Growth was expected to exceed 3.5 per cent in 2000, unemployment was falling and core inflation was at a historical low. The recent evolution of oil prices was a handicap for the European economy, but it was above all a problem for the oil-importing developing countries. It was in the interests of all countries, producers and consumers alike, that oil prices be stabilized at a reasonable level.

12. The political will existed inside the European Union to further strengthen policy coordination, which had already improved as a result of the establishment of monetary union. The euro was protecting economic agents from exchange rate variations among the members of the monetary union, thereby facilitating trade among the members of the euro zone. Bond floatings in the new currency were rising rapidly, and the link between the euro and the African Financial Community had also had positive effects for the developing countries. The recently signed Cotonou Convention represented another important contribution of the EU to development. The agreement was a new approach to strengthening the trading capacity of ACP countries, as well as their ability to attract foreign direct investment. The EU also supported the Southern African Development Community, and the creation of a free-trade zone was envisaged with the EU's 12 Mediterranean neighbours. Complex negotiations were going on with MERCOSUR, and a dialogue at the ministerial level was about to start with ASEAN. A number of economies in transition, many of which were also benefiting from EU support, had recently attained very satisfactory growth rates, to a large extent thanks to increased exports to the EU. Trade was certainly not a panacea for the problems of development and poverty, but its expansion could make an important contribution to economic growth if accompanied by appropriate domestic policies and supported by external aid.

13. The representative of **Japan** said that rapid globalization of the world economy had brought both unprecedented opportunities and new risks to national economies, as witnessed by the recent events in East Asia. An urgent task was therefore to map out effective strategies to maximize the opportunities and minimize the risks of globalization. As competition among national economies. had intensified, more attention had to be paid in all countries to strengthening the basis of their competitiveness. In the East Asian economies, further structural reforms were required, particularly in the financial sector, so as to enhance credibility and confidence. It was also imperative to improve the international framework in order to adequately safeguard national economies from the devastating effects of short-term capital flows. In this regard Japan, together with neighboring countries, had agreed to reinforce cooperation among their monetary authorities.

14. Globalization had expanded the opportunities for foreign direct investment, something that could help reduce constraints resulting from a shortage of domestic savings. FDI could also be a vehicle for the acquisition of new technology, know-how and management methods, apart from providing employment opportunities. Stable and transparent policies and a legal framework conducive to FDI inflows was essential for attracting such capital inflows. On the other hand, adequate social policies and a social safety net were necessary for those social groups that were adversely affected by globalization.

15. Japan had not only provided support of various kinds to the East Asian economies that had been affected by the crisis and were now on their way to recovery, but it was also committed to contributing to the sound development of the world economy by revitalizing its own economy and assisting developing countries.

16. The spokesperson for the **African Group (Ethiopia)** said that the *Trade and Development Report 2000* clearly showed the difficulties facing developing countries in general and African countries in particular in benefiting from growing global interdependence. For Africa as a whole, globalization was equated with marginalization and further isolation. Developing regions in general, and Africa in particular, had little control or influence on factors that determined their destiny. African countries had been the hardest hit by financial crises, the vagaries of global commodity markets, the sharp increase in oil prices and other external shocks that were compromising the growth and development prospects of

the region. Africa's share in global trade continued to be negligible. The pronounced decline in non-oil commodity prices for three successive years had seriously affected the growth performance of most countries in the region. The international community should put in place appropriate mechanism to compensate African countries for their losses and to fill the foreign exchange gap resulting from depressed commodity prices. African countries also needed assistance from donor countries and international institutions in their efforts to diversify their economies.

17. While external financing was essential for achieving the rates of growth required to attain a marked improvement in living standards and a significant reduction of poverty in Africa, the inflow of foreign direct investment to the region was still very low, and Africa suffered from volatility in capital flows, as well as exchange rate instability and misalignment resulting from rapid liberalization of the capital account. African countries were also victims of a growing digital divide. In order to extricate the continent from its deep-rooted socioeconomic problems, domestic policy reforms had to be accompanied by concerted action at the global level, including measures designed to achieve an expeditious resolution of the debt crisis, enhanced productive capacity, improved and expanded market access, increased official development assistance and a more generous transfer of technology. Africa should not be considered as a region that did not pose any threat or systemic risk for the global economy and for the major economies. In the long run, such an assumption could have enormous implications with disastrous consequences. Most African countries had not yet seen the benefits of globalization. It was an ethical and moral imperative for the international community to take urgent measures to reverse the continued marginalization of African countries in an increasingly globalizing world economy.

18. Carefully designed, properly timed and well sequenced state intervention could help attain greater stability in the global economy. Recent economic shocks and turbulence indicated that market forces should not be left unchecked if the world economy was to enjoy healthy growth and development. Dancing to the tune of globalization could not guarantee economic prosperity for African countries. Greater openness and liberalization were not a panacea for all socioeconomic problems. The process of globalization must be tamed so that sufficient room was left for national development policies and strategies if the fight against poverty was to be effective and the gap with more advanced countries narrowed. It was the

primary responsibility of industrialized countries to reduce financial fragility and global imbalances, as their policies were the major causes of price volatility and the global economic downturn. There was a need for more policy dialogue and co-ordination at the international level to avoid the recurrence of global economic crises and the resulting adverse effect on vulnerable regions and countries as those in Africa.

19. The representative of **Switzerland** said that the general tone of the *Trade and Development Report 2000* was overly pessimistic in its assessment of recent trends in the world economy, but it was true that the opening-up of markets, flexible exchange rates and even the adoption of currency-board systems had not reduced the possibility of financial crises, which today were of a different nature than in the past. Increased private capital flows to developing countries were in principle welcome, but short-term flows could have serious negative consequences. Financial liberalization, while implying a reduction of government control over capital flows and the distortions resulting therefrom, had also increased the potential for instability in cases of excessive indebtedness, inadequate maturity structures, unsustainable exchange rates, lack of management of external savings, or speculative behaviour of financial market participants.

20. It was important to recognize that the multilateral trading system had functioned satisfactorily in the recent period characterized by a sudden change in the pattern of international competitiveness resulting from major exchange rate adjustments. As a consequence there had been a swing in the current-account balance of the East Asian countries affected by the financial crisis from a deficit of 5 per cent of GDP in 1996 to a surplus of 9 per cent in 1998. This would not have been possible without the maintenance of open export markets, and it showed the importance of the WTO agreements.

21. The mobilization of domestic savings in developing countries had to be improved in order to achieve a better balance between domestic and external financing. A more subtle management of the different types of external capital flows, by both Governments and the private sector, also appeared desirable.

22. The spokesperson for the **Asian Group and China (Philippines)** said that, while economic growth in Asia had picked up, the speed and nature of the recovery varied

considerably throughout the region. The recovery in East Asia had been spectacular, but it had become clear from the policy responses and the sharp swings in economic performances in the region that the orthodox diagnosis and policy prescriptions by the international financial institutions had limitations. The *Trade and Development Report 2000* had highlighted the problems resulting from the fact that the task of adjustment to global economic imbalances was falling on monetary policy alone. This was indeed a cause for concern. Better policy coordination and coordination among the major industrial countries was required to correct their large imbalances in external payments and capital flows. Otherwise, current global imbalances could lead to a systemic breakdown and hard landings, something that would be most damaging to growth in developing countries. There was now a strong need for reform of the international financial architecture. In this context, UNCTAD should further analyse strategic options for developing countries to strengthen their participation in the reform process and to make a meaningful contribution to the reform itself.

23. For many developing countries, economic growth remained constrained by low levels of saving and investment and by a foreign exchange gap. Debt relief could play an important role in accelerating growth in many developing countries. Some progress had been made over the past year in the context of the HIPC Initiative, but even if the enhanced Initiative was fully and rapidly implemented, its impact would be limited. The "everything-but-arms" initiative by the European Union was a welcome step to enhance trade opportunities for developing countries.

24. Policy measures to level off oil prices and interest rates could help developing countries to reap the promised fruits of globalization through increased trade, private capital inflows and better access to new technologies. A lesson from the recovery after the financial crisis was that much closer integration with the world economy had to be combined with institutional changes aimed at reducing the risks associated with globalization. Development strategies had to be adapted to the more open world trade environment. This required better macroeconomic policies, sustained productivity growth, improved resource allocation, a more efficient infrastructure and a higher rate of technological absorption and adaptation.

25. The concerted efforts by developing countries to become full participants in the new global economy continued to be stymied by biases and asymmetries in the international

trading and financial system. Developing countries still had to struggle for better market access for their exports and continued to be vulnerable to highly volatile capital flows. The external debt burden was in many cases a hindrance in the fight against poverty. It was also necessary to review some of the Uruguay Round Agreements in order to allow developing countries greater flexibility in responding to the challenges posed by globalization. Their freedom to shape domestic economic policy was increasingly constrained by the rules-based multilateral trading system and by the external economic environment. But developing countries needed autonomy in determining their policy responses to globalization and trade liberalization, setting their own priorities, and adopting a sequence and pace of reform in line with their own needs and aspirations.

26. The representative of the **Russian Federation** said that, thanks to its universal character, UNCTAD was the appropriate forum for the discussion of, and search for consensus on, problems and solutions in international trade, finance and investment; competition policies; and trade-related environmental issues. UNCTAD's experience in analysis, research, organization of symposiums, and technical cooperation could be very useful for the preparation of a new round of multilateral trade negotiations within the framework of the World Trade Organization. UNCTAD's technical assistance to developing countries and countries with economies in transition had produced tangible results that had helped these countries in their integration into the world economy, in their accession to WTO, and in their participation in multilateral trade negotiations. UNCTAD should intensify its cooperation and coordination with other international institutions, in particular WTO, ITC, UNIDO, the Bretton Woods institutions, and the European Bank for Reconstruction and Development.

27. The recent financial crises had demonstrated, once again, that the international financial system was ill equipped to react adequately to such events. The analysis of the consequences of financial crisis on trade, investment and development contained in the *Trade and Development Report 2000* was timely and a useful contribution to the international discussion on mechanisms for the prevention and management of financial crises. UNCTAD’s pragmatic and balanced assessment of the globalization process and its possible consequences for developing countries and the world economy as a whole was important and should be continued, but the potential of the secretariat should also be used for the

elaboration of concrete recommendations for preventing and overcoming the possible negative consequences of the globalization.

28. The representative of **Pakistan** said that the East Asian crisis should not be considered as a minor blip on the global economic scene. It was important to draw the right lessons from the crisis and its management and to recognize the persistence of many structural factors that contributed to the vulnerability of developing countries, including the more relatively advanced ones. The crisis had shown the inability of the international financial system to harness the forces of globalization. The astounding mobility of capital, the spread of production and distribution networks and the rapid expansion of trade in goods and services had not been accompanied by the development of appropriate institutions to govern the process. In order to avoid a recurrence of such crisis, it was necessary to ensure that the international trade regime furthered the interests of all countries. For developing countries, this meant having greater access to developed-country markets and being given more time and flexibility to open their own markets. It was also necessary to ensure that, in discussions about rectifying the shortcomings of the international financial system, developing countries' interests were better taken into account than in the past. Greater transparency and surveillance might be useful, but it was also necessary to address the volatility of short-term capital flows; to aim at a more effective management of financial crisis by the provision of standstill measures and orderly debt workout procedures; to create an international lender of last resort; and to provide for more space and autonomy for developing countries in their response to such crises and to their approach to capital account liberalization, which should be gradual and sequenced. Moreover, the United Nations should urgently consider mechanisms for an effective governance of globalization, including a developmental dimension and the democratization of international economic decision-making. More generally, a fundamental reappraisal of the nature of the international economy was required in order for all countries and social groups to benefit from the global economy and to ensure a just and sustainable pattern of growth.

29. The representative of **China** said that in 2000 growth in the world economy had been unbalanced and fragile. There were still numerous uncertainties resulting from, *inter alia*, financial bubbles in the emerging markets and over-expansion caused by cross-border mergers and acquisitions. Many developing countries, in particular the least developed and

African countries, were suffering from lack of capital, a heavy debt burden and deteriorating terms of trade. And the fragility of the external environment was an additional threat for the economies of developing countries. The experience of crisis-stricken countries of East Asia had shown that developing countries should first and foremost persist in their own road toward development. They should formulate suitable monetary, fiscal, trade and other macroeconomic policies in line with their respective national conditions, and follow a gradual approach to market opening. Collective efforts should be made to counter the risks resulting from the instability of the global economy. A number of structural problems were yet to be resolved, including unsustainability of export growth, unemployment, and lack of a favourable international environment. Flaws in the international economic system had indeed been one of the causes of the financial crisis and had to be corrected. In the 1990s, the UNCTAD secretariat made correct early warnings of the financial crises of some developing countries. The secretariat should continue to develop its comparative advantages in this field and focus its work on helping the developing countries to design policies that helped to avoid similar crises. There was also need for a fair, secure, non-discriminatory and predictable multilateral trading system. So far, the design of the trading system had followed too closely the sway of the developed countries and transnational corporations, while the voice and interests of the developing countries had been neglected. A new round of multilateral trade negotiations must take into consideration the balance of interests of countries with different levels of development.

30. The representative of **India** said that globalization had opened new opportunities and contributed to remarkable growth in the world economy, but it had also resulted in the marginalization of a number of countries. In spite of the great potential that globalization was offering, 1.2 billion people were still living on less than one dollar per day. There was an urgent need to address the imbalances and biases of the multilateral trading system and the shortcomings of the Uruguay Round Agreements and their implementation. Industrialized and developing countries needed to form a partnership to ensure that the gains of globalization were shared more equally. Strong and sustained growth was necessary for poverty reduction. Foreign direct investment could play an important role in economic development, but issues such as the declining level of aid and the stagnation of other official flows needed to be high on the global economic agenda. The decline in the World Bank’s non-concessional lending was worrisome, and the increased use of social principles in the

conditionality of the Bretton Woods institutions was unacceptable. The East Asian crisis had led the international community to focus on how to reform the international financial institutions and how to meet the challenges of crisis prevention and resolution in a world of increasingly integrated financial markets. But this should not divert attention from other crucial policy areas, including exchange-rate policies, external debt, and capital-account liberalization. It had to be recognized that there was no uniform approach to policy reform in developing countries. Capital-account liberalization needed to be correctly sequenced and carefully calibrated and should be adopted only when strong macroeconomic fundamentals and a sound financial system were in place. Prudential norms and a strong supervisory capacity were also required to reduce the volatility of capital flows.

31. The representative of **Bangladesh**, speaking on behalf of the **least developed countries**, said that economic interdependence was a matter of utmost importance for the developing countries, and their interests had to be recognized and reflected in the reform of the international financial system. Interdependence had also manifested itself in the East Asian crisis. Policy prescriptions during and after the crisis had been diverse, and it was not clear which had been the right ones; the Republic of Korea and Malaysia had both achieved significant recovery although their policy responses had been different. While the East Asian financial crisis could perhaps be explained as a phenomenon of recurring economic cycles, the problem of endemic poverty from which one fifth of humanity was suffering was more complex. The least developed countries continued to be marginalized and were becoming poorer day by day despite decades of efforts by themselves and the international community to improve their situation. Against the background of increasing interdependence in the world economy, a number of steps had to be taken to give the least developed countries a better chance to integrate into the global trade and development stream: all markets must be opened completely and immediately to all exports from LDCs; a special programme for trade-related capacity building in the LDCs, as provided for in the Integrated Framework, must be implemented; bilateral assistance through ODA must be increased; all debts of LDCs must be written off, with conditions relating to good governance, economic reforms and increased social investment; and the LDCs as a group must be given a voice in the restructuring and management of international financial and trade institutions, proportionate to their population. The recent EU initiative for full market access for all LDCs and ACP countries was a step in the right direction. Other developed countries should emulate this initiative.

32. The representative of **South Africa** said that his country had not been immune from the financial crisis, which had hit mainly ordinary people and small and medium-size enterprises. The present improved outlook was partly a result of the fundamental reforms undertaken in developing countries. These needed to be matched by similar reforms in developed countries. Despite the positive outlook, one should not lose sight of the remaining risks to sustainable growth. The growth prospects of developing countries would be seriously compromised if developed countries continued to set their policies without regard to their repercussions on international trade and capital flows. There was a need for structural reforms to reduce vulnerability. Developing countries had to make additional efforts to raise their levels of savings and investment, implement policies designed to create jobs and overcome poverty, improve their human resource capacities and take measures to bridge the digital divide. Globalization had been accompanied by rising poverty, and it would fail if its benefits were not shared more widely and if the majority of the people of the world continued to be marginalized. In order to counter the unequal distribution of income and wealth, the most advanced economies had to take bold steps to ensure sustained growth and to strengthen the weak and the vulnerable. In a highly interdependent world economy, growth in the developing countries was not only determined by their own efforts. Many developing countries were unable to attain the rates of growth required to reduce poverty and to narrow the gap in living standards as long as their external debt burden remained. Developing countries had liberalized their own trade regimes, and it was now up to the developed countries to undertake the reforms necessary to allow developing country exporters better market access. Given the substantial saving gaps in many developing countries, there was also a need for an increase in official development assistance.

33. The representative of the **United States of America** said the East Asian crisis had shown that, in the new global economy, weaknesses in national policies and institutions could be punished much more quickly and severely by international markets than in the past, and inadequate risk assessment by investors could have serious repercussions. While most of the hardest hit East Asian countries were now recovering faster than initially forecast, important questions remained as to how to avoid such upheavals in the future and how the international community could best react when such upheaval occurred. Inadequate institutions and weak policy frameworks in many developing countries, combined with faulty risk assessment on

the part of investors and banks from the industrial countries, had made these economies excessively vulnerable. The international community's response had not been ideal in some respects, but it had been modified as new information was gained, and eventually it had produced the recovery. The task now was for all countries to design a route toward sustainable growth that did not outrun the regulatory capacity of growing economies. Market-based economic systems and global capital flows offered the best route to sustainable growth for both industrialized and developing countries. The international community had an obligation to cooperate in reducing the disruptions and consequent hardship that could occur in such a system. Industrial countries needed to improve risk assessment. The IMF should adapt its policy recommendations to the particular characteristics of each individual case, ensuring that fiscal reforms would not cut disproportionately into core social programmes, but the greatest impact on vulnerability to, and recovery from, financial crisis would come from the actions of national Governments. Bank supervision and securities market regulation needed to be made more consistent, and there was a continuing need for restructuring in the financial and corporate sectors. Each country could choose the exchange-rate regime it considered most appropriate, but sound economic and financial policies were essential under any regime. Since short-term capital controls were difficult to administer and their effectiveness declined over time, such controls could only be transitional; they were not a substitute for fundamental financial reform. Greater reliance on long-term rather than short-term borrowing and the development of domestic debt markets would in general be a better way to insulate countries from market volatility.

34. The representative of **Norway** said that developing countries, which were already suffering from falling commodity prices, debt problems and insufficient ODA flows, were particularly vulnerable to a slowdown in economic growth in the developed countries. The current prospects for the least developed countries in Africa were a particular cause of concern. The primary reason for poor growth prospects in Africa was the stronger-than-anticipated impact of the East Asian crisis, declining aid flows, a lack of foreign direct investment, and the effects of the HIV/AIDS epidemic. However, forecasts for some sub-Saharan countries which had implemented reform programmes were relatively good, with expected growth rates in excess of 5 per cent. Key to this relative success were development strategies built on improved economic and social policies, poverty reduction and good governance. However, these domestic efforts could only bear fruit if they were supported by

adequate external financing. Norway would not only increase its ODA to a level of more than 0.9 per cent of GDP, but would also support the new plan of action which could be expected from the forthcoming Third United Nations Conference on the Least Developed Countries.

35. Regarding the recent financial crisis and recovery in East Asia, it was important to recognize the positive role of the rules-based multilateral trading system, which had kept countries from resorting to protectionist measures in the face of increasing competition from the developing countries recovering from the crisis. The system had indeed proved extremely valuable, as exports had been a key element of the recovery. While WTO rules and regulations had by now acquired a truly global dimension, there was still room for improvement, in particular with a view to the integration of the poorest trading partners.

36. The representative of the **International Confederation of Free Trade Unions** said that, although per capita income in East Asia had recovered to pre-crisis levels, income inequality and poverty were now far more acute than before the crisis. Given the social impact of the crisis and the continued vulnerability of East Asia to unregulated capital flows, the sustainability of the present recovery was far from certain. While foreign direct investment was a source of external financing for developing countries, it had to be recognized that mergers and acquisitions did not systematically contribute to an increase in productive capacity.

37. A reorientation of development strategies with a view to strengthening economic security and stability was now imperative, and a number of measures should be taken to assure greater stability of the international financial system, including a strengthening of multilateral coordination of fiscal and monetary policies; capital account regulation by individual countries in line with macroeconomic requirements; involvement of the private sector in the solution of external financial and debt problems; the introduction of international standards for prudential regulation of financial markets; greater transparency in the banking system and information disclosure; an agreement regarding the right of developing countries to impose a temporary standstill on external debt payments in crisis situations; the development of an effective early-warning system; and the introduction of an international financial transaction tax aimed at reducing speculative financial flows.