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Held at Headquarters, New York,
on Saturday, 18 April 1998, at 9.30 a.m.

President:	Mr. FULCI (Vice-President)	(Italy)
later:	Mr. CHOWDHURY (Vice-President)	(Bangladesh)
later:	Mr. FULCI (Vice-President)	(Italy)

CONTENTS

SPECIAL HIGH-LEVEL MEETING WITH THE BRETTON WOODS INSTITUTIONS: GLOBAL FINANCIAL INTEGRATION AND DEVELOPMENT AND RECENT ISSUES

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The meeting was called to order at 10 a.m.

SPECIAL HIGH-LEVEL MEETING WITH THE BRETTON WOODS INSTITUTIONS: GLOBAL FINANCIAL INTEGRATION AND DEVELOPMENT AND RECENT ISSUES

Statement by the President

The PRESIDENT, welcoming the ministers and high-level officials to the meeting, said that it represented the first attempt in the history of the United Nations at concrete collaboration between the Economic and Social Council and the Bretton Wood institutions. It was to be hoped that a free-flowing dialogue would take place on the opportunities, challenges and risks posed by global financial integration.

The global economy had become a reality. Large and small companies were feeling the impact of technological progress and new production methods and were seeking increased efficiency and productivity. The financial sector was already virtually globalized; deregulation, the ending of exchange controls and instant worldwide communication had transformed its operations.

While globalization brought progress, it also entailed certain risks. The global economy could be hard on those who did not benefit from its opportunities. Traditional ties of community and solidarity could be undermined. Whole countries and regions could become marginalized, leading to an ever wider gap between the rich and the poor.

The recent experience of East Asia, including fast economic growth in the past decade and the recent financial crisis, showed the positive contribution of financial globalization to development and, at the same time, its risks and challenges.

Address by the Secretary-General of the United Nations

The SECRETARY-GENERAL said that finance was central to the development process. There was now a universal recognition of the developmental role of private international capital flows, which had brought tremendous benefits to millions of people. Yet, as the recent financial crisis in Asia had shown, huge risks were involved.

There were three main areas of concern relating to the recent crisis and its implications. First and foremost, there was the situation of the crisis countries themselves. It might be asked whether the penalty imposed on those countries in terms of lost output and lost jobs was commensurate with the errors of omission or commission that they might have made.

Such crises took a harsh toll on an entire citizenry. Those hardest hit were usually the most vulnerable, including job seekers who had migrated during the good times, the poor who could no longer pay for higher-priced basic necessities and those groups which were employed in the least organized sectors of the economy. In addition, there was the continuing threat of social strife, the breakdown of law and order and the loss of self-esteem. Macroaggregates did not capture the trauma that individuals and families experienced as a result of crises of that nature.

Secondly, it was not only the countries and their citizens that bore the consequences, but the world at large. The precise impact of the Asian crisis could not be separated from all other developments affecting the world economy. It was becoming increasingly apparent, however, that other developing countries and countries in transition, far removed geographically and economically from their Asian counterparts, would be affected more severely by the crisis than the developed countries. In other words, the collateral damage was greater in developing countries than elsewhere.

The third area of concern could be found in the speed of deterioration and recovery. A perceived failure to adhere to externally determined standards of creditworthiness could lead to instant loss of international confidence. Such confidence could be regained surprisingly rapidly, but not nearly so quickly as it was lost, nor to the same degree. The ensuing short-term losses to an economy not only undermined previous gains, but also harmed growth prospects in the longer term. There was a real risk that successes built up over years in reducing poverty would be reversed.

Those fundamental issues arose from the way in which the current international financial system operated and how risks and rewards were balanced. The question was whether ways could be found of preserving the benefits of open financial markets while reducing the risks of crises and designing tools to deal with them that would be less costly in human terms. That was a matter on which

the institutions represented at the current meeting, among many others, should pursue a wide-ranging exchange of views.

The United Nations had a role to play both in easing the impact of such crises and in the longer-term preventive aspects. Short-term concerns could lead to a neglect of the fundamentals of longer-term development. Those must be built around human capital investment and broader dimensions, such as respect for human rights, institutional development and participatory democracy.

When the General Assembly had taken the decision two years earlier to hold the current meeting, it could not have known how timely the event would prove to be. The financial turbulence in Asia had presented an enormous challenge to the international community and to the countries directly involved.

At the same time, the ensuing economic, social, developmental and political consequences of the crisis had served as reminders of the interrelationship between the responsibilities and the work of the three organizations. Moreover, the international ramifications were becoming more apparent every day, bringing vivid proof of the risks that came with the benefits of globalization and stark evidence that closer cooperation between the United Nations and the Bretton Woods institutions was imperative.

In Washington, the International Monetary Fund (IMF), the Interim Committee of the Board of Governors on the International Monetary System (the IMF Interim Committee), the World Bank Development Committee and the Intergovernmental Group on International Monetary Affairs (the G-24) considered global financial issues. While such intergovernmental mechanisms had purposes and involved actors different from those of the United Nations, they were not unrelated. The three organizations shared the objective of promoting economic and social progress throughout the world. Furthermore, the differences in the capacities and perspectives of the organizations was rapidly diminishing. The United Nations was no longer constrained by the past rivalry between the East and the West, while membership of IMF and the World Bank was becoming increasingly universal. Even more important, there was now far greater consensus on the nature of the development process.

Known by few but affecting so many, cooperation between the respective institutions was strongest where it counted most - at the field level. Great progress had been made and was continuing to be made in ensuring that the operational activities of the World Bank, IMF and the United Nations system were

mutually supportive. While that had been most evident in post-conflict peace-building, increasingly the Bretton Woods institutions, the United Nations and the specialized agencies were working together to enhance their coherence and impact across the full range of development efforts.

The PRESIDENT drew attention to a note by the Secretary-General identifying issues relating to global financial integration and development (E/1998/9) which was before the participants in the meeting.

Panel I

Mr. MAYSTADT (Chairman of the IMF Interim Committee) said that the Committee at its spring meeting had focused on ways of strengthening the architecture of the international monetary system.

One of the lessons of the Asian crisis was that even countries with a strong economic performance were not immune to shifts in investor sentiment. Reducing countries' vulnerability to market shifts and to the contagious effects of policy weaknesses in other countries was a key challenge facing national policy makers and the international community.

The Asian crisis had also made it clear that global financial markets were a permanent feature of the contemporary world. Countries could not realistically opt out of the process of globalization of capital markets. Indeed, global economic and financial integration had brought with it clear benefits for all countries - industrialized, developing and in transition. The liberalization of capital flows had given countries access to external financing for investment in growth, allowed for the transfer of technology and given investors, including those from emerging economies, broader opportunities for portfolio diversification. At the same time, greater financial integration had brought with it many risks; the real challenge, therefore, was how to achieve a better balance between the opportunities and the risks.

The Interim Committee had discussed five areas in which action was needed to strengthen the international monetary and financial system.

First, domestic financial systems must be strengthened. National policy makers had the prime responsibility for putting their domestic financial systems in order. There was a consensus that the best way for national authorities to proceed was to develop supervisory and regulatory frameworks consistent with internationally accepted practices and standards. There was also a consensus that all countries should adopt the core principles for effective banking

supervision issued recently by the Basel Committee on Banking Regulation and Supervisory Practices, and that IMF should encourage its members to adopt them. The Fund should also work with other organizations, such as the World Bank, to provide national policy makers with technical and advisory assistance in order to prepare them to implement the core principles. The Committee had also emphasized the importance of developing standards in other areas, such as accounting, auditing, disclosure, asset valuation, bankruptcy and corporate governance.

Second, in view of the globalization of financial markets and the increase in cross-border private capital flows, the Committee had asked IMF to intensify its surveillance of financial sector and capital flows. The Committee had also asked the IMF Executive Board to examine ways of strengthening the monitoring of capital flows. Those requests reflected the Committee's concerns about the risks posed by abrupt reversals of short-term capital flows and the need to find ways to protect national economies and the international monetary system as a whole from excessive capital volatility. The Fund should also pay particular attention in its surveillance activities to policy interdependence and the risks of contagion.

Third, the Committee had stressed the importance of greater availability and transparency of information regarding economic data and policies, which was necessary to ensure the proper functioning of international financial markets. There, too, IMF had a key role to play; it should help its members to strengthen their capacity to compile high-quality data and encourage them to publicize such data, increase the usefulness and accessibility to the public and market participants of its data dissemination systems, and encourage its members to release the Executive Board's conclusions concerning its annual consultation with its members.

Fourth, the Committee had recognized that the Fund's ability to respond effectively to financial crises depended on the resources at its disposal. In the Asian crisis, IMF had reacted quickly to provide support to the countries at the centre of the crisis. It had established a new facility specially designed to provide financial resources to members experiencing a large short-term financing need resulting from a sudden and disruptive loss of market confidence. While those were welcome achievements, the Fund could not be expected to finance all large balance-of-payments deficits. Its role would essentially be

catalytic, in other words, to induce financing from other sources and, if necessary, coordinate support from other sources.

Lastly, more effective procedures were needed to involve the private sector in resolving financial crises. That issue had received considerable attention in various national and international forums in recent months. The concern was to ensure that the official community's support to countries in crisis did not engender a moral hazard and that the private sector carried an equitable burden vis-à-vis the official sector. In other words, there was a need to ensure that investors and creditors more fully bore the consequences of their actions. It had been observed that while many in the private sector had incurred losses in the recent Asian crisis, some, particularly short-term creditors, had been largely protected. The Committee had considered that countries should be encouraged not to rely on short-term external financing and that their capacity to withstand shifts in investor sentiment should be strengthened. At the same time, there had been general agreement that ways must be found to involve the private sector at an early stage of a crisis. The Committee had asked the IMF Executive Board to give consideration to that matter in the coming months.

The Committee had also discussed three other issues. First, the Asian crisis had not distracted the Executive Boards of IMF and the World Bank from their commitment to implement the Heavily Indebted Poor Countries' (HIPC) Debt Initiative. Uganda had become the first country to reach the completion point under that Initiative and thereby receive debt relief assistance from IMF and the World Bank and from other bilateral and multilateral sources. Five other countries - Bolivia, Burkina Faso, Côte d'Ivoire, Guyana and Mozambique - had reached their decision points, and preliminary decisions had been taken with respect to two other countries, Guinea-Bissau and Mali. The Interim Committee had called on all eligible countries to take the necessary adjustment measures expeditiously in order to qualify for such special assistance. Thus, the implementation of the HIPC Initiative was well under way. What was needed now was for IMF to redouble its efforts to secure the full financing required for the initiation and continuation of the Enhanced Structural Adjustment Facility (ESAF), which was the instrument used by IMF to assist low-income countries with low-interest rate loans.

The Committee had recognized that the ESAF could be improved; the group of external evaluators had recently made a number of suggestions complementing the

Fund's own internal review of the Facility. Both views had confirmed that ESAF remained a valuable instrument for assisting low-income countries. The two reports held important lessons, and the Committee had asked IMF to draw operational conclusions from the issues raised by those evaluations in order to strengthen the Fund's ability to foster sustained growth and external viability in poor countries.

The Asian crisis had focused heightened attention on the role of capital flows in economic development. The effects of the crisis had not negated the positive contribution of capital flows to the economic development of poor countries. That view had been confirmed at a seminar organized by IMF in March with participants from the private sector, universities, other international organizations and national Governments on the subject of capital account liberalization. The points had been made that it was not the liberalization of capital movements per se, but its form and sequence, that had made the countries affected by the Asian crisis vulnerable to shifts in investor sentiment.

The Committee had underscored the importance of an orderly, sequenced and well-paced approach to capital account liberalization. No country should be forced to liberalize immediately or to remove controls when that was not justified by legitimate reasons. The Committee had acknowledged that, given its mandate to oversee the international monetary system, IMF had a central role to play in promoting that process. It had reaffirmed its view, adopted at the Hong Kong meetings, that it would be appropriate to amend the Fund's Articles to make the liberalization of capital movements one of the purposes of IMF and to extend the Fund's jurisdiction for that purpose, as needed.

Lastly, the Committee had adopted a Code of Good Practices on Fiscal Transparency to serve as a guide for members, thereby enhancing the accountability and credibility of fiscal policy as a key feature of good governance.

Mr. IBRAHIM (Chairman of the World Bank Development Committee) said that at its recent meeting, the World Bank Development Committee had noted with appreciation the response to the Asian crisis by IMF, the World Bank and the Asian Development Bank (ADB). There was an emerging consensus regarding the urgent need for those institutions to develop a fresh approach in dealing with economic adjustment issues.

The Committee had paid particular attention to the social aspects of the Asian crisis, particularly the need to strengthen social safety nets and to shield budget expenditures directed at the poor. Millions of people would be thrown back into absolute poverty unless steps were taken to protect the most vulnerable. The Bank and IMF had been urged to do more to help affected countries to improve social services, build social funds and generally strengthen the social sectors.

There was a close link between structural issues and the resolution of the crisis. The World Bank must further strengthen its skills in the financial sector, corporate restructuring and governance and poverty reduction and social sustainability. One of the lessons of the crisis was that it was a great mistake to focus on macroeconomic issues without reference to those crucial factors.

It was unfair to blame the Governments of affected countries for the crisis. A decade of rapid growth had unhinged their governing systems, and they had committed themselves to reforms, some of which had already been implemented. However, it had taken a long time for the world to acknowledge that the international financial architecture was equally culpable, if not more so. If the fundamental flaws in the global financial system such as the unpredictability of the international capital market, the destabilizing impact of short-term capital flows and the systemic fragility of the international monetary system were not remedied soon, the world would be headed for a series of financial convulsions of increasing severity.

All the basic assumptions about growth and development, the free market theology and the role and effectiveness of multilateral institutions were being challenged. National economies must institute significant economic and social reforms. At the same time, the fissures in the international financial architecture must be mended. In a globalized economy, national reform could never be enough to deter the predators who paid little heed to borders in their search for profit. No matter how robust a nation’s financial system, it would not be able to insulate itself from external shocks and systemic risks, particularly those originating from short-term capital flows. The international financial system must also address the moral hazard problem and ensure that both borrowers and lenders were held accountable.

It had been emphasized that the impact of the Asian crisis was not restricted to East Asia. Ministers had expressed fear that the resources applied to East Asia might impinge on the Bank's continued ability to help meet the development needs of other borrowers. The President of the World Bank, Mr. Wolfensohn, had reassured the Committee that that was not yet happening. International development assistance (IDA) lending to Africa in 1998 was sharply higher than in 1997 and there were no constraints in other areas. Mr. Wolfensohn had pointed out, however, that the $16 billion committed to addressing the Asian crisis put a heavy burden on the Bank's balance sheet and required an increase in its reserves. The President was working on the Bank's income situation with the Executive Board.

In that connection, the ministers had expressed appreciation for the progress made in implementing the HIPC Initiative. Two years earlier, the idea of a comprehensive approach to the debt of the poorest countries had seemed unthinkable. Now Uganda had completed the programme, with savings in nominal debt service of about $650 million. Through considerable effort by the members of the Paris Club, especially the Russian Federation, Mozambique was now in the programme.

The ministers had also made it clear that, while they understood why the Bank had had to disburse quickly in the case of the Republic of Korea, its role had never been intended to be that of a firefighter. The ministers were concerned that the Bank's role should be focused on meeting long-term development needs and helping with structural issues, leaving liquidity support to others in all but the most exceptional cases.

One highly significant factor in Asia and in most other parts of the world was the role of the private sector. In that regard, the Committee had welcomed the recent approval of a $1 billion capital increase for the Bank's political risk insurance group, the Multilateral Investment Guarantee Agency (MIGA). That was but one part of the Bank Group's work with the private sector, but it was a rapidly growing and useful tool.

The Committee was worried about reduced official development assistance (ODA). Increasingly, aid flows were tied to country performance, including good governance. While the ministers agreed that that made sense, there was also a consensus that some countries needed help in improving governance. Many members of the Development Committee had voiced their concern that donors were not doing

enough, whether for the HIPC Initiative, IDA or, more generally, ODA. Because of the constraints referred to earlier, the World Bank would not be able to fill even a small portion of the gap. The rich countries must make an early and positive commitment to replenishing the Bank's funds in order for it to continue to aid poor countries, thus ensuring that global distributive justice did not become a zero-sum proposition.

Mr. MANUEL (South Africa) said that capital flows could and should enhance development. Accordingly, a methodology should be developed to ensure their sustainability. At the same time the diminution of the sovereign powers of States in relation to such flows should be recognized. Attention needed to be focused on counterparty risk, with special emphasis on how much of the risk should be socialized and how much should be privatized.

In the context of the increasing powers of transnational financial institutions and the diminishing role of States, regulatory and supervisory bodies premised on municipal law were no longer capable of overseeing transnational financial activities. Multilateral financial organizations had declined to perform that role, and in any event their mandates prevented them from doing so.

Mr. OUALALOU (Morocco) said that the time had come to put an end to the divorce between international political management and international economic management. The financial crisis in Asia should prompt the international community to reappraise the role of regional groups in preventing and resolving such problems. The institution of the new monetary system in Europe should also prompt reflection on the relationship between developed and developing countries, particularly in Africa and the Mediterranean basin.

Debt reduction should continue to be given high priority. In that connection, the international community should recognize that developing countries had recently made considerable macroeconomic advances, thereby boosting their potential for growth and trade.

Mr. TANER (Turkey) said that prevention of international financial crises had become a major component of the work of the International Monetary Fund and should therefore be incorporated into its mandate. The Fund should also be empowered to perform a monitoring function. States used to have a choice between command economies and free market economies; as a result of global economic integration, that choice no longer existed.

Mr. YAQUB (Pakistan) said that private capital flows were increasingly replacing ODA as a means of financing the current account deficits of the developing countries. Accordingly, there was an acute need for such flows to be properly integrated. International forums should concentrate on the avoidance rather than the management of financial crises. For such a strategy to be effective, economic fundamentals needed to be strong. The financial system should be kept within a strong regulatory framework, with independent central banks as an essential prerequisite. The international financial institutions were in need of reform; in particular, they should develop greater analytical skills to provide timely warning of impending crises. Moreover, it was important to make a distinction between remedies for current account disequilibrium and remedies for dealing with problems resulting from short-term capital movements. The Bretton Woods institutions should be provided with more resources, and the resources at its disposal should be deployed more rapidly. Any liberalization of the capital account, as opposed to that of the current account, should be implemented with a great deal of caution; such a strategy might necessitate an amendment to the Fund's jurisdiction.

Mr. KARLSSON (Sweden) said that the Bretton Woods institutions and the United Nations had been mutually isolated for too long. The emerging global public sector needed to be much better organized and financed. The time had come to consider the idea of an economic security council, which would provide coherence and leadership. In addition, the serious challenges to development financing must be overcome. Private financing should become the backbone of sustainable development, but the financing of common tasks needed to be secured, predictable and fairly apportioned.

The commitment of Governments to the poor was essentially a moral issue. Within the framework of the free market, States faced a choice between socially oriented programmes and economic policies which could be hijacked by elites and corrupt structures.

Mr. OWADA (Japan) said that globalization of the world economy was viewed somewhat differently by the developed and the developing countries. The recent crisis in Asia had demonstrated the importance of securing the orderly and harmonious integration of developing countries into the global economic system. Even robust economies were equally prone to financial volatility. Key requirements were proper monitoring, contingency arrangements, sufficient

resource mobilization capacity and debt settlement, with emphasis on the orderly involvement of the private sector in resolving financial crises. Nor should the social dimension of financial crises be neglected.

It was equally important to develop a long-term development strategy based on ODA, private investment, trade and market access. The establishment of healthy and strong domestic financial infrastructures was a key element in any long-term approach. Despite the recent crisis, the economic fundamentals in Asia remained good.

Mr. MAYSTADT (Chairman of the IMF Interim Committee) said that some of the issues which had been raised were extremely delicate, for example the problem of burden-sharing in liquidity crises. The Interim Committee had elaborated five possible strategies for ensuring that the private sector assumed a bigger share of the burden; it had submitted those recommendations to the Executive Board for further consideration.

A strong case could be made for more expeditious intervention when crises occurred, but experience had shown that premature intervention by the Fund tended to dampen the enthusiasm of the private sector. The Fund was also devoting more resources to surveillance activities, particularly in the areas of policy interdependence and the risk of contagion across markets. A frequent and systematic exchange of views with market participants in order to gauge their outlook would certainly be a very valuable exercise.

Regional groups could indeed play a very useful role in averting financial crises, particularly in terms of the "peer pressure" which could be brought to bear in a regional forum. The effects of the introduction of the single European currency were being kept under close review by the Fund.

Mr. IBRAHIM (Chairman of the World Bank Development Committee) said that a clear understanding of development in individual countries was required before a particular prescription could be recommended. The commitment to liberalization in Asian countries remained firm despite their occasional excesses in terms of governance. Asian States needed to rededicate themselves to disclosure, transparency and the task of ridding their systems of corruption and cronyism. However, it was important to recognize that those excesses were not confined to developing countries; they could also be found in the international financial system itself. It was essential that States and international financial institutions should abide by the same rules.

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Panel II

Ms. SHORT (United Kingdom), speaking on behalf of the Group of Ten industrial countries, said that globalization was not an optional extra for any country; it was an irresistible shift in history which was as big as the shift from feudalism to industrialization; the question was whether the international community was capable of pulling together its endeavours to ensure that all the people of the world, in all countries and regions, benefited from it. Globalization could offer a major opportunity for an enormous advance in development and in poverty eradication for all the people of the world; there was also a very grave danger that some countries and parts of continents could be marginalized, and there could be increasing inequality and marginalization within countries.

It had become clear that there was an absolute necessity for the World Bank and IMF to work together much more closely so that short-term macroeconomic adjustments and long-term development strategies went hand-in-hand; all United Nations agencies should work together to ensure that all the people and countries of the world benefited from the changes which were taking place. The international development strategies and the poverty-eradication targets which had arisen from the major United Nations conferences over the past 15 years needed to be drawn together into a manageable strategy that would enable the international community to join forces and achieve progress everywhere. The Economic and Social Council must participate in that process.

In considering economic management and development, there was a need to move past the old division between development policy and financial policies. The great advances that had been made in Asia resulted from the investment made in human development, clearly demonstrating the need for investment in universal education, health care, clean water and sanitation, as well as a change in economic arrangements that could attract capital investment and sustain economic growth faster than population growth so as to reduce poverty. The old model of a closed national economy was obsolete. The challenge for all countries was to adapt to the changes of history.

The Asian crisis should not give rise to discouragement; the Asian countries had achieved the biggest advance in poverty eradication in the history of the world. With the investment that had been made in human resources, those countries had the potential to go forward again. It was very important that the

poor did not bear the brunt of the crisis; the international institutions must protect their interests.

The world had moved on from both command economies and free market economies; there had been excesses in both systems, and it was now necessary to find a balance between the State and the market and achieve a proper understanding of the duty of the State to regulate the market and deal with corruption, which hurt the poor and caused inefficiency. All Governments, in developed and developing countries alike, must do more to eliminate corruption. In order to ensure that the State and the market worked better together, there was a need to embrace poverty eradication targets and also to promote capital investment in developing economies; of the massive increase in private sector flows, 75 per cent had gone to the 12 most developed of the developing countries. The remaining developing countries would not succeed unless they were able to attract a much higher level of private capital investment. The main lesson of the Asian crisis was that countries must have the capacity to regulate their banking systems and their corporate governance so as to be able to attract and manage a big increase in inward capital investment.

The current generation had the capacity to provide education for every child in the world by 2015, eliminate illiteracy, ensure that every human being had access to basic health care, reproductive health care and control of fertility, and bring about conditions of environmentally sustainable economic growth.

Mr. HARCHAOUI (Chairman of the Group of 24) said that the recent crisis in Asia had brought into focus the need for concerted efforts to improve the functioning of the global economy, reduce the potential costs and risks of globalization and enable all States to derive economic and social benefit from integration into world markets. The stability of the international financial system was an essential element requiring cooperation between all international financial actors. The recent experience in Asia had clearly demonstrated the benefit of such cooperation, which would enhance the capacity of the international financial institutions not only to manage crises but also to avert them in the first place. Such a framework would also make it possible to distribute the cost of stabilization and develop a mechanism to protect the most vulnerable sections of the population.

The full repercussions of the Asian crisis had still not been felt. The fall in the price of crude oil and other raw materials and the reassessment of risk by the industrialized countries, which would lead to a decline in capital flows to developing countries, would certainly have a negative impact on investment and growth, and consequently, push up social costs.

It was therefore important to devise effective mechanisms to channel capital flows towards developing countries, particularly poor countries with a heavy debt burden. Those countries should also benefit from the debt reduction initiative. Unfortunately, the level of ODA had progressively decreased in relation to the Group's target of 0.7 per cent of the gross national product of donor countries. As a result of their foreign debt and the low level of ODA contributions and inward investment, developing countries often had to rely on the international financial institutions and other backers to promote growth.

Mr. ACHARYA (India) said that he strongly endorsed the three key issues identified by the Secretary-General: sharing risks and responsibilities, protecting vulnerable groups, and safeguarding long-term development.

The East Asian crisis had vividly shown how apparently well-performing economies could be swamped by contagion effects which ballooned into a crisis of confidence. Effective circuit-breaker mechanisms were needed in the international monetary system to contain and dampen such uncontrolled effects.

The problems of burden-sharing were crucial; it was not just an issue of equity in burden-sharing between borrowers and lenders; there was also a problem of moral hazard which must be minimized by ensuring that creditors, shareholders and investors shouldered their share of losses in such crises.

There was a great deal of consensus, post crisis, that IMF surveillance should be strengthened; typically, however, such recommendations related to the surveillance of developing countries and/or emerging markets. The East Asian crisis had also underlined the importance of more rigorous IMF surveillance of industrial country policies which had a disproportionate effect on the world economy and the regulatory environment in major financial centres in industrial countries from which capital was exported. Such surveillance should not focus exclusively on government policies; much more attention needed to be paid to the operation of financial markets and the behaviour of private sector agents in both capital-exporting and capital-importing countries. While there was

widespread agreement that greater transparency and greater disclosure were needed, such procedures would not necessarily reduce volatility and instability.

Mr. CABRAS (Italy) said that globalization and the liberalization of markets represented a significant potential for development and progress, even though regulation was needed to prevent distortions and financial crises. The Asian crisis risked creating a negative perception of globalization and could give rise to protectionist pressures; instead, the markets needed to open up more, because the crisis had been caused not so much by liberalization per se but by the weak regulation of the huge flows of foreign capital into Asia in recent years.

The experience of the Asian crisis had shown the inadequacy of the laws regulating companies, particularly bankruptcy laws. He asked whether the discussions on establishing a currency board or a common regulatory framework in Asia were close to conclusion; and whether large-scale IMF interventions in cases of financial crisis risked creating a moral hazard for investors, who might start to feel over-confident that they would be rescued in the event of another crisis.

Ms. JOHNSON (Norway) said that global financial integration could never be a goal in itself; the primary objective was social and economic development and poverty eradication. The Asian crisis had shown the need to focus on long-term development.

Globalization had not been sufficient to solve the problem of the world's poor; a global poverty eradication strategy must be devised. More countries should receive debt relief, and there must be an increase in aid to the world's poor, including the least developed countries, and more investment in human resources. Better governance would help the poor to combat corruption and to overcome marginalization.

The current meeting illustrated the need for partnership between the United Nations and the Bretton Woods institutions. Active coordination was lacking, both in crisis management and in long-term development; cooperation was needed both at headquarters and in the field. Individual countries were the owners of the Bretton Woods institutions, and should be able to work towards the ultimate goal of poverty eradication through a new partnership.

Mr. PORGES (Croatia) said that world economic circumstances were reflecting the costs and benefits of globalization and the liberalization of

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financial flows. There was a disparity between global trade flows, which were well regulated, and international financial flows, which were not. A combination of sound domestic economic policies and a favourable international environment were needed for sustainable development; development was a national or regional issue, while financial integration was a global issue. Balance and flexibility were required on the part of policy makers; surveillance, monitoring and contingency arrangements needed to be upgraded. There was also a need for an efficient warning system to forecast financial crises. Consideration should be given to initiating a multilateral process for regulating global financial flows and addressing the question of how international financial markets should address issues of the volatility of resource flows and instability of the financial sector.

Global cooperation was needed on political issues, specifically relating to poverty eradication strategies and combating corruption; on resource issues, such as concessional assistance and multilateral debt financing for the poorest countries and regions; and on organizational issues, such as the implications for international financial markets of World Bank decentralization.

Ms. McASKEY (Canada) said that there had been a growing convergence of the political, financial and development communities during the 1990s, following a divergence in the 1980s which had had disastrous consequences, especially for Africa. There was now much greater consensus on the global agenda emerging from international conferences which must lead to an integration of the efforts of all players at all levels.

Great advances had been made in defining development needs at the human level and at the country level; those needs must now be defined at the global level. No country could opt out of globalization. Two issues arose: global management and the prevention of marginalization. Canada had proposed that a mechanism should be put in place to track financial supervisory capacity and assist in identifying financial sector problems before they caused serious damage; such a mechanism would involve all the key players, institutions and countries but would not replace them with a new bureaucracy. The threat of marginalization was most acute in Africa. Canada endorsed the concepts of partnership and the need for an integrated agenda in order to meet the goals for the next 15 years.

Mr. AMORIM (Brazil) said that globalization was an inescapable reality, not only horizontally but also vertically; a financial crisis in one part of the world could result in cuts in social spending in another part of the world. Social, economic, anti-poverty and environmental dimensions were closely interlinked. Peace and security were also affected by the volatility of capital flows.

Intergovernmental dialogue was useful in providing a real interchange of political, economic and social aspects. In future, the debate should be less structured, so as to allow a free flow of ideas.

Panel III

Mr. BAWAZIER (Indonesia), Chairman of the Group of 77, said that the recent economic crisis in East Asia had raised the issues of what steps could be taken by East Asian Governments and by the international financial community to prevent a recurrence; and what measures should be taken to ensure that the brunt of economic restructuring and rebuilding was not borne by the poorest elements in societies.

It must be ensured that financial institutions functioned properly as an efficient means for channelling international financial resources to their most productive use. That was possible only if allocative decisions were made on the basis of economic merit. Otherwise, the viability of the financial sector itself was endangered, eroding external confidence and leading to financial outflows and damage to economies.

Although domestic policy failures had been a major factor in the East Asian crisis, it was clear that external factors had contributed through a contagion effect. Excessive inflows of funds to Asian economies had often been invested poorly and withdrawn rapidly when economic weaknesses were exposed, exacerbating the basic financial sector vulnerability. International market players must bear part of the blame for the financial crisis because they had poorly evaluated both the long-term economic returns of the projects they were funding and the short-term stability of a region swamped with short-term lending. Investors saw the prospects of large and rapid returns but overlooked the accompanying risks.

At the very least, better reporting on private capital flows was needed; such data also needed to be more comprehensive in coverage. Governments and financial market participants needed better data on private debt and had to be

able to monitor levels of medium- and short-term debt, as well as the issuance of very short-term debt instruments; those types of instruments currently escaped nearly all reporting systems, and yet they sharply increased a country's exposure and shortened the maturity structure of its debt.

The most serious issue in the short run was the protection of the poorest segments of society. Past adjustment experience had illustrated that the most vulnerable groups, the rural poor, women and children, were likely to bear a disproportionate burden of the adjustment process. It was important to ensure that East Asian adjustment policies were not carried out at the expense of the poor. Although any adjustment process imposed social costs, there was no reason why it could not be fair and equitable. The shift in relative prices that was required to enforce a restructuring of economies imposed a hardship on consumers of imported goods, but benefited producers of tradable goods; many of the poorer citizens were rural workers and small farmers who produced primary export products and would benefit from the shift in prices or from new off-farm employment opportunities generated by labour-intensive export factories.

Two steps must be taken: it must be ensured that export activities were given highest priority and that export bottlenecks, whether financial or physical, were speedily removed; and the industrialized countries must open and keep open their markets to absorb products from developing countries. Developed countries should not only reduce barriers to imports from developing countries, but also ensure that import demand expanded. Within economies, it must be ensured that the inevitable constraints on financial resources did not erect new barriers to social services for the poor; it would be shortsighted and foolish to cut the provisions for primary health care or primary education. In the final analysis, a strong economic recovery would require a strong and productive labour force.

Although the current financial crisis was still unfolding, there was evidence that all the East Asian economies, including Indonesia, had now stabilized and had laid the policy foundations for a resumption of growth. The basic infrastructure and the well-trained labour force that had made possible high growth rates remained intact. Sound, transparent macroeconomic policies, supported by a rebuilt and better supervised financial system, would make it possible to quickly re-employ the human and capital infrastructure that

currently lay unemployed and achieve renewed economic expansion that would ensure the long-term welfare of the populace.

Mr. MICHEL (Organisation for Economic Cooperation and Development (OECD)) said that the extraordinary increase in private capital flows during the 1990s, while highly concentrated, had benefited a growing number of countries and must be seen as an important part of development finance. The increase in such flows had also been accompanied in developing countries by better economic management and a consequent improvement in the mobilization of domestic resources, which remained the primary source of development finance.

Development was becoming less dependent on external sources. Over 20 per cent of the gross domestic product (GDP) of the least developed countries derived from external flows; of that amount, ODA accounted for 20 per cent and private financing 1 per cent. By contrast, upper and lower middle income countries relied on external flows for 6 to 8 per cent of GDP; ODA accounted for 2 per cent of that total for lower middle income and 0.5 per cent for upper middle income countries. Moreover, ODA was in decline, although it still represented a substantial amount of money.

The changing role of ODA corresponded to a new approach to development cooperation and an evolving view of international finance. Rather than viewing ODA as a primary source of development financing or as a substitute for the mobilization of domestic resources or private flows, it was important to focus on the ways in which it could address needs which were not met by such resources and to determine how it could help to increase the capacity of developing countries to attract private flows. That approach should be characterized by the concepts of partnership, poverty eradication and result-oriented, people-centred strategies.

In that regard, the 1996 report of the OECD Development Assistance Committee, "Shaping the Twenty-first Century", set out the concrete goals for human progress which had been established at United Nations conferences, including poverty eradication, social development and environmental stability, and discussed qualitative aspects of a safe and just society such as human rights and the rule of law. Each country should be encouraged to pursue its national goals through integrated development strategies, taking into account all dimensions of development, including economic and social issues, governance, the environment, peace and stability. External actors should endeavour to reach

an understanding with their developing country partners in order to support the latter's efforts through coordinated assistance and consistent policies. That process, which must reflect the interrelatedness of social and macroeconomic issues, did not imply a decrease in accountability, but rather a lessened dependence on external conditions and an effort to find common ground and respect local ownership in an atmosphere of transparency and mutual trust.

However, support for locally owned development initiatives, including the efforts of developing countries to manage their economies and financial systems, strengthen their human capital base, improve environmental sustainability and manage their debt burden, would lose credibility unless the decline in ODA was reversed. He wondered why donor countries, which had much to gain from progress in those areas, did not give ODA a higher priority in their aid budgets.

There was broad agreement on the best means of eradicating the most severe forms of poverty, disease and conflict and establishing the conditions for improved participation and human fulfilment. All parties concerned must work together to give effect to that growing consensus.

Mr. Chowdhury (Bangladesh), Vice-President, took the Chair.

Mr. PRONK (Observer for the Netherlands) said that the oil crisis of the early 1970s had led to the creation of new institutions and political bodies, including the World Bank Development Committee and the IMF Interim Committee. It was time for further change and a new architecture capable of dealing with the current situation. He proposed that the Interim Committee should remain as it was but that the Development Committee's composition, structure and mandate should be changed. Its membership should reflect not only the composition of the IMF and World Bank Executive Boards but also that of the United Nations. Its structure should be altered in such a way as to include in its meetings not only the managing directors of the Bretton Woods institutions but also the United Nations Secretary-General. The Committee's mandate should include ensuring that financing priorities were oriented not only towards stability but also towards sustainability and development, ensuring coherence between policies, establishing and reviewing the regulatory and monitoring procedures necessary to such coherence and identifying new sources of financing made possible by globalization.

Mr. SCHUERCH (United States of America) said that his Government was often said to function best during times of crisis and rapid change. He hoped that the urgency of the current situation, which had resulted in the present historic meeting, would allow all participants to overcome their differences and to achieve consensus on shared goals and strategies to the direct benefit of the developed and developing worlds. The recent process of financial globalization had been accompanied by revolutions in the areas of communications and democratization which, together with the Asian crisis itself, offered opportunities for the achievement of lasting change and improved social well-being, particularly the world's poorest.

The issue of performance was a particularly important one which, surprisingly, had been raised only once - by Mr. Michel - at the current meeting. At the domestic level, his Government and its agencies had been grappling with goal-setting, strategy development and results measurement. There was a need for a joint partnership to ensure that international resources served shared development goals, that strategies did not conflict and that intended results were, in fact, achieved. Because ODA resources were limited, they must be used to enhance and influence the application of domestic resources and private capital flows. He hoped that the new consultative process would lead to a greater convergence of goals and to more effective efforts to improve the social, economic and political well-being of all countries and, in particular, the poorest of them.

Mr. ZILE (Latvia) said that his country's experience of cooperation with the Bretton Woods institutions had been positive. He therefore supported the Interim Committee's conclusions as to the importance of introducing the core principles for strengthening banking regulation and supervision developed by the Basel Committee on Banking Regulations and Supervisory Practices. Latvia had suffered a banking crisis, and was therefore in a position to affirm, on the basis of its own experience, that those principles worked properly.

In terms of the transparency of information regarding economic data and policies, Latvia had been one of the first countries to issue press releases on the conclusion of consultations with the relevant Bretton Woods institutions and to publish an economic data and policy review, an experience which had proved positive for the Latvian Government.

Liberalization of the capital account was of great importance, especially for countries such as Latvia that ran current account deficits. Unfortunately, there was a recent trend that might prove especially dangerous for countries in transition and running current account deficits: direct political influence on bilateral trade, which adversely affected both the current account deficit and capital inflows. He expressed the hope that that trend would not give rise to a new aspect of the work of the Bretton Woods institutions in the future.

Mr. NOÉ PINO (Observer for Honduras) said that while no one doubted the benefits of the internationalization of finance, international capital flows did require appropriate supervision to avoid the negative effects that had occurred in the past.

A very clear awareness had developed of the need to strengthen internal supervision mechanisms by reinforcing sensible standards, maintaining adequate capital reserves and avoiding excessive foreign indebtedness on the part of the domestic private sector. Although that need was generally accepted, currently the demand side of international capital flows was emphasized in discussions of the debt overhang; the supply side of the equation was often left out altogether, even though some third world countries had had financial resources made available to them without proper reference to their ability to pay, in the expectation that when the financial crises came along, Governments would be responsible for paying off the balances with the help of the international financial institutions. That being the case, he suggested to Mr. Camdessus that the supply side of international capital flows needed supervision too.

The VICE-PRESIDENT recalled that it had been decided that responses to issues raised would be given informally during the luncheon.

Panel IV

Mr. FERNÁNDEZ (Colombia), Chairman of the Movement of Non-Aligned Countries, said that the global economy had undergone major transformations in the past few years as a result of the globalization process in goods, services and capital markets, while the economic, political and social structures of countries in general and of the developing countries in particular had made definitive efforts to modernize and adapt in order to share in the resulting bounty.

That there had been benefits was beyond doubt. The access to fresh capital resources had complemented domestic resources, making it possible to get going

faster on investments and projects that were critical to increased wealth and job creation. Similarly, the greater availability of resources had made it possible to attend to social problems that it might not otherwise have been possible to tackle. Also, access to new technologies and to wider markets were positive factors in realizing certain countries' competitive advantages and thus their chances of greater general prosperity.

However, capital's own logic, heightened by political and economic differences between and within countries, had prevented the advantages of globalization being enjoyed to the fullest extent by all countries and their citizens. The recent speculative activity against the currencies of some developing countries had aggravated the situation by adversely affecting the stability not only of their own domestic financial systems but also of regional and global financial systems. Those movements had shown up the vulnerability of the international markets and pointed to their lack of transparency, regulatory weakness and information scarcity.

The recent events had taught great lessons, the most important of which was that liberalizing economies and integrating them into the global market was not an end in itself: rather, the point was that overall the forces of globalization and liberalization should contribute to fair and equitable growth between and within nations. The capital flows in the crisis in East Asia were a warning in that regard.

Referring to the Secretary-General's note (E/1998/9), he recalled that private international financial flows to developing countries had increased from $64 billion in 1990 to $235 billion in 1996, but had fallen sharply to about $172 billion in 1997. Thus, a new framework for the financial interdependence between the industrialized and the developing countries was mapping itself out: currently, although capital flows had been made possible thanks to the liberalization of markets and advancing technology, it should not be forgotten that the principal reason for those flows was to seek out higher profits than those available in consolidated markets.

It was therefore important to highlight the benefits obtained in terms both of the higher rates of accumulation seen in the recipient countries and also of the enormous volatility of the capital involved and the effects on the local population, which sometimes cast doubt on the contribution such flows made to the general well-being of the population in the developing countries.

Without a doubt, the best tool for ensuring a continuous flow of long-term investment to enable an expansion of the developing countries' productive capacity was a stable and consistent macroeconomic, fiscal, monetary and exchange policy. Coherent and sustainable economic management in the medium term was of course not an absolute safeguard against the effects of a possible speculative run, but it did represent the greatest possible obstacle against the entry of capital betting on the developing countries' fiscal and foreign account imbalances.

Similarly, the importance must be emphasized of a precise and powerful regulatory and monitoring system for the financial sector that would close the door to speculative activities such as investments in real estate or in unsound projects, and would help rein in decision makers' inefficient or corrupt manoeuvres.

In that context, he called on the multilateral bodies to help deepen and accelerate the developing countries' efforts to strengthen their financial systems' control bodies. The experience of institutions and organizations that had been successful in that area in the industrialized countries, and also in some developing countries, should be evaluated and reassessed with a view to transplantation into the emerging markets. The multilateral institutions would find fertile soil for transplanting good-conduct rules in organizing the financial sector.

In the area of strengthening the emerging markets, he highlighted the importance of having information that was complete, accessible and timely, where the obligations surrounding the way the information was generated had been strictly complied with and where the information was susceptible of rapid and effective analysis. Without such information, if would be difficult to regain credibility and return to the volumes of resource inflows seen in the past.

Having the right macroeconomic policies in place, ensuring control over the financial system and guaranteeing the availability of information would not of themselves prevent the harmful effects of hot capital, but would reduce the likelihood of crises such as those in East Asia or would at least reduce the scale of the effects such crises had. The proof was the rapid recovery in resource spreads and volumes in emerging markets where there were coherent macroeconomic policies and financial systems under effective control.

However, it was also true that in some countries progress in that direction had not been sufficient to avoid the knock-on effect. In that connection he recalled that Professor Stiglitz of the World Bank had recently said that those countries must go even further and that the time had come for an open debate on the advantages and the limitations of a number of mechanisms, including some form of taxation, regulation or restriction on international capital flows. He noted in that connection that some industrialized and a few developing countries already had taxes on capital coming in from abroad. Although those taxes differed in detail, and included some where short-term foreign trade credits were held in a special account, they had in common that their emphasis was on short-term capital inflows and so the extra cost for long-term investments was quite moderate.

Studies showed that such measures acted more on the structure of debt than on the volume of capital flows. However, the effectiveness of such mechanisms tended to weaken over time as there was a rapid learning curve, but they definitely sent a clear signal as to the kind of capital each country preferred and as to what cost had to be incurred to operate there.

Consideration must be given to how to lighten the burden of the crisis on the lower-income groups. Given the enormous flows of financial benefits to the countries where the resources had originated, the possibility should be investigated of setting up a fund to make it easier and cheaper for the developing countries to apply consistent macroeconomic policies and safeguard the critical social investments they needed to function properly. The fund should be set up by the countries that were net exporters of capital and should be administered by IMF. Such a fund would prevent crises such as the one in East Asia and would increase the developing countries' chances of grasping the benefits of financial flows for the purposes of greater general prosperity.

The role of the multilateral organizations in resolving the Asian crisis should also be looked at carefully, and at all costs any moral hazard must be avoided in the financial negotiations for a possible rescue of international or domestic banks. Otherwise, the financial drought resulting from the higher risk those actors represented would be worsened to the detriment of the public resources of countries that needed those resources to meet the basic needs of their lower-income populations.

Also, a warning should be sounded about the content of some of the proposed programmes to resolve the crisis; the exact contribution of some of their components to rebuilding the credibility of the financial actors in the countries in question must be evaluated. Excesses in promoting changes that touched on countries' political sovereignty could heighten suspicion towards the activities of the multilateral bodies, thus militating against their purpose of strengthening the beneficial effects of capital flows.

He welcomed the efforts of IMF, the World Bank and the United Nations to make financial markets more open and transparent, and expressed the belief that the countries represented at the special high-level meeting should unite behind those institutions' efforts to increase and consolidate financial flows in such a way as to contribute to the well-being of the people of those countries.

Mr. CASAS GONZÁLEZ (Venezuela), former Chairman of the Group of 24, said that the nub of the matter under discussion was globalization, in which context problems such as the recent crisis in East Asia and the previous one, in Mexico, should be viewed. However, more important than the problems was the fact that in recent years there had been explosive growth in international trade, in technology, in the spread of technology, in cross-border labour market mobility and, last but not least, in capital movements. All those economic phenomena had had redistributive effects, some good and some bad, but those countries that exported value-added goods had always benefited, while the people who had benefited most were those with the highest qualifications or the training to take advantage of that phenomenon. Consequently, the problem of education and technical training must be addressed as a priority.

As a result of the effects of the Asian crisis and of globalization, the Group of 24 had had to become more proactive than reactive. The most relevant aspects for the Group's future work lay in the dialogue between the industrialized countries and the countries members of the Group of 24; the same was true of the Group of 77. He reported that the Government of the United States of America had been very cooperative over the past year in engaging in dialogue with the Group of 24, as had the Government of the United Kingdom in its position as coordinator of the Group of 10, and expressed his gratitude for that cooperation. The other aspects were reflected in the most recent declarations of the Group of 24, those of Caracas and Washington.

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The Group of 24 was in favour of free capital movement; however, it favoured an orderly and cautious approach to liberalization. The developing countries would have to take a number of measures on their own. For example, they should improve their surveillance of capital movements, as the Interim Committee had recognized; they should develop macroeconomic regulatory frameworks to strengthen their defences; they should upgrade the functioning of their domestic capital and other financial markets; and they should make better use of the available savings. Consistency in the development of domestic institutional capacity should be ensured and the depth and efficiency of capital markets increased, and the supervisory capacity of those markets and the ability to implement precautionary and price-based measures to protect exchange rates must be enhanced. Also, IMF must avoid overstretching the liberalization of capital movements and should avoid duplication and potential conflicts under other agreements or with other institutions.

The intensifying integration of the developing countries into the global economy had profound implications: first in terms of instability in their own economies, and second in terms of increased exposure to volatile financial flows, where they were more affected than the industrial countries by reason of their weaker institutions and financial institutions with shallower pockets that depended more on foreign inputs than domestic savings: the smaller the pool, the larger the ripple. Also, when there were changes in market sentiment, as a result of improved technology and communications improvements market participants tended to exhibit herd behaviour to an extent not seen before, with overshoots in both inflows and outflows of capital. Fourth, the rate of developing countries' integration into the global market was much faster than their rate of institution-building, and greater cooperation was required in that area. Fifth, regulatory supervision of the banking and financial sectors was very important to counteract the increasing volatility resulting from internationalization, growing derivatives markets and increasing participation by non-bank financial agents. Sixth, the introduction of the Euro might bring about further uncertainties; if monetary policies within the Euro system competed, there would be a psychological reaction that would destabilize the financial markets on the part of countries that looked to the Euro to form part of their currency reserves. Seventh, there was the question of the adequacy of

the current and prospective resources of the international financial institutions if called on to respond to a succession of crises.

He welcomed the reorganization of the Interim Committee and the work it was doing on making sure that private investors paid an appropriate share of adjustment costs relative to those borne by countries and banks: although supervision was problematic, at least awareness of the issue had been raised.

While globalization had its advantages, nevertheless inequities were growing; in that connection, he noted that Ms. Johnson and Ms. Short had referred to the growing problem of corruption, which Venezuela had adopted as the leitmotif of its policy over the past five years domestically, regionally and internationally: in his opinion, all developing countries should be very concerned about that issue too.

Mr. SAMAD (Bangladesh) said that countries' integration into the global economy was the burning issue of the time; nevertheless, globalization had become an accepted, inescapable and irreversible fact. However, globalization should not mean homogenization, because each component part had its own distinctive characteristics which should be recognized and respected by all who pretended to manage the process, given that it might in fact be unmanageable and that the question of who should do the managing was moot.

In trying to balance the risks and the returns of globalization, the principle of equity must prevail: benefits should be global, and globalization should seek to maximize global prosperity rather than that of particular groups or regions, for if general prosperity were not the end objective, then the whole game might be lost.

The recent crisis in East Asia had stunned everyone because until then the region had been the world's economic cynosure. While some said that the problem was one of a mismatch between short-term assets and liabilities, others said that because bureaucrats directed banks to lend to particular businesses, non-performing assets were created, which meant that loans could not be repaid when called in because the hard currency was not there. Whatever the reason, the crisis was a roadblock on the way to globalization that should serve as an object lesson.

In terms of the pace of liberalization, one of the trickiest problems was that of liberalizing the capital accounts of countries whose currencies were not convertible. According to one view, at least two of the East Asian countries

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had been obliged to choose a pace of liberalization that was out of step with their economic fundamentals, leading to a crisis. One size did not fit all, and countries must be left to choose the optimum pace at which to integrate into global markets: some countries were better placed than others to reap the benefits of international specialization, capital transfers or flows, and technological and institutional development. In particular, the subsistence economies of South Asia or sub-Saharan Africa must move at their own pace.

The cost of adjustment to which Mr. Ibrahim had referred could no longer be left to the imagination: when the crisis came, it was always the poor that bore the brunt first. Safety nets must be provided, but were beyond the capacity of the economies afflicted, and there was no compensation for the poor. As the adjustment proceeded at its own pace, invariably and adversely it affected the "soft" health, education and welfare sectors. That was true even in developed countries: from personal experience, he recalled that when Mr. Ronald Reagan had become Governor of California and cut budgets, university budgets had been hit first. As a principle, the impact of adjustment should be carefully analysed for each income group: no matter what anyone said or wrote, a generalized approach was wrong because, in any event, adjustment was already ruthless, cruel and had no human face.

There was a nexus between poverty and corruption: all classical thinkers from Plato to Thucydides and all modern thinkers too agreed that the more unequal the society, the more corrupt it tended to be. Therefore, if inequalities were removed, if both absolute and relative poverty were reduced, the problem of corruption could be meaningfully addressed. Thus, although private capital transfers and flows to deepen the financial pool should be encouraged, the regulatory mechanisms overseeing such flows must be strengthened at the same time. However, there was no need to create another international organization to do so: the existing institutions should be strengthened instead, and rather than apportion blame for failure, there should be a more harmonized effort to solve the problem.

Mr. NOURBAKHSH (Observer for the Islamic Republic of Iran) said that the issues of global financial integration and long-term development were critical, and the Economic and Social Council and the Bretton Woods institutions should be credited for creating the opportunity for an exchange of views at such

a high level. However, the issues before the meeting demanded collective efforts for genuine multilateral cooperation and dialogue.

Report E/1998/9, brief as it was, addressed some aspects of the challenges arising from the process of global financial integration, but a striking omission was the international dimension of the phenomenon: there would be no point in meeting just to emphasize national policies and enjoin Governments to stay within the parameters of good governance, however necessary it might be for them to do so. The fact was, however, that the East Asian crisis had occurred in the midst of the twin processes of globalization and liberalization, underscoring the international and global dimension of the problem and the imperative for collective efforts on the part of the entire international community to seek institutional solutions to a challenging situation that could not be considered specific to a particular member's economy alone.

A case in point was the risk of a global recession associated with the ebullient stock and real estate markets in some advanced industrial countries that had been puffed up by the reversal of capital flows to the crisis-affected countries. In that connection, he supported Mr. Yaqub's view that caution should be exercised with capital account liberalization, however important liberalization's contribution to the global economy.

In terms of social issues, he supported Mr. Ibrahim in emphasizing the importance of protecting groups made vulnerable by financial crises: great efforts should be made to improve the social indicators during reform and adjustment programmes and reduce the burden of economic hardship on the affected groups. That principle should be applied also to the affected countries of East Asia.

Mr. FULCI (Italy) resumed the Chair.

Mr. PREUSS (Germany) said that it was high time that the dialogue between the Bretton Woods institutions and the United Nations was intensified, and in that connection welcomed the holding of the present high-level meeting.

He noted that the HIPC Initiative had been more rapid than anticipated; his country believed that that momentum should be maintained and that more countries should be included before the end of the century. However, there was a need, apart from the multilateral initiative, for additional bilateral measures to alleviate the debt situation of many developing partner countries. Germany had tried to live up to that need in the past, and would continue to do so in the

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future, with recent debt cancellation measures for 36 least developed and other countries in the amount of DM 9 billion, cancellation of commercial obligations in the amount of DM 3 billion, and a continuing programme of debt swaps in favour of poverty alleviation, the environment and training worth about DM 0.5 billion.

To avoid building up additional debt, the least developed and some other countries cooperating with Germany would receive additional commitments on a grant basis for poverty alleviation and the environment.

With those additional incentives and measures, Germany hoped that it could contribute to alleviating the financial burdens of many of its partner countries and thus contribute to equitable growth.

Comments by representatives of the Bretton Woods institutions

Mr. CAMDESSUS (International Monetary Fund (IMF)) said that the current dialogue was the result of fruitful cooperation in the past, particularly during the post-conflict situations mentioned by the Secretary-General in his recent report on Africa (A/52/871-S/1998/318).

Globalization offered a unique combination of risks and opportunities. The sizeable savings which had resulted could be allocated to the benefit of all, and the accompanying growth had benefited the entire world, including the Asian countries which had suffered during the recent crisis. However, those opportunities were accompanied by risks, among them financial instability and marginalization of the very poor. The shock of the recent crisis had led to a tendency to focus on the financial risks, but it was essential that the problems associated with marginalization during periods of crisis should not be forgotten. There was a need to create a new architecture for the international monetary and financial system and to determine what should be changed and what left untouched.

The Interim Committee had proposed five areas for reform of the international monetary system. He agreed that IMF should broaden and intensify its surveillance over the banking and financial systems and capital flows, not only in the case of recipient, but also of lending, countries in order to achieve more accurate knowledge of the processes under way. For example, recent studies had shown that at the beginning of major financial crises, it was national investors who were the first to leave the sinking ship. Furthermore, surveillance must be symmetrical; IMF was often accused of focusing on small

countries whereas, in fact, major lenders such as Japan had better grounds for complaining of the Fund's excessive zeal.

The results of surveillance must be heeded. Many crises had resulted from countries' refusal to take advice at an early stage; far too often, perhaps because IMF had been remiss in showing the "human face of adjustment", countries had not asked for assistance until they were on the verge of bankruptcy, a point that he hoped that the international community would bear in mind in the future. The high social cost of the recent crises in Asia, including Indonesia, Korea and Thailand, made it easy to forget the many cases where crisis had been avoided through early intervention, in countries such as Brazil, Malaysia, the Philippines, the Russian Federation and Venezuela. Regional surveillance was also an effective means of averting crises.

A standard approach was needed in order to regulate markets which currently escaped surveillance, although the Interim Committee had preferred to take a more prudent approach rather than calling for the regulation of forces of which little was known, focusing instead on the need for transparency and a more structured dialogue with international institutions as the core of any new crisis-prevention mechanism. In that regard, he did not agree with the representative of India; transparency was not a panacea, but it could indeed help to reduce volatility, since changes in markets were often the result of the discovery of what had until then been hidden.

Because IMF considered that regulation would be inappropriate at present, it had sought to determine which countries had the best practices with regard to internal crisis-prevention and monitoring mechanisms. The Code of Good Practices on Fiscal Transparency which the Interim Committee had developed would be disseminated by IMF as a guide for use in its dialogue with member States. It was striking that, even during a time of crisis, the Interim Committee had not asked IMF to slow the process of liberalization of capital flows, but only to help ensure that that process was as orderly as possible and that countries had the necessary macroeconomic bases and banking and financial systems. Furthermore, while he agreed with the representative of Pakistan that the liberalization of capital account must not be hurried, that process had been under way for half a century, and he hoped that it would be completed within the next 50 years.

With regard to the question of moral hazard, he found paragraph 9 of the Secretary-General's note (E/1998/9) particularly relevant. While it was true that some private investors had been permitted to escape the full consequences of their actions, IMF had deemed it more important to prevent the crisis from spreading. If confidence was to be re-established, the programmes developed to address the crisis must deal not only with macroeconomic imbalances, but also with more fundamental problems. Some banks must be closed and others recapitalized, better supervision must be established, monopolies must be reduced and foreign capital allowed to penetrate, transparency must be increased and Governments must be helped to establish a market economy.

The representative of Bangladesh had said that adjustment had no human face; however, it was the nature of human beings, and of societies as well, to change, and those which failed to do so must face marginalization. Recent internal and external audits of the Enhanced Structural Adjustment Facility (ESAF), which was the primary weapon used by IMF in its struggle against marginalization, had shown that the Facility, while highly effective, could be further improved. With the help of ESAF, the World Bank and bilateral donors, Africa had finally progressed from negative to positive per capita growth. However, that growth was not sustainable because African countries had not yet achieved the savings rates necessary to maintain growth through investment. It was important for IMF to increase the efficiency of its programmes for debt assistance, growth financing and adjustment in cooperation with the World Bank and on the basis of its experience with the HIPC Initiative and the recent crisis in Asia.

He had read with great interest the Secretary-General's proposal to reduce military spending in Africa to below 1.5 per cent of GDP (A/52/871-S/1998/318, para. 27). The World Bank and IMF were pleased to have contributed to the recent reduction of such spending from 4-5 per cent to 2 per cent and the reallocation of the resulting savings to the production sectors, which had already led to increased investment in human development. The Bretton Woods institutions considered the Secretary-General's proposal to be feasible; however, its implementation would require the support not only of the multilateral institutions, but also of bilateral donors.

The Asian crisis had not yet been solved, but the structural adjustment measures and changes in practices instituted by the countries concerned had led

to improved dialogue, greater participatory democracy and the removal of obstacles to a market economy which might yet make the crisis a blessing in disguise. He was convinced that the Asian values which had produced such rapid progress in the past would soon bring those economies from an "age of miracles" to an "age of maturity".

Mr. SANDSTROM (World Bank) said that he had no doubt that the East Asian miracle would continue; the poverty reduction achieved over the past 20 years was unequalled in history; it resulted from a very strong set of fundamental policies which remained valid and would remain in place. Certain key issues emerging from the crisis must be addressed. First, the right institutional structure to moderate cross-border short-term capital flows must be found that would focus not only on borrowers but also on lenders in order to achieve greater stability in the future. Second, the role of structural issues was crucial: the East Asian crisis was not only financial, but also social in nature; the World Bank was focusing heavily on job creation, the protection of social expenditure and the establishment of social security systems. It must be ensured that globalization became an even stronger force for development and poverty reduction. Third, the lessons of the crisis must be learnt: the World Bank was focusing on disseminating those lessons and incorporating them in its work in other countries, through a strengthening of its assessment of structural policies, to make sure that they underpinned country assistance strategies in all countries.

There was not enough recognition of the effort that was being made in the poorest countries and the advances that had been made, particularly in growth rates. In Africa, growth rates had improved significantly, although not enough to have a significant impact on poverty. Constraints existed in the following areas: the flow of resources, although IDA flows had been expanded by nearly 50 per cent since 1997; institutional capacity and governance; and debt, although the HIPC Initiative was gaining momentum and there was a partnership among creditors, without which it would be impossible to sustain the momentum.

It was to be hoped that the donor community and bilateral and multilateral creditors would focus more on fundamental policy issues like poverty reduction and follow through on targets. There were also challenges in post-conflict countries that required special efforts in the context of the HIPC Initiative. Better collaboration and partnership at the agency and country levels were

critical in that respect. United Nations agencies were meeting regularly to consider how to enhance collaboration and launch initiatives, particularly at the country level.

The CHAIRMAN said that he would circulate his conclusions to participants after the meeting.

The meeting rose at 1.55 p.m.