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Global Economic Governance and Development: Enhancing the Coherence and Consistency of The International Monetary, Financial and Trading System (11 July 2011)

Statement delivered by
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Mr. Chairman,

Dear colleagues,

Over the last 30 years, developing countries have made serious efforts to increase their integration with the world economy. Their commitments include, among others, trade and financial liberalization, adherence to GATT/WTO trade agreements, deregulation of foreign investment policies, stricter intellectual property laws, and ~~the like~~ so on. However, the promise that the developing countries would experience rapid poverty reduction with the levels of their income converging those in the developed countries, has been realized in relatively few cases.

The postwar multilateral system recognized that, in an interdependent world, achieving growth, employment, social provision and macro-economic stability would require a network of national commitments supported by access to global institutional resources.

Adherence to multilateral institutions and global rules naturally means restricting some aspects of national sovereignty. Therefore, it was accepted that the developing countries with limited financing capacities in implementing internationally agreed rules should be supported by the international community. Nevertheless, the international trade and financial system that has evolved since the international debt crisis of the early 1980s has failed to deliver the promised rapid, sustained and inclusive growth for many developing countries.

The ~~scope of exceptions~~ for developing countries ~~from international rules~~ and regulations has been ~~drastically~~ actually restricted while the pace of integration has quickened, with accelerated globalization since the 1990s, leading to a significant reduction in the policy space available for developing countries. In that period, many critiques resisted suggestions for a more measured and better designed mode of integration of developing countries into the world economic activities, claiming that such a stance implies these countries' reluctance to ~~compete in liberalized global goods, services and financial~~ markets.

It should be clear that the fundamental issue in creating a new regime of global economic governance is not whether or not developing countries should integrate with the global system, nor whether the current system should be dismantled. Instead, what ~~is in question~~ should be examined is the modality of integration, regarding how they should proceed with their integration, under what conditions and at what pace. At the fundamental level, we are concerned with the consistency between the rules and disciplines of the increasingly regulated multilateral trading system on the one hand, and those of the relatively unfettered and weakly regulated global financial and monetary system.

The recent financial crisis and the challenge of recovery from the resultant recession has highlighted that a self-regulating world market cannot provide a workable basis for a flourishing multilateralism. Instead, an enhanced governance regime should include stronger and more innovative responses to the specific problems of developing countries, while supporting global efforts to stabilize growth and exchange rates. These challenges cannot be addressed successfully as long as the macroeconomic policies of the major countries of the world lack coordination, and in the absence of an effective multilateral surveillance system designed to encourage greater monetary and exchange policy cohesion.

A reformed governance regime must be able to prevent the domination of currency and financial markets by purely speculative transactions, which have often proven to be a destabilizing macro-economic condition, and many a time an obstructi~~ng~~on to inclusive development. Similarly, an international trading system that generates greater volumes of trade but without commensurate increases in incomes and employment, ~~and which bends too easily to the interest of the dominant economic actors,~~ leaves the weaker countries and communities with increasingly bleaker prospects. As their resources are stretched at home, poorer countries see rapidly d~~e~~pleting opportunities to bargain effectively in pursuit of their own interests. Unless this situation is improved, many developing countries are likely to remain vulnerable to the vagaries of international finance, the overriding interests and financial inducements offered by large transnational firms (especially in the mineral extraction sector), exogenous shocks, and balance-of-payments constraints.

The Global governance of trade has moved ~~gradually towards a single-tier~~ system of rights and duties~~, with the phenomenon of what is known as~~ "preference erosion" ~~for developing countries~~. ~~This~~ is an evolving system that has limited arbitrary and mercantilist actions by more powerful countries. Nevertheless, as long as trade liberalization as such is given priority over economic growth and employment creation, the economic prospects of many developing countries, particularly the least developed countries (LDCs), may remain precarious. The future of trade governance has been affected by two recent trends - the demands from the emerging single-tier system regarding increasing unified obligations on the one hand, and the diminished state capacities in leading and managing national development on the other.

In 2001, a development round of trade negotiations was launched in Doha. Subsequent events, however, have reminded us that multilateral trade relations are difficult to negotiate if liberalization becomes a single predominant issue at the cost of other factors and policies that shape the trading opportunities open to developing countries. The emergence of a trade governance regime which would accommodate the interests and needs of developing countries would entail additional flexibility in the design and monitoring of international rules, to cope with issues of relevance to these countries.

One issue which could help bring forth a more favourable system of global governance is the issue of technology transfer. This has been neglected even as technology has acquired a more prominent profile in shaping future growth paths. This is partly because technology is a major source of rents, and their protection has become a prerogative for countries and corporations at the top of the technology ladder.

Access to predictable and affordable long-term finance remains a constraint on development in many developing countries, particularly the LDCs. There has recently been a good deal of constructive discussion about aid effectiveness with a growing consensus around the need for harmonizing efforts around nationally owned programmes. While such a discussion is welcome as it has been a long-standing demand of UNCTAD, it has not brought about any clear conclusions. In recent years aid has assumed a strongly social focus often at the cost of its catalytic role in promoting domestic resource mobilization and building productive capacities through prtomoting sustained economic growth. Re-balancing ~~Moving-back~~ in that direction is central to UNCTAD's efforts to promote a New International Development Architecture for the LDCs.

Of concern to all countries is that global trade and financial imbalances be addressed coherently. Governments need to act in the same spirit of multilateralism that characterized the international fiscal response to the crisis at its most critical moments in 2008. A coherent approach to restoring balanced trade calls for policies that address and prevent currency speculation at the global level. Even those who criticize governments for stabilizing exchange rates and intervening in financial markets generally recognize that a viable long-term solution to the problem of massive trade distortions and global imbalances cannot be expected from individual central banks trying to find a unilateral solution to a multilateral problem like the exchange rate.

The WTO was established to help countries coordinate and manage the multilateral trading system, and the Basle Accords set global standards for banking. But the global monetary system has no such agreed regulatory system for enabling trading partners to avoid distortions stemming from financial shocks and, most importantly, exchange rate misalignments. Such a framework for limiting the degree of exchange rate deviations from the fundamentals would provide the missing link in dealing with the crucial but neglected source of imbalance and instability in the globalized economy. In the meantime, countries should be able to retain the policy space needed to limit the speed and change the direction of capital flows when the collateral damage threatens to become unbearable.

The shortcomings in the institutional architecture of global governance are partly responsible for the appearance of alternative diplomatic forums such as the G20, to deal with issues of global concern. Meanwhile, at the regional level, many developing countries have also been developing alternative arrangements for the management of monetary and financial pressures, such as the Multilateralised Chiang Mai Initiative. The G20 has demonstrated increased willingness to engage with new members and ~~foster engagement with~~ relevant stakeholders within the UN system. In particular we welcome the efforts under the French presidency to address global governance and put increased attention on development issues.

In the decade before the global economic crisis, we attended a number of conferences addressing several development issues and driven by a changing mindset, which aimed to reshape the world in the interests of the poor. In all these conferences, it was the UN that played a leading role and, to the fullest extent possible, has the legitimacy to do so.

However, a ~~further~~ worrying feature of the post-crisis return to business as usual has been the marginalization of the UN, when there is now a pressing need to have a more inclusive discussion. The UN has a better record of listening to alternatives and to a wider community of stakeholders, including civil society but it has to improve its record on reform and evolve with the changing times. To ensure that we move on and do not find ourselves discussing the same problems in 10 years' time, the UN and its constituency needs to ~~be~~ find its place~~d~~ at the centre of a new era of development-led globalization.

The ~~shortcomings in the institutional~~ architecture of global governance are partly responsible for appearances of alternative ~~diplomatic~~ forums such as G7, G8, and G20 to deal with issues of global concern. While these forums should be welcome as they are all supportive of cooperation, they are still the limited representative of groups much smaller than the global community. The G20 in particular has demonstrated increased willingness to involved non-member states and foster engagement ~~with~~ relevant stakeholders within the UN system. But there has not formal ~~relations between~~ the G20 and the UN.