

Ministerial Round Table 4
Coherence and Consistency of the International Monetary, Financial and Trading
Systems in Support of Development

Summary by the Co-chairs

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Participants highlighted the interdependence between trade and development within the context of the historical experience of Asian countries prior to the financial crisis, and the message learned from Cancun that trade is not an end in itself but a means to mobilize resources for development. On the other hand, the Capital Accounts crises of 1997 had a very important message for Asian countries as well with regard to the importance of developing capital markets to help promote development and reduce poverty.

The two most important issues to be addressed are: (i) the choice between an open regional approach and a multilateral approach to trade liberalization; and (ii) an evaluation of the global monetary and financial system's performance in serving development and stimulating the flow of foreign direct investments.

International Trade

A significant part of discussions concentrated on the issue of trade. Interdependence of trade and development was long recognized by UNCTAD but more recently by the Doha work program of the WTO negotiations. Many participants shared disappointment with the outcome of the recent WTO ministerial meeting in Cancun. Participants were of the view that regional trade agreements could become building blocks towards multilateral agreement but advancing the Doha agenda remains the priority. Strong commitment was expressed for a strong, multilateral, rule-based trade system to facilitate development.

Two concerns were also expressed: one concerning the rhetoric of trade negotiations and how the development dimension is perceived differently by developed and developing countries, and the other with regard to unreliability of statistical estimates of potential benefits.

Private Financial Flows to Developing Countries

Several participants stressed that much capital has flown from developing to developed countries creating negative net financial flows in the former. This is a systemic problem, which poses problems to the stability of the international and national financial

markets. To counter this development, developing countries should create a conducive environment for savings intermediation.

Also, it was said that the international monetary and financial system is not always conducive to development. The lack of capital flows to certain developing countries has undermined the development processes, without increasing trade or investment in developing countries thus not mitigating chronic unemployment problems or raising the standard of living or reducing poverty. This jeopardizes the achievement of the MDGs.

Macroeconomic Surveillance

An IGO participant emphasised the importance of multilateral surveillance in the prevention of crisis and ensuring a healthy economy. However, the participant criticized the lack of focus on countries influencing the world economy and noted that the surveillance is concentrated on smaller countries, referring to the systemic risk posed by the current fiscal position of the largest economy in the world. In this regard it was suggested that the Asian countries in the aftermath of the financial crises were building reserves in part because they did not have faith in the current system. He commented on issues of governance within the international financial institutions; the decision-making process within the international financial institutions lacks transparency, accountability and legitimacy. The voice of developing countries is not sufficiently heard within the Bretton Woods Institutions and the voting distribution does not really reflect the size of the economies. Large countries such as Brazil have less voting share than smaller-sized economies like Belgium.

Some participants emphasized that there is a general lack of capacity at the national level that does not permit the development of healthy financial systems, which would bring confidence to investors, both international and local, to accumulate the productive investment necessary for growth and development.

Coherence:

It was recognized that coherence of trading, monetary and financial systems is far from perfect. It needs to be improved on national, regional, and global levels.

Participants paid a lot of attention to coherence on the national level. Policies advocated by various national institutions need to be consistent between each other as well as with internationally agreed goals. It is important that outcomes of international meetings and discussions reach the national levels. This could be improved by securing higher- level participation in such meetings. Some proposed a more relevant body with some decision making power should be used to conduct such discussion in order to attract high- level officials.

Two general remarks were made, the first indicating that coherence exists in terms of a goal in charters of different institutions, but enhanced participation is needed.

The second remark highlighted that coherence could be increased by finding new forms of constructive interactions between different stakeholders, private sector and civil society.

Four issues were seen as requiring attention because of insufficient progress:

- a) Capacity building when it relates to trade needs to be accompanied by building production capacity so that countries can take advantage of increased trade.
- b) The public sector's attention is on LDCs, in particular on debt relief and ODA. The private sector, where the real financial expertise lies, is interested in activities in middle-income countries. Private flows to all countries could be stimulated if risk diversification vehicles were further developed, which would allow private sector to get involved. Multilateral banks should act as risk mitigators.
- c) Strengthen organizations that deal with issues that could not be discussed within the WTO like ILO for labour and social issues and environmental organizations.
- d) A more realistic financing of MDGs (See proposal #8).

New Proposals

1. A country representative asserted the need to strengthen the relationship and interactions between ECOSOC, the BWIs and the WTO, emphasizing that his country – Norway - has many ideas on how to do this.
2. Another country representative proposed building on the experience of the Bureau of the Preparatory Committee of the Financing for Development conference, and form a similar body within ECOSOC with balanced regional representation to interact with the BWIs and the WTO.
3. An IGO representative (ILO) proposed that ECOSOC must take up in its upcoming spring meeting a focused discussion of the two topics: (i) the outflow of funds from developing countries to developed countries, and (ii) unemployment and how to deal with it in order to achieve coherence. This is in line with the concept of coherence as embodied in the UN Charter and the foundational goals of the United Nations.
4. Another proposal highlighted by the same IGO representative relates to the possibility of having a Summit meeting at the beginning of each General Assembly structured on the membership of the General Committee which includes the five permanent members of the Security Council in its membership. Hence, having the interaction on global economic issues and coherence within the UN framework.
5. A business representative (WEF) proposed the formation of an expanded G8 at the leadership level to have a larger group of 20 or more countries analogous to the Security Council in its work, but in the economic field. The summits of this group would be

serviced by a joint report from the presidents of the BWIs and the expanded group would act as a trusteeship of the global economy. In the transitory stage until this vision materializes the UN financing for development process could create forums for discussion at more integrated and interdisciplinary levels to remove blockages preventing coherence in the current global economic environment.

6. The same business representative proposed more realistic ways to finance the MDGs through establishing a coherent link between separate feasible policy options like: distribution of SDR's, use of IMF gold, more politically acceptable ODA, leveraging the capital base of multilateral development banks, and broadening the tax base of developing countries.

7. There was a technical proposal by a business representative on how to improve the workings of the financial and monetary systems through market solutions, like outsourcing ratings of the banks by the issuance of dollar denominated bonds by these banks and bringing in rating agencies to rate these bonds. This, in the representative's view would lessen the burdens on the regulatory side within governments. One Co-Chair in a comment on the technical nature of the proposal emphasised the importance of thinking of ways and means to make use of interactions among various stakeholders within the FfD process to make practical use of such ideas, to "work on how to work together to make use of the suggestions."

8. An NGO representative proposed that ECOSOC form a multi-stakeholder working group to independently examine the issue of reform of the international financial institutions and voice of developing countries in their decision-making mechanisms, and the strengthening of ECOSOC through the formation of a Steering Committee within ECOSOC.