UNITED NATIONS

E

Economic and Social Council

PROVISIONAL

E/1998/SR.12
28 May 1999

ORIGINAL: ENGLISH

Substantive session of 1998

High-level segment

PROVISIONAL SUMMARY RECORD OF THE 12th MEETING

Held at Headquarters, New York,
on Monday, 6 July 1998, at 10 a.m.

President: Mr. SOMAVIA (Chile)

CONTENTS

Corrections to this record should be submitted in one of the working languages. They should be set forth in a memorandum and also incorporated in a copy of the record. They should be sent within one week of the date of this document to the Chief, Official Records Editing Section, room DC2-750, 2 United Nations Plaza.

The meeting was called to order at 9.45 a.m.

ADOPTION OF THE AGENDA AND OTHER ORGANIZATIONAL MATTERS (E/1998/100 and Add.1; E/1998/L.9)

The agenda was adopted.

The PRESIDENT drew attention to the proposed programme of work of the Council (E/1998/L.9). He took it that the Council approved the proposed programme of work.

It was so decided.

POLICY DIALOGUE AND DISCUSSION ON IMPORTANT DEVELOPMENTS IN THE WORLD ECONOMY AND INTERNATIONAL ECONOMIC COOPERATION WITH HEADS OF MULTILATERAL FINANCIAL AND TRADE INSTITUTIONS OF THE UNITED NATIONS SYSTEM (E/1998/55)

The PRESIDENT, referring to developments since the Uruguay Round, said that the turbulence in the world economy and the Asian crisis demonstrated that integration into the global marketplace could bring great benefits but also carried serious risks if it was not managed well. The new global economy was not a force of nature; it had come about as a result of specific policies and technological developments. Its negative effects could be countered by judicious and prudent management at the national and international levels. In an era of globalization, no country or region could hope to remain unaffected by serious events elsewhere. The world required a global rapid response capacity in which individual countries and international institutions, together with the private sector, trade unions and civil-society organizations, could work together to forestall crises and resolve them expeditiously when they occurred.

At the same time, strains in the international financial and trading systems, the problems posed by poverty eradication and social exclusion and the need to orient the forces of globalization so as to balance the imperatives of economic growth, social equity, workers’ rights, gender equality and environmental protection represented a challenge that none of the multilateral institutions could cope with singlehandedly. The answer must be to develop new ways of thinking and acting, rather than continue to pursue sectoral policies to deal with integrated, multifaceted and systemic problems. In many societies there was a disquieting tendency to blame the foreigner. That mentality could prove dangerous and lead ultimately to a breakdown of international cooperation.

None of the international institutions acting individually, with its own set of policies and its own interpretation of events, could help steer the world towards greater economic, social and environmental stability. There was a need for a better understanding of what was going on and for the progressive development of an integrated policy outlook that reflected common objectives. Above all, it was important that the policy outlook should be modern, should respond to the needs of individuals, families and communities and should be based on an understanding that the same objectives could be reached through different means in different societies at different levels of development.

The United Nations conferences and summits of the 1990s had generated an unprecedented level of international consensus on highly complex issues and were a good basis for defining the components of an integrated policy package. While the institutions must work individually towards those goals in their respective areas of competence, there was an obvious need to maximize complementarities and concert assistance strategies so that problems could be addressed on a broad front.

Significant progress had been made in that direction. The report of the Secretary-General on cooperation between the United Nations and the Bretton Woods institutions brought out clearly the depth and breadth of the beneficial relationships that existed at all levels and especially at the country level. At the intergovernmental level, important steps had been taken to intensify exchanges between the Council and the Bretton Woods institutions. The high-level special meeting of the Council on 18 April 1998 had launched a dialogue on global financial integration from the broad perspective of development which had been continued during the visit of United Nations ambassadors to the World Bank, at the invitation of its President, for an informal brainstorming on development issues.

The Council could play an important role in identifying potential complementarities, resolving possible conflicts between macroeconomic, social and political imperatives, developing a shared understanding of issues and devising broad policy orientations to address them. The Council could thus help develop a common framework for action to promote broad-based and high quality growth that, at the same time, would enhance economic, social, environmental and political sustainability.

The SECRETARY-GENERAL said that the Council was meeting at a time of considerable turmoil and uncertainty but also of great promise. Never before had the global interdependencies of issues and events that pervaded people's lives and bound for them a common fate been so apparent. Never before had opportunity and risk seemed so closely entwined. And never before had the responsibilities of the Council been more profound.

Global conditions now offered unprecedented prospects for peace and prosperity. The major powers were at peace with one another. There was widespread acceptance of the basic tenets of democratic governance. Technological advances were making possible a free and unfettered global flow of information and ideas, which had been a crucial element in the growth of civil society and in improving transparency and accountability.

And yet, mankind seemed ill-equipped to harness fully that tremendous potential. The current era was one of stark contrasts: tremendous wealth existed alongside chronic destitution; economies were expanding in some regions while sudden disruptions elsewhere eroded the hard-won gains of a generation. The global economic situation could seem quite precarious, and people around the world were torn between the hopes engendered by decades of remarkable progress and the fear of upheavals to come.

Those hopes and fears were global. The economy was global. Markets were global. But politics were local. Thus there was a widening gap between what citizens demanded and what Governments could deliver. The challenge was to bridge that gap; to address global interdependencies in all their complexity; to provide economic opportunities to those who remained excluded; and to unlock the potential for growth while avoiding instability. But to succeed, collective leadership and multilateralism must be taken to a new level,

It should not be forgotten that multilateralism had given rise to the international trading system. Just six weeks previously, the fiftieth anniversary of the General Agreement on Tariffs and Trade (GATT) had been commemorated. The international community had ample reason to be proud of that achievement. The open, rule-based trading system had generated an extraordinary surge in prosperity and dramatic reductions in poverty. It was also an outstanding example demonstrating that joint efforts and multilateral cooperation - where the strong respected the rights of the weak - were not a zero-sum game but brought benefits to all.

The trade liberalization process must continue. But views differed widely as to how that should be done. Some had suggested using trade rules to achieve goals with respect to labour, the environment and human rights. He believed instead that full use should be made of the United Nations system to pursue such goals. To attempt to use the multilateral trading system to solve problems in those and other areas would place it under great strain and would be much less effective than adopting policy solutions in the sectors themselves.

It was good news, for example, that the 174 members of the International Labour Organization (ILO) - Governments, employers' organizations and trade unions - had agreed three weeks previously on the fundamental social rights that should be respected by the world community in a globalized economy. It was also good news that the United Nations Environment Programme (UNEP) was being strengthened.

Still, there was no room for complacency. While there was every reason to treasure and nurture the achievements brought about by the international trading system, the unfolding of the Asian crisis was a reminder of just how many other factors - finance, economics, social and political forces - were now working in tandem to shape - and shake up - the world.

Debate continued about the interpretation of the Asian crisis and the conclusions to be drawn from it. Everyone had learned the hard way that there were important distinctions to be made between short-term, speculative capital flows and long-term commitments such as foreign direct investment. For the United Nations, three broad observations were paramount.

First, the crisis had had its most devastating impact on society's margins: on the poor and vulnerable who were least able to withstand the sudden loss of jobs. It threatened to undo, with alarming alacrity, years of progress in alleviating poverty and advancing the rights of women. When a harvest failed because of drought, that was understandable. But when a person lost his or her livelihood on a construction site or in an assembly plant because of volatile financing or exchange rates, that was far more disorienting, and even destabilizing.

Job-seekers who had migrated during the good times; the poor who could no longer pay for higher-priced basic necessities; people employed in the least organized sectors of the economy; whatever mechanisms were now devised to respond to that crisis, the well-being of persons in those and similar situations must now be at the forefront.

Second, just as poor and vulnerable individuals suffered most, so, too, did poor and vulnerable nations. Developing countries were less able than developed nations to withstand the fallout of the Asian crisis, and even countries far removed geographically and economically from the Asian region were feeling the impact. African nations, for example, were experiencing collateral damage in the form of reduced commodity prices. International cooperation must focus first on those nations: on those without effective lobbying groups or whose voices were otherwise not heard.

Third, interdependence among nations had an essential complement: interdependence among issues. Finance, trade, governance and social equity were intimately linked. The Asian crisis had initially been viewed as purely financial. It had soon become clear that the crisis was linked to trade and exchange rates, and that its consequences were affecting both trade and financial flows.

Indeed, the rule-based trading system was being made to bear the cost for inadequacies of the financial system. East Asian countries had experienced sharp contractions in domestic demand and had had to cut imports severely. To escape from the crisis, they were attempting to increase exports even further. Thus the nature and depth of current interdependencies were clear: finance and trade could not be treated as distinct sectors, nor could the national and international domains be separated. The Council had a responsibility to promote the coherence and cooperation that were so urgently needed.

However, the growing pains of globalization could not be allowed to obscure the greater good. The truly open, inclusive global economy for which everyone was striving remained the most promising path for spreading more widely the benefits of globalization. Indeed, the aspirations and well-being of millions of people depended on the continued openness of markets.

At the same time, the fears of globalization must be taken seriously. In the North, significant segments of the population did not view freer trade as contributing to their economic well-being; rather, many saw measures towards further globalization and the integration of national economies into the global economy as threats to their jobs, environments and social "safety nets". The challenge for Governments was to reconcile those demands: to show that global imperatives could coexist with local needs. The international community, including the United Nations system, had a duty to promote understanding of the new facts of global life, and wider involvement in decision-making.

In the South, people feared that marginalization and a lack of opportunity would jeopardize their very ability to find jobs, to feed families, indeed to survive. There, the international community's responsibilities were even greater and more urgent, and it was there that the international community could make a significant, immediate difference: by focusing on the needs of Africa and the least developed countries. In his report on the causes of conflict and the promotion of durable peace and sustainable development in Africa (A/52/871-S/1998/318), he had said that non-tariff barriers facing African and the least developed countries must be abolished. Exports from least developed countries to developed countries should enjoy duty-free access. Significant steps should be taken to relieve unsustainable debt burdens, for example by converting remaining official bilateral debts into grants and by broadening access to the Heavily Indebted Poor Countries (HIPC) Debt Initiative. It was unacceptable that official development assistance (ODA) had fallen to its lowest point in history, at a time when aid was needed most. That was first and foremost a matter of solidarity; but it was also a question of avoiding, down the road, the even higher costs of humanitarian assistance and peacekeeping.

Allaying fears of globalization also meant that the international community would need to acknowledge the real power it had to influence the course of events. The advent of a global economy might seem at times like a force of nature. But globalization had been the outcome of deliberate policy choices: choices that had established markets and set parameters for trade; choices that reflected shared values, such as the rule of law and shared hopes for common progress.

Today there were further choices to be faced. There could be chaotic international markets or cooperation to create the supportive frameworks on which progress depended. There could be confinement within purely local points of view or the adoption of a more global perspective. There could be the pursuit of short-term gains or a reorientation with a view to the long term.

One key choice would be whether the international community used the international institutions at its disposal. As in the case of the other choices just outlined, there was in fact no choice at all. At a time when the international system of trade and finance was under great strain, it would be a grievous error to retreat from multilateralism. Now was a time to rally round and breathe new life into the system of multilateral cooperation that had been built so assiduously over the years and had served the world community so well. Now was the time to strengthen the frameworks of international cooperation that could spread prosperity in the age of globalization.

Already, there were ample signs of the development of a more mutually reinforcing network. The United Nations system was working more closely with the Bretton Woods institutions in all respects, from headquarters to the field. Cooperation between the United Nations and the World Trade Organization (WTO) was already close. In addition, WTO and UNCTAD were collaborating on a broad range of issues.

The Council itself, in the spirit of United Nations reform, had been an integral part of that process of adaptation and renewal. He had been happy to take part in the ground-breaking meeting in April 1998 at which the Council, the International Monetary Fund (IMF) and the World Bank had promoted closer links among the diplomatic, financial and development cooperation communities. The Council was also adjusting its agenda, streamlining its subsidiary machinery and promoting greater coordination among the United Nations specialized agencies.

He was confident that that process would also enable the Council to have a more distinct profile in the eyes of the world public. The world knew the General Assembly as a great forum of debate, a body of nearly universal membership whose recommendations carried the weight of world opinion. The public also knew the Security Council for its responsibilities in the area of peace and security. Today there was an opportunity to improve public awareness of the Council’s work - the work of development - through which most people around the world knew and came into contact with the United Nations.

The biggest obstacle to global prosperity was not political or cultural differences but an inability to do what made good sense. It was probably a combination of fear, greed, honest misunderstanding and simple lack of information that fed that inability. But it was possible to rise above those feelings.

The distinguished internationalist and economist Barbara Ward, who pioneered many of the global ideas and initiatives of the 1970s, wrote in her

/...

classic book The Rich Nations and the Poor Nations that when "Governments work intelligently and far-sightedly for the good of others, they achieve their own prosperity too". She went on: "Our morals and our interests - seen in true perspective - do not pull apart. Only the narrowness of our own interests, whether personal or national, blinds us to this moral truth".

Mr. CAMDESSUS (International Monetary Fund (IMF)) said that recent developments in Asia and elsewhere had illustrated that there were risks as well as benefits in an increasingly globalized world. Over the past few decades, the East Asian countries had showcased the benefits of globalization and had managed to produce what was seen as a "miracle" in terms of high growth and poverty reduction. However, in a globalized economy, constant vigilance must be maintained by all countries over all socioeconomic parameters, particularly the soundness of the banking system. The trap of accumulation of short-term financing must be avoided, and great care must be taken to ensure that public affairs were conducted in a transparent manner and to shun all forms of corruption, favouritism and nepotism. Those problems, which had been denied for too long during the Asian crisis and which posed an enormous threat to the poor, existed to some degree everywhere but would not have reached such dangerous proportions if the financial institutions of major industrialized countries operating in the international markets had not taken excessive risks.

As soon as it had been called upon to help contain the crisis, IMF had moved quickly to assist Thailand, then Indonesia and then the Republic of Korea to formulate reform programmes aimed at tackling the roots of their problems and restoring investor confidence. The objective of those programmes was to strengthen financial systems, improve governance and transparency, restore economic competitiveness and modernize the legal and regulatory environment. To enable those efforts to go forward, IMF had marshalled an unprecedented volume of financial support. In varied ways, IMF had helped countries around the world that were being threatened with contagion to strengthen their macroeconomic and economic structures. At the current time, 55 countries were applying IMF programmes and 28 more were conducting negotiations with IMF, with a view to strengthening their economic structures so as to resist contagion.

In recent weeks, a new crisis had emerged with the decline of the yen. That new development reflected a serious lack of confidence, caused in part by recessionary conditions in Japan and the crisis facing its financial institutions. Clearly, the fall of the yen, which was not unrelated to the Asian crisis, could seriously jeopardize the ongoing recovery of the economies which had been hit first, and it added to the market instability which was affecting other countries in Asia and elsewhere. Japan must move aggressively and quickly to rehabilitate its banking sector, to adopt policies that ensured that fiscal stimulus was not withdrawn too quickly in 1999, and to open up and deregulate its economy.

The crisis could not be overcome by the Asian countries alone. Three steps were needed. First, the international community must pull together to support the adjustment programmes of the countries most severely affected by the crisis. The multilateral institutions and a number of individual countries had taken on that task. It was also vital that countries with balance-of-payments surpluses should recycle those surpluses in the form of untied loans and humanitarian aid to countries in the process of adjustment. As creditors, those countries must stand ready to grant generous terms for the restructuring of their claims and support the recovery in Asia through new loans, and, above all, keep their markets open.

Second, there was a need to strengthen policies to improve fiscal management in order to put countries on a sounder footing. That requirement applied to all countries, especially those with economies in transition and certain emerging countries, particularly in Latin America. It applied most especially to the Russian Federation, where additional external assistance would provide only temporary relief unless accompanied by far-reaching financial adjustment measures.

Third, the stability of exchange rates in countries whose actions might be crucial to market stability, such as China and Hong Kong, must be preserved. In those countries, as in Singapore and the Taiwan Province of China, there was a certain margin for fiscal stimulus, which should be used if necessary.

Every effort should be made to liberalize trade, payments and capital controls. In light of the recent crisis, many Asian countries had had second thoughts regarding the wisdom of capital account liberalization. It was important that that process should take place in a prudent, properly-sequenced manner accompanied by a strengthening of the banking sector.

IMF was working with the World Bank to strengthen the HIPC Debt Initiative and had provided emergency post-conflict assistance to Bosnia and Herzegovina, Rwanda, Albania and Tajikistan, with the Republic of the Congo a likely future beneficiary. The Fund was also prepared to offer increased technical assistance in Africa and elsewhere.

It was necessary not merely to repair existing financial structures, but to build a new architecture of the global system. To that end, IMF must play a greater role in crisis prevention through increased surveillance and greater transparency on the part of countries and of the Fund itself and it must continue to cooperate with the World Bank and the Bank for International Settlements (BIS) in strengthening the world banking system. There was also a need for more effective involvement of the private sector in the resolution of debt crises. Lastly, he noted that unless the financial and human resources of the multilateral institutions responsible for dealing with such crises, particularly those of the United Nations and IMF, were strengthened, the next financial crisis would have to be resolved at the expense of the world's taxpayers.

Mr. WOLFENSOHN (World Bank) said that in recent months, the World Bank had strengthened its cooperation with the Council and the United Nations system as a whole. The Bank had welcomed the leadership of IMF in the restoration of confidence after the recent crisis in Asia. It had sought to counteract the crisis by providing US$18 billion to Indonesia, Thailand and the Republic of Korea in order to promote the stabilization of their economies and their renewed growth and development. The recession in Japan had affected not only the countries of the region, which were dependent on Japanese financing and trade, but also the world economy as a whole. It was important for all parties concerned to support the Japanese Government's efforts to restore economic growth.

The Bank was focusing on both structural and social issues. It was working to assist countries in the medium- and long-term restoration of structural programmes. Efforts were under way in the financial, legal and regulatory systems to provide the necessary framework for IMF assistance. Transparency was essential with a view to combating corruption, malfeasance and diversion of funds.

The Bank had also to provide assistance in the areas of job creation, labour relations, education and the provision of food and medicine to the most vulnerable populations, particularly in rural areas. Without the sense of hope offered by such basic social programmes, there could be little chance of peace and stability. In order to attract domestic and foreign investment and gain access to international markets, economies must provide a basic framework of social equity; only then could WTO and the United Nations Conference on Trade and Development (UNCTAD) begin their work. The Bank was working with ILO, the United Nations Development Programme (UNDP) and other agencies to provide the necessary conditions for competitive trade.

The PRESIDENT reminded the Council that, at its high-level special meeting earlier in the year, the World Bank had invited the permanent representatives of Member States to join in an informal dialogue at the intergovernmental level as a sign of the leadership and cooperation called for by the countries they represented.

Mr. RICUPERO (United Nations Conference on Trade and Development (UNCTAD)) said that the Asian crisis had temporarily called into question the "success stories" of a few developing countries, which had demonstrated that the income gap separating them from the industrial nations could be bridged. The crisis had benefited the wealthy through the anti-inflationary impact of cheap imports but had victimized the poor through sharp decreases in the prices of commodities and exports.

During the past year, the "fast track" controversy in the United States, anti-WTO demonstrations in Geneva and the suspension of investment negotiations in the Organisation for Economic Cooperation and Development (OECD) were examples of a backlash against certain aspects of globalization on the part of developed countries. There was a need for consensus on the causes of the crisis and the means of resolving it, and it was important to be guided not only by reason and objectivity, but also by solidarity and compassion.

For over 30 years UNCTAD had been engaged in the search for timely, appropriate policies to help developing countries attain sustainable development in an increasingly independent world. The damage inflicted on East Asian economies by volatile financial flows had been caused not by those countries' prudent, skilful management of trade liberalization and gradual opening of their markets, but by their Governments' lack of success in managing integration into capital markets with the same skill they had shown in handling other areas of the economy. While well-calibrated national policies could help to manage such crises, limit their potential for lasting harm and re-establish economic growth, action must be taken at the global level if a crisis became systemic. The current situation was only the latest in a series of disruptions of the global economy since the breakdown of the Bretton Woods system, and it was increasingly clear that the international community had not learned how to manage such turmoil, let alone prevent it. The damage inflicted by adverse financial flows was unprecedented in its speed and extent and surpassed even that which had resulted from the collapse of communism in Central and Eastern Europe. It was time to re-evaluate the international community’s response and to consider extending to other areas of economic policy-making the flexibility recently displayed by IMF with respect to budget deficits.

Justice would not be served in Asia if the living standards of ordinary people and the stability and prosperity of countries were sacrificed in the interests of measures taken to bail out international creditors and local financial institutions. In the areas affected by the crisis, unemployment and poverty were rising to alarming levels, particularly among relatively unskilled workers of rural origin in the small- and medium-sized enterprises which were the backbone of a democratic, balanced market economy. Rising food prices and reduced social expenditures had further aggravated social conditions, and the harm caused by child malnutrition and declining school enrolment could well persist into the next generation.

In the 1980s, Latin American countries had experienced a debt crisis that had originated in a combination of imprudent borrowing and lending and the United States Government’s decision to raise interest rates sharply, regardless of the consequences to third parties. As a result of that crisis, one out of every six Latin American households remained in a state of absolute poverty. While "safety nets" could cushion the impact of crises on vulnerable groups, only the resumption of rapid, sustained growth could return unemployment and poverty levels to pre-crisis levels. It was, therefore, urgent to reform and strengthen local financial institutions in the affected countries and, at the same time, to reduce interest rates, expand liquidity and increase public expenditures.

As a result of the Asian crisis, the income gap between North and South was expected to widen and, for the first time, the rate of growth in most developing countries would fall below that of developed countries. The crisis appeared to be worsening, and improvements in the current accounts of countries at the centre of the crisis had been due primarily to import compression rather than export expansion. Because of the close integration of financial markets and the speed with which capital moved across borders, almost every financial crisis was a global one; defaults could be prevented only by massive bailout operations which were becoming increasingly problematic. Financial markets were inherently unstable and volatile, particularly in an era of hedging, derivatives and future trading.

Because short-term flows were inherently volatile, it was far more difficult to integrate into international capital markets than to enter the international trading system. Accordingly, developing countries should not be pressured into premature financial liberalization, lest they be denied the possibility of protecting their economies from international financial instability and speculative capital flows. Until appropriate global checks and balances had been put in place, developing countries should be given assistance in recognizing the need for reform, but reform itself should be introduced with the utmost caution.

Mr. LENNKH (Observer for Austria) asked what progress the Fund had made in its key role of strengthening the architecture of the international monetary system to enhance the management of financial crises and build in structures and mechanisms to prevent them.

He noted that the joint report of UNCTAD and WTO (E/1998/55) emphasized that improved market access for developing countries' exports to each other's markets had been achieved through regional agreements (para. 9), and he asked how the panellists evaluated the role of such agreements in better integrating the developing countries into the multilateral trading system.

He suggested that the panellists should also elaborate on the follow-up to the high-level segment of the forty-fourth session of the Trade and Development Board, held in Geneva in October 1997, in respect of improving market access for the least developed countries.

He asked which policies were most effective in promoting equity in the context of global integration, bearing in mind that the purpose of trade liberalization was the eradication of poverty, yet the results from improving the integration of developing countries into the world trading system had been mixed in terms of promoting greater equality of income. Moreover, since the beginning of the Asian financial crisis there had been a deterioration in income distribution both in South-East Asia and elsewhere.

Mr. WIBISONO (Observer for Indonesia) stressed the importance of social equity and stability. Protecting the poor, who were suffering the most - particularly those working in the informal sector - was the most serious challenge in the adjustment process. Their welfare must not be subordinated to overcoming financial crises when policies were adopted. Thus, social "safety nets" needed to be established and the basic needs of each country must be taken into account in formulating adjustment policies.

An early warning system for financial crises was needed because there was no global governance over international financial transactions, in contrast to international trade, even though financial markets were more integrated than product markets and capital was more mobile than the factors of production. Not only were current arrangements inadequate, they were intended to discipline borrowers rather than regulate lenders, and so were designed to manage rather than prevent crises.

Mr. HANSENNE (Director-General, International Labour Office) agreed with the observer for Indonesia that everyone should share in the benefits of economic growth, open markets and globalization. Accordingly, on 18 June 1998, the International Labour Conference had adopted the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up. The Declaration committed the States members of ILO to ensuring respect for fundamental rights at work in light of the great importance of those rights in a context of globalization, thereby establishing a global social baseline for rights at work on the basis of the common values reaffirmed at the Copenhagen World Summit for Social Development in 1995. The fundamental rights in question were freedom of association and the effective recognition of the right to collective bargaining; the elimination of all forms of forced or compulsory labour; the effective abolition of child labour; and the elimination of discrimination in respect of employment and occupation. The Declaration included a follow-up mechanism of country reports on the implementation of those rights that would enable ILO to report on how far countries had progressed with their programmes and provide them with the technical assistance they needed to implement them. The process was thus based on dialogue and cooperation rather than confrontation or coercion.

He stressed that a country’s accepting the same rules of the game as others in the context of the Declaration left it free to improve on those rules; the Declaration therefore rejected any use of international labour standards for protectionist purposes and was not aimed at eliminating any country’s competitive advantages, in the spirit of the WTO Ministerial Meeting in Singapore in December 1996.

He believed that the Declaration also engaged the whole United Nations system and the Bretton Woods institutions, which should be aware of the stress the Declaration laid on promoting those rights as a fundamental factor in broad-based and sustainable economic development. They should therefore refrain from taking any steps that might hinder implementation of those rights and should take joint action to promote the emergence of a world where respect for the fundamental rights of people at work mitigated the risks inherent in economic progress devoid of a social dimension. The efforts of the World Bank and IMF in that connection were laudable and augured well for future cooperation.

Mr. NIELSON (Observer for Denmark) said that the worst consequences of the Asian financial crisis were being felt by the poorest countries. He asked whether the Managing Director of IMF and the President of the World Bank believed that the HIPC Debt Initiative was on track in shielding the poorest countries from the additional problems generated by the crisis, and if not, what contributing countries could do to avoid making matters worse.

Mr. PLEUGER (Germany) said that it was obviously necessary to improve monitoring of the banking system and the short-term, more volatile aspects of financing while maintaining further financial liberalization within the policy of free capital flows advocated by IMF and the World Bank. The Secretary-General of UNCTAD had been somewhat more cautious in respect of free capital flows and financial liberalization, believing that countries should not abandon lightly the option to protect themselves from international financial instability.

The World Economic and Social Survey, 1998 suggested that one of the ways of dealing with financial crises such as the one in Asia would be to reimpose restrictions on the free movement of the more volatile components of international capital flows while allowing greater exchange rate flexibility, a policy applied by Chile, among others. He inquired how much sand the panellists believed policy-makers should throw into the wheels of international finance, and how far they agreed with the view expressed in the Survey that market participants were themselves able to avoid or evade such capital market controls.

According to the World Economic and Social Survey, financial market professionals believed that the burden of capital rules set by the Basel Committee on Banking Regulations and Supervisory Practices was already very costly, and he inquired how the panellists viewed the market professionals' assertion that further information and regulatory obligations under a more comprehensive monitoring system would be too burdensome altogether.

Mr. NISHIGAHIRO (Japan) said that the Government of Japan recognized a degree of correlation between Japan's current economic situation and the financial crisis in South-East Asia and was taking fiscal and financial steps to get over Japan's current difficulties with additional Government expenditure of 16 trillion yen, principally on information technology and the environment. To tackle bad loans, the Government had in recent days decided to establish a "bridge bank" and to review the taxation system with a view to permanent tax reform.

Despite Japan's economic difficulties, the Japanese Government was promoting a new development strategy which should come into effect in the autumn and would focus on the poor in order to offset the burden on the most vulnerable, to which the observer for Indonesia had referred.

Mr. CAMDESSUS (Managing Director, International Monetary Fund) said that the Fund had received the fullest possible mandate to establish a new financial architecture for the world in which to deal with the issue of capital account liberalization. He recalled that the Fund had learned to improve that architecture from every crisis it had encountered since its foundation.

The membership of the Fund was unanimous that prevention was better than cure where financial crises were concerned and that financial surveillance should be made more effective by improving transparency in international finance. He responded to the question put by the observer for Germany on the question of market professionals' reaction to a tightening of the Basel Committee's rules with a strong rebuttal. Greater transparency in respect of capital flows would not be expensive and would not mean the end of the market; rather, market professionals themselves would be the first to benefit. If the current financial crisis had demonstrated anything, it was that the market depended on the quality of the information it was given. Nothing was worse for the market than to be taken by surprise, because then the herd instinct took over and the overreaction itself created a crisis. The Fund was intransigent in that respect: transparency was the golden rule of a globalized system. He called on market professionals to cooperate with that rule because it was in their own best interests.

The Fund itself played a role in the market and needed more of that same information in order to convey it to those markets. To play its market role correctly, it needed to step up its surveillance over the financial sector and capital flows. It had set up a working group on the risks of sudden reversals of capital flows in order to find solutions.

The Fund wanted to develop a geared response to problems: when a country was seriously off course in its policies, it would be given increasingly strong warnings. Taking up the current soccer metaphor, he reminded those present that the Fund had a "red card" in its pocket, which it could use when 70 per cent of its members were in favour. Such a majority was not difficult to achieve when a country was truly reluctant to take the appropriate steps; however, in denouncing such a country, the Fund might well trigger the very crisis it wished to overt. That was why it preferred to use a "yellow card". The Fund had been using every means at its disposal to persuade the Government of Thailand to take action for 18 months before the crisis had erupted, but for reasons of political instability, amongst others, the necessary action had not been taken. The Fund was also disseminating a set of best banking practices, including those laid down by the Basel Committee, and was cooperating with the World Bank to remedy major weaknesses in the banking practices of developing and emerging countries.

In a crisis, the private sector needed to be put in the picture early enough and engaged in helping resolve the problem, thereby avoiding the moral hazard of private actors benefiting from a crisis and from intervention by actors such as the Fund at no cost to themselves. The Fund hoped that no additional legal instruments would be needed to prevent that phenomenon. Instead, it would see that the necessary clauses were inserted in all bond contracts to ensure that bond holders would assist in a crisis and not benefit from it.

He believed that there was no real difference in emphasis between himself, the President of the World Bank and the Secretary-General of UNCTAD on the question when to liberalize capital flows: the Fund's view, as mandated unanimously by its membership, was to pursue liberalization, but in a properly sequenced manner that avoided liberalizing prematurely when the macroeconomic situation was still unstable, trade balances were too poor or the banking sector was too weak to perform the necessary task of intermediation while withstanding the pressures of the international financial markets.

The Fund was absolutely in agreement with those who advocated the need for social "safety nets" in programmes to address the financial crisis. However, the necessary resources must be in place to finance them. Those resources could not be provided by the countries themselves but must come from the international community. In that connection, he pointed out that the programme for Indonesia included a financing need of from $4 billion to $6 billion that reflected the additional support required to provide a social safety net without causing inflation. All donor countries had been informed of that need, and he called on them urgently to meet it through restructuring debt or by providing untied bilateral loans.

Mr. WOLFENSOHN (President, World Bank) said that ensuring that trade led to greater rather than less income equality was a task for the Governments concerned. The keys to equal opportunity were education, health care and gender issues. Also, there could be no equality of opportunity in a social system unless there was transparency in its justice, regulatory and taxation systems and freedom from corruption. When those conditions were satisfied, then trade could bring prosperity to the greatest number. Drawing a parallel between good governance of a country and good behaviour of an individual, he said that there was as little point bailing out an unregenerate gambler or drinker as there was giving debt relief to a country where the funds would be spent on arms, sent abroad or otherwise misused.

The Bank hoped that a majority of the 20 possible countries would make the necessary decisions to obtain debt relief under the HIPC Debt Initiative, which had already been a great success, largely with the help of the Paris Club, although it was less than two years old. He called on Governments to increase their support for it, and suggested that post-conflict countries should also qualify for relief under the Initiative, which was not the case currently despite their great needs. He urged Governments to turn their attention to such countries in any case.

He agreed with the Managing Director of IMF that social issues were crucial in carrying out structural reform; the Bank's commitment to that principle was reflected in its programmes in countries such as Indonesia, where support had been given for rural development, education and social policies. Lastly, he said that an increase in the Bank's funding was necessary in order to prevent collapse of economic frameworks in the course of necessary reforms.

Mr. DENISOV (Russian Federation), recalling that there had been an increase in cooperation between the United Nations and the Bretton Woods institutions not only in terms of their operations at the country level but in formulating policy priorities and strategic recommendations in supporting sustainable development, promoting good governance, combating poverty and highlighting the role of women in development, asked how IMF and the World Bank intended to refine further their programme priorities in light of United Nations development priorities, such as creating an information society, setting up early warning systems for economic and humanitarian crises, and post-conflict peace-building.

Mr. RICUPERO (Secretary-General, United Nations Conference on Trade and Development (UNCTAD)) said that there was no real difference between himself and the Managing Director of IMF over financial liberalization. The question was not whether to liberalize the capital account but when and how to do it. Obviously, there should not be a mad rush that lacked proper sequencing, prudent regulation and oversight.

Mr. SHARMA (India) said that he would welcome comments on the question of coherence in international trade and on the possible role of the Council in discussions of systemic issues in the light of the current economic crisis in Asia. That crisis had already demonstrated the trading system's vulnerability to weaknesses in the international financial system and the inseparability of finance and trade.

Mr. YACOUBOU (Observer for Benin) expressed concern that Africa was being marginalized in the process of trade globalization and said that he would appreciate a more thorough description of the various institutions' policies towards Africa in that context.

Mr. SHEN Guofang (China) asked whether, in light of the current volatility of the Japanese yen, the Fund was consulting with Governments on ways to stabilize that currency, and what effect that volatility might have on the economic recoveries of countries affected by the financial crisis, particularly Indonesia and the Republic of Korea. He also asked whether the World Bank and the Fund were considering adjustments in the pace of opening the financial markets of developing countries.

Mr. DLAMINI (Observer for Swaziland), speaking with reference to the use of development funds for arms purchases, said that in many cases developed countries sold arms to developing countries on the basis of loans secured by the World Bank and asked whether the World Bank could not take further measures to ensure that development funds were not diverted for arms purchases. He also asked what measures the World Bank intended to take in order to implement the recommendations contained in the Secretary-General's report on the causes of conflict and the promotion of durable peace and sustainable development in Africa (A/52/871-S/1998/318), what strategies the World Bank and the Fund intended to use in order to prevent the current economic crisis in Asia from spreading to other countries outside the region, and how WTO intended to ensure that markets would remain open for developing nations.

Mr. KAMAL (Pakistan) said that monetary and financial instability were the enemies of free trade. He asked what steps were being taken to ensure the regular participation of WTO in the Council's dialogue with the Bretton Woods institutions and to further clarify the nature of that participation. In the context of the structural adjustment of the Bretton Woods institutions themselves, he asked when the question of a world financial organization would be substantively addressed, especially in view of the failure of the Bretton Woods institutions to contain crises like the one currently affecting Asia. He also asked how the Council intended to ensure that its dialogue with those institutions would continue on a more frequent basis.

Mr. FERNÁNDEZ (Chile) said that financial issues had a crucial impact on market access, since international trade was far more strictly regulated than financial flows. Movements of capital also had a major impact on debt, particularly that of highly indebted countries, but analysis of the careful records kept by lenders allowed current-account debt to be divided into speculative and production-oriented categories. He asked whether that division could be reflected in the interventions of international financial institutions in the form of more favourable terms for borrowers in the case of production-oriented debt.

Mr. NOÉ PINO (Observer for Honduras) asked for further information as to how the institutions intended to implement the Heavily Indebted Poor Countries Debt Initiative. He hoped that the Initiative could be made more beneficial to a greater number of countries, particularly those which were demonstrably assigning resources to the health and education sectors.

Mr. SPINELLI (Italy) said that, in the context of trade liberalization and increasing private-sector involvement in development, profit and sustainable development were not antithetical concepts as long as developing countries provided an environment favourable to investment. He asked the representatives for their opinions on the prospects for more "business-minded" development.

Mr. RI Kwang Nam (Observer for the Democratic People's Republic of Korea) asked what effect the advent of the European Monetary Union and its single currency, the euro, would have on the Asian economic crisis in the short term and on the global financial system in the long term.

Mr. CAMDESSUS (Managing Director, International Monetary Fund) said that Africa shared fully and equitably in the Fund's programmes, and the Fund viewed the partnership between the Bretton Woods institutions and Africa as essential. The Fund was keen to see stability restored to the Japanese currency and encouraged measures such as the recent coordinated intervention of the United States and Japan to that end. However, it stressed that such interventions were insufficient by themselves to resolve the underlying problems giving rise to the instability. The Fund had not changed its policies regarding trade liberalization and would continue to implement them with a view to deterring aggressive speculation.

Mr. WOLFENSOHN (President, World Bank) said that the substantive dialogue with the Council had been strengthened and that the effort to bring about increased coordination of the activities of the Bretton Woods institutions continued. He expressed concern regarding the notion of a new world financial organization; in his view, it would be preferable to continue working within the present financial structures.

With regard to "business-minded" development, he said that the Bretton Woods institutions were aware of the growing importance of international capital flows. On the subject of arms sales at the expense of development, he stressed the need for a more stringent examination of non-social investments on the part of Governments.

Mr. RICUPERO (Secretary-General, United Nations Conference on Trade and Development) said that most regional trade agreements were motivated by political rather than purely trade-connected factors; nevertheless, such agreements afforded countries the opportunity to learn how to compete in the world marketplace, provided that the agreements concerned were open.

His institution had almost completed its assessment of the needs of the least developed countries and was working to find ways of providing resources for the technical assistance those countries required.

He agreed that foreign trade, through the creation of export-dependent jobs, had been the most effective of the economic instruments in reducing poverty, and that ways needed to be found for international financial institutions to discriminate between different kinds of capital in their interventions. It was essential to create conditions favourable to the enterprise in fostering the market economy. With regard to capital-account liberalization, he stressed the importance of developing countries being given adequate time to achieve the necessary conditions without incurring financial instability.

Mr. HODA (Deputy Director-General, World Trade Organization) stressed his organization’s strong belief in cooperation, coordination and coherence. While meetings between the Council and the various institutions were valuable for coordination of their activities, it had to be borne in mind that the WTO agreement was of a contractual nature and that actions taken thereunder were the result of negotiation. It was up to the countries members of WTO which were also members of the Council to translate Council guidelines into concrete actions in WTO.

Mr. CAMDESSUS (Managing Director, International Monetary Fund) said he hoped that the current Asian crisis would be over before the euro became a full-fledged currency in the year 2003. He was also confident that the advent of the European Monetary Union would be a positive and stabilizing factor for the international monetary system.

Mr. WOLFENSOHN (President, World Bank) said that the World Bank was addressing a number of issues raised in the report of the Secretary-General on the causes of conflict and the promotion of durable peace and sustainable development in Africa (A/52/871-S/1998/318), including poverty eradication, the environment, sustainable development and microcredit.

Mr. DESAI (Under-Secretary-General for Economic and Social Affairs), speaking in reply to the questions raised by the representative of Germany concerning the World Economic and Social Survey, 1998, said that the past year had shown that many of the problems associated with the crisis had stemmed from a lack of arrangements for managing economic booms at the national and international levels. The reimposition of restrictions on volatile capital flows was a mechanism developed by some countries in order to cope with the possibility of excess capital flows during boom periods.

It was becoming increasingly clear that financial relations between nations involved not only income and expenditure accounts, but also "balance-sheet" transactions, which accounted for an increasing number of financial crises and involved different players and instrumentalities.

The PRESIDENT said that, owing to its multifaceted nature, the current crisis could be solved only through dialogue and cooperation. The consensus emerging among the panellists and members of the Council was a sign that all parties concerned were on the road to a solution.

The meeting rose at 1.20 p.m.