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PROVISIONAL SUMMARY RECORD OF THE 10th MEETING

Held at the Palais des Nations, Geneva,
on Wednesday, 2 July 1997 at 10 a.m.

President: Mr. GALUSKA (Czech Republic)

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FOSTERING AN ENABLING ENVIRONMENT FOR DEVELOPMENT: FINANCIAL FLOWS, INCLUDING CAPITAL FLOWS; INVESTMENT; TRADE

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The meeting was called to order at 10.10 a.m.

FOSTERING AN ENABLING ENVIRONMENT FOR DEVELOPMENT: FINANCIAL FLOWS, INCLUDING CAPITAL FLOWS; INVESTMENT; TRADE (agenda item 2) (E/1997/50 and 67)

The PRESIDENT invited the Council to begin the policy dialogue and discussion on important developments in the world economy and international economic cooperation with the heads of the multilateral financial and trade institutions in the United Nations system.

Mr. DESAI (Under-Secretary-General in Charge of the Economic and Social Departments) said that the results of the high-level segment should be encapsulated in the form of agreed conclusions for further action by the competent bodies and agencies of the United Nations. It was the Council's duty to identify its role in the discussion of major global macroeconomic issues, taking a broad view so that balanced conclusions could be drawn to clarify the discussions. In the report before the Council (E/1997/67), the Secretary-General had submitted a number of topics for discussion by the Council and had made recommendations for consideration by representatives.

Mr. CAMDESSUS (Managing Director, International Monetary Fund (IMF)) said that he was particularly pleased to participate in the high-level segment of the Council since the theme of the meeting lay at the core of IMF's mandate and activities. With the advent of globalization, massive amounts of private capital had opened up new opportunities for investment and rapid growth for an increasing number of developing countries. Welcome though that development was - for the various countries and the world economy, it nevertheless raised new issues: in the case of the emerging market-economy countries, how to maintain market confidence and deal with the economic policy complications that often accompanied large capital inflows; for the least developed countries (LDCs), often simply ignored by markets, how to deal with the opposite problem of marginalization, with all its tragic human costs; and for the international community, how to cope with economic and financial issues that transcended national borders.

Compared with the previous 10 years, the world economic situation was favourable, even if in some European countries it was clouded by high unemployment. World economic output had increased by 4 per cent in 1996 and was expected to continue at that pace, or even a little faster, in 1997 and over the medium term. Economic growth in the developing countries had

been 6.5 per cent and that of the developed countries, 2.5 per cent. Global inflation remained subdued and prices had been more stable than at any other time in the post-war era. In addition, fiscal deficits were falling in many countries - a good omen for reduced interest rates and increased investment - and exchange rates among the major currencies appeared to be generally consistent with economic fundamentals. Many countries around the world had undertaken significant structural reforms, thereby improving the prospects for sustained growth. In that favourable world context, the order of priorities was yet to be determined.

IMF's strategy was aimed at helping countries re-establish basic macroeconomic equilibria and completing the necessary structural reforms. Two factors heightened the importance of a sound, stable macroeconomic environment: (a) globalization, which stimulated competition between countries seeking to attract capital and investment; and (b) following the Copenhagen pledges, the need to accelerate social progress, since it was undoubtedly the poor who suffered during periods of high inflation or economic downturn. Emphasis on macroeconomic stabilization, trade liberalization, price reform, privatization and other reforms that promoted stabilization must be maintained.

The "first generation" of reform was, in itself, not sufficient to give an adequate boost to social progress, or to allow countries to compete more successfully in global markets. For that reason, at its Autumn meeting the previous year, the Interim Committee of the IMF Board of Governors had laid down "11 commandments" aimed at broadening and strengthening the strategy of the 181 members of the Fund. Four of those commandments, namely, improvement of the quality of fiscal adjustment, bolder structural reforms, better government and strengthened financial institutions, constituted a "second generation" of reforms which were indispensable in significantly increasing per capita income and creating greater equity in the distribution of income. Improvement in the quality of fiscal adjustment consisted in reducing not only fiscal deficits but also the share of non-productive expenditure (military expenditure, for example) in order to allocate more resources to education and training, reform of public pension and health systems, and the establishment of a well-targeted social safety net. Structural reforms should be sufficiently bold to produce meaningful results, including reform of the public service, the labour market and the regulatory

framework of private sector activity, in particular. With regard to the role of the State, public institutions must develop into a positive force for growth and development, by increasing the transparency of their operations and establishing the conditions necessary for the smooth functioning of their economies. There was a need to strengthen domestic banking systems, which presented a particularly acute problem in the emerging market countries.

IMF was endeavouring, in various ways, to contribute to the "second generation" of reform and to adapt its role to the new global environment. In recent years, it had accorded increasing importance to expenditure on education and health care. In the 27 countries with Structural Adjustment Facility (SAF) or Enhanced Structural Adjustment Facility (ESAF) programmes, average spending on education had increased by 5 to 6 per cent annually in real terms over the life of those programmes, and real expenditure on health had increased by 7.5 to 8 per cent annually. Some countries had been more successful than others in protecting and increasing social expenditure, and that success should be spread more widely. In many countries, a lack of data on social spending hampered policy-making. That was an area in which IMF intended to work in closer cooperation with member States and with other organizations such as the World Bank. As to the role of the State, the IMF approach was to concentrate on the aspects of "good governance" that were more closely related to the surveillance of macroeconomic policies, namely, the transparency of government accounts, the effectiveness of public resource management, and the stability and transparency of the economic and regulatory environment for private-sector activity.

Lastly, there were three other initiatives aimed at helping countries take full advantage of the opportunities of globalization. The first concerned strengthened surveillance. One of the risks of globalization was increased financial instability, and so IMF paid close attention to the soundness of banking systems, the sustainability of financial flows, countries potentially at risk, and countries where financial markets could have spill-over effects. The second initiative concerned the transparency of country policies and performance vis-à-vis private markets. The third concerned capital-account liberalization, the benefits of which were widely

recognized. To date, IMF's mandate had been limited, by and large, to current transactions. Nowadays, there was general agreement to broaden capital movements and restrictions thereon.

Fostering an enabling environment for development also required effective international cooperation and solid international institutions. The developed countries could respond to that requirement of enhanced solidarity by strengthening their national anti-inflation policies, lowering real interest rates, promoting steady growth, opening their markets, especially in products in which developing countries had a comparative advantage, and granting bilateral aid to low-income countries, particularly in the areas of education and health, basic infrastructure and institutional reform, not to mention the emergency financing required in war-torn countries. He was not convinced that official development assistance (ODA) budgets should be the first victims of budget constraints. Care must be taken to ensure that ODA resources were used effectively, but they must also be regarded as the highest-yielding investment that mankind could make in its future. A large share of the peace dividends should therefore be allocated to ODA.

The developed countries should demonstrate their solidarity by providing IMF, the World Bank and other international institutions with the resources they needed to perform increasingly complex tasks. The fight against marginalization and the reforms needed to assist the poorest countries to attract more market financing would continue for a long time to come. Accordingly, IMF had taken steps to put the ESAF on a permanent footing. Moreover, in conjunction with the World Bank, it had recently begun efforts to resolve the external debt problem of heavily indebted low-income countries. Four of those countries (Bolivia, Burkina Faso, Côte d'Ivoire and Uganda) had already been considered under the initiative, and assistance had been granted to Uganda. That initiative would be financed through the ESAF, which would as a matter of priority, be endowed with the necessary resources. IMF's ability to assist member countries also depended on regular resources or quotas. A number of emerging market countries had agreed to participate, along with the Group of 10 countries, in the New Arrangements to Borrow put in place to supplement IMF resources, if needed, in exceptional situations. That was an outstanding example of international solidarity.

Mr. RUGGIERO (Director-General, World Trade Organization (WTO)) said that statistics such as those found in the "World Economic and Social Survey 1997", the latest "United Nations Human Development Report" and the Organization for Economic Cooperation and Development (OECD) reports revealed a great contrast in the current world situation: on the one hand, much of the world was living in poverty and the distance between rich and poor remained intolerably great; on the other, virtually worldwide renewed growth meant that there was a real possibility that developing countries might account for half of world trade by the year 2020. Of course, globalization would not solve problems of distribution and could not, on its own, meet essential needs, but it did provide the most powerful engine for growth that the world had yet seen. A new enabling environment could only be built on an open and integrated global economy.

Despite the challenges to be overcome, therefore, resolute progress must be made in opening markets, not only in developed but also in developing countries. There was strong evidence that countries which were prepared to liberate market forces and to compete vigorously on the world scene could expect faster growth and more rapid development. Furthermore, an open trading system encouraged the flow of technology and information around the world, a process central to the creation of an enabling environment. Recent WTO agreements liberalizing global telecommunication services and information technology products were building the new infrastructure of the information age, just as the expansion of railways and shipping in the nineteenth century had created the necessary infrastructure for industrialization.

In 1997, WTO would have to reach a successful conclusion to its current financial services negotiations and examine the relationship between the flows of global trade and investment. The paradigm of importers versus exporters, North versus South, was outdated. Whatever the country and its level of development, sustained growth in a competitive world economy had come to depend on access to a solid financial system and to investment.

Developing countries therefore had a growing interest in liberalizing their financial sectors and deregulating their investment regimes. At the same time, developed countries had an interest in concluding an agreement which would open the fastest-growing markets to one of their fastest-growing industries. All sides had an interest in building a strong global financial

system. However, as the Managing Director of IMF had pointed out, it was important to bear in mind the risks associated with the liberalization of capital accounts.

The multilateral system also contributed to the establishment of an enabling environment by offering all countries, but particularly the weakest and most vulnerable ones, an equitable and transparent system of rules to use in managing their interdependence. That called for full involvement by developing countries and countries in transition in drawing up and using the multilateral rules rather than limiting their focus to exceptions and special provisions. He was in fact pleased to note that developing countries had become far more active participants in the functioning of the system. Between 1980 and 1994, they had been involved in less than 10 per cent of the disputes examined by the former GATT. Over the past two years, however, they had initiated about half of requests for WTO consultations or panels. Similarly, the participation of developing countries in negotiations on telecommunications services and information technology during the past 12 months showed their commitment to the system.

The multilateral trading system was a key element in an enabling environment for development. However, there was one area in which problems remained: in the LDCs, particularly those of Africa, output per head had continued to decline throughout the 1980s and early 1990s. Despite a reversal of that trend in 1996, there was still much to be done. The WTO member Governments had adopted a Plan of Action for the Least Developed Countries at their Ministerial Meeting in Singapore in December 1996, in order to ensure that each of those countries had a strong voice in WTO, which was working closely with UNCTAD and the International Trade Centre (ITC) and providing those countries with technical assistance in building trade policy expertise. It was also employing new technologies more extensively in order to extend the reach and effectiveness of that assistance; it had, for example, opened a web site for Africa in cooperation with the World Bank.

The Ministerial Conference in Singapore had also asked WTO to organize a High-Level Meeting on Integrated Initiatives for Least Developed Countries in cooperation with UNCTAD, ITC and other major multilateral institutions. A new integrated strategy should at least help LDCs to move from the margins to the centre of globalization.

Quite clearly, building human and institutional capacities was fundamental to realizing those aims. While the task began with national Governments themselves, in a world where economic opportunities and challenges increasingly transcended national borders, new forms of international cooperation and approaches to international governance must be found. It was necessary to embrace the global rule of law, which extended the ability of national Governments to defend their interests in a world without borders. The international policy framework which that would require was not yet fully in place. However, the choice was clear: the alternative to a return to a world divided by dangerous economic and political nationalism was to improve the present international system through greater coherence among national and international institutions. That was the key to creating an enabling environment for development.

Mr. RICUPERO (Secretary-General, United Nations Conference on Trade and Development (UNCTAD)) agreed that the dissension and disagreement that had resulted from a whole series of summits - the meeting of major industrial countries in Denver, the European Union summit in Amsterdam, the annual ILO conference in Geneva, the WTO Ministerial Conference in Singapore in December 1996 and the special session of the General Assembly in New York - gave a very confusing picture of the current world situation. The world economy was, in some respects, polarizing more than it was converging: growth had been too slow to generate enough jobs or reduce poverty; there was increasing divergence between industrialized and developing countries, and the gap between the newly-industrialized countries and other developing countries was widening; wage inequality between skilled and unskilled labour had become a global trend; the "hollowing out" of the middle class was a feature of income distribution in many countries; and job and income insecurity had become widespread.

Those trends seemed to be a consequence of globalization, whose expansion was now inexorable. However, it would be wrong to conclude that market forces must be given free rein. Governments must intervene far more frequently than in the past in establishing policy and legal frameworks, building the necessary institutional and human capacities, establishing infrastructures, sponsoring entrepreneurship and creating an enabling environment for development. Some south-east Asian countries had already

demonstrated that development did not happen simply by liberalizing the economy. Other countries, particularly in Africa, had liberalized their investment regimes and concluded many bilateral investment treaties, and yet Africa still received only 5 per cent of total foreign direct investment (FDI) flows to developing countries, half of its share in the 1980s.

Countries and peoples had not responded to globalization along traditional North/South lines. Three groups of countries could be identified in that connection. In the first, composed primarily of developed countries, a backlash against globalization had led to pressure for measures to protect the population from its adverse consequences, especially in the areas of employment, wages and the environment. The second consisted of fast-growing countries, both industrialized and in a few cases developing, that had benefited from export-led growth and were increasing their outward investment flows. The third group was mostly made up of developing countries and countries in transition, with slower-growing or stagnant economies, a clear majority of the total number, which had thus far missed out on globalization and liberalization; they had little to sell on the international market, their supply capacities were insufficient to meet international demand or they were weighed down by debt-servicing burdens.

The Governments of developed countries had taken the lead in recent international forums by urging the integration of developing countries into the world economy and trading system, whether through accession to WTO, through participation in a possible multilateral agreement on investment or through bilateral trade and investment flows. But it was their own people who were most fearful of the consequences of such decisions. The Governments of the developing countries which had been most successful in taking advantage of the revolutionary changes in production, trade and financial flows feared that some developed countries saw trade as a means of global governance and were therefore pursuing integration through regional agreements. According to that view, international norms could not be enforced without sanctions, and the only meaningful sanctions were trade sanctions.

Given those perceptions, further liberalization of trade and investment would need to take into account the legitimate aspirations of Governments to protect their financial stability and their right to determine the course of their own development strategies, ensure the health of their populations, and

preserve their cultural identity and physical environment. In structurally weak developing countries, hundreds of millions of people feared marginalization and exclusion. Throughout most of the Uruguay Round negotiations, it had been painfully apparent that, with few exceptions, developing countries had been inadequately prepared. Many of those countries had only partially realized the implications of the agreements they had signed at Marrakesh. It might be useful for WTO to become a forum for continuous negotiation since it already had a broad, built-in agenda and since OECD member States, for example, had already discussed new liberalization initiatives. The fact that developing countries had yet to understand the importance of those matters to them meant that UNCTAD could play a major role in helping them to meet that challenge and participate effectively in future negotiations. Those negotiations would, in fact, concern matters of primary interest to developed countries such as tariff peaks, tariff escalation, tropical products, sensitive products such as leather and frozen and concentrated orange juice, and many other agricultural products. Negotiations would also deal with trade rules, including the abuse of anti-dumping measures. Furthermore, contrary to conventional wisdom, there was still much scope for liberalization of tariffs, some of which had become prohibitive in highly competitive markets. The major industrialized countries faced much the same situation with regard to certain products.

Among the asymmetries of globalization was the fact that liberalization of the world economy had thus far been lopsided, proceeding more slowly in commodity areas where developing countries were most competitive. It was therefore in the interest of those countries to participate in a more extensive division of labour as quickly as possible; however, such integration should be effected only from a position of sectoral economic strength.

The recent improvement in foreign direct investment (FDI) flows to some parts of sub-Saharan Africa was a sign that domestic policy reforms might be beginning to bear fruit. However, FDI was not a universal panacea or a substitute for ODA. The capital that most African countries needed in order to create the basic infrastructure they lacked could, for the time being, be met only through ODA, a fact which made the long-term decline in ODA particularly regrettable.

However, in the LDCs, most of which were in Africa, the threat of marginalization was particularly acute, and those countries still needed to find ways to make a market economy possible. International programmes should focus primarily on strengthening local capacities through enterprise development as part of a programme of foreign investment, infrastructure building, debt relief, and the acquisition of technological and managerial skills.

Domestic efforts must be supported by an international economic system capable of promoting equitable and sustainable growth worldwide. International economic cooperation must therefore focus on three areas. The first was the evolution of international trading and financial systems that ensured stability in global markets, promoted progressive but balanced liberalization of trade and investment, enhanced the mobility of other production factors and gave all countries access to goods and services, investment and technology. The second was enhancement of the competitive supply capabilities of structurally weak economies. And the third was the provision of support and incentives. Recent initiatives for Africa showed that political will could mobilize market forces in the service of development, providing incentives for growth, trade and investment.

But the supply side was only part of the equation; in the case of sub-Saharan Africa, it was important to take into account the external environment and, in particular, the highly indebted poor countries' need for debt relief. In that regard, he welcomed the recent initiative by the World Bank and IMF.

Mr. RISCHARD (World Bank) said he wished to focus on two points: the forces that were shaping the new world economy, and the programmes implemented by the World Bank and other development banks to help countries build the enabling environments which that new world economy required, particularly through promotion of the private sector.

The new world economy was primarily the product of an economic revolution. Virtually all countries had embraced market-oriented policies, which involved a massive shift of economic activity towards the South and East, with about two thirds of the planet's growth originating in the non-OECD group. Countries such as Uganda were entering the group of new players with

high growth rates. The distribution of world markets was also undergoing a massive shift: in the year 2010, the Asian middle class would number about 750 million people.

There was not only an economic, but also a technical, revolution. Innovations, initially centred on telecommunications and informatics, had reached other sectors such as biotechnology, robotics and transport, and were producing a genuine transformation, some of whose effects were not yet known. It was already clear that that revolution involved a transformation of time and distance and that knowledge had become the most important production factor.

It was not surprising that such a revolution had consequences for business and trade. It had resulted in accelerated business processes and more widespread just-in-time production processes, increasingly complex transnational business alliances, hypercompetitive purchasing worldwide, boundary-less capital flows, particularly with regard to private capital and institutional investors, soaring international trade in services, with increasing tradability of once-untradable services, spectacular growth in teleshopping and the introduction of electronic money systems. That transformation would also revolutionalize human organizations, which were becoming less hierarchical and more fluid and decentralized and would radically change the idea of education, which, thanks to technological progress, must increasingly be seen as a lifelong process available to anyone.

Those two revolutions were combining to producing a rapidly evolving and highly competitive new world economy in which the traditional distinction between rich and poor countries was giving way to new distinctions between countries which were slow to adapt and those which knew how to take advantage of the new opportunities. The many implications of the ongoing transformation made the word "globalization" too restrictive because it did not reflect the fact that developing countries might leapfrog ahead and immediately start to change their way of doing things.

The World Bank could help those countries to rapidly acquire an enabling environment for the new world economy; special efforts were required for the poorest countries. The Bank's primary goal was to encourage development of the private sector in developing and transition countries through private sector financing and "systemic work" on an enabling environment for that

sector. The Bank and its related organizations channelled about 5 billion dollars a year into catalytic operations of the private sectors in those countries. Systemic work, whose critical importance was becoming increasingly clear and on which the Bank was increasingly concentrating, could be divided into three categories: business environment, privatization and the financial sector. In order to improve the business environment, the Bank was helping countries to implement reforms in order to relax and modernize regulations and legislation, set up support institutions and promotion agencies, and carry out preliminary investment studies.

The Bank's expertise placed it in a position to assist countries in setting up their privatization programmes, particularly by establishing an overall strategy and appropriate legislative and institutional frameworks, and in preparing their telecommunications sector and infrastructure for privatization.

In the financial sector, the Bank was helping countries to reform their banking sectors and to build up capital markets and specialized institutions (stock markets, pension funds and insurance and microfinance systems). Its capital markets work was based on the long experience of the International Finance Corporation (IFC). However, reform of the banking sector was a lengthy and complex task in which the Bank faced many problems at the country level; a shortage of experts made cooperation with IMF essential.

Generally speaking, the Bank called on microeconomic rather than macroeconomic experts in helping countries to develop their private sector. Its activities focused less on lending than on advisory work, best practices dissemination and awareness-raising. The Bank was convinced that the promotion of policy and institutional changes must be accompanied by effective government and a strong civil society, which were essential to a vibrant private sector.

In conclusion, he emphasized that the World Bank was willing to work closely with all United Nations bodies in order to ensure that the poorest countries were not left behind and could benefit from the growing prosperity of the world economy.

Mr. DUHR (Luxembourg), speaking on behalf of the member countries of the European Union, asked in what areas the international financial institutions could become more active in order to enable the microcredit

sector to develop its full potential. What were the future prospects of the World Bank-IMF programme for the most heavily indebted countries, under which only one country agreement had been signed to date? What measures did IMF plan to take in order to strengthen its role of monitoring the functioning of the international financial system? What had been accomplished by the special inter-agency team set up by the Administrative Committee on Coordination to consider ways of creating an enabling environment for economic and social development, which had been chaired by the World Bank? How did the World Bank and IMF view the future development of private capital flows and, in particular, their impact on the LDCs? What was the importance of certain criteria mentioned in the 1997 World Bank report (legal framework, adaptation of the macroeconomic structure, etc.) for international cooperation?

What progress was being made by UNCTAD in its studies of the links between investment and development and by the WTO working group established to consider the interrelationships of trade and investment? And what measures had the two organizations taken to increase the complementarity of that work?

While the European Union welcomed the willingness of WTO and UNCTAD to join forces in ensuring the success of the High-Level Meeting on an Integrated Initiatives to address the trade and development problems of LDCs, which would be held in October, it wondered what measures those bodies recommended in order to avoid disruption of the preparations for the meeting. It also wondered whether the World Bank country teams could be more closely associated with the entire process and, if so, how.

Mr. AKRAM (Observer for Pakistan) asked whether the time had not come to reconsider the principle of compensatory financing facilities as part of the implementation of the Uruguay Round Agreements and whether UNCTAD could not set up a mechanism for ongoing study of the effects of those agreements on the poorest countries. What measures had the Bretton Woods institutions taken to promote greater coherence in the formulation and implementation of their policies of support for the liberalization process, as they had been invited to do in the Marrakesh Declaration? How could UNCTAD be strengthened in order to make it better able to help developing countries to evaluate their interests and formulate realistic and constructive strategies so that they would be better prepared to deal with current or future WTO negotiations? Lastly, what was being done to make the public more aware that attempts to

establish a link between trade liberalization and employment legislation were in fact a veiled attempt at protectionism? That was a question which could raise sensitive political problems in the future.

Mr. AMORIM (Brazil) said he had listened with great interest to the statements by the representatives of multilateral institutions, which had offered varied but optimistic views of the phenomenon of globalization. Globalization was an undeniable reality: the problem was that it was accompanied by the marginalization of the poorest countries and increased the vulnerability of other countries, even though they were already integrated into the world economy. It was generally agreed that the world economy was currently on the upswing, but what would happen if the industrialized countries adopted stricter monetary policies; for example, a 1 per cent increase in interest rates in the United States would entail a reduction of about 20 billion dollars in capital flows to Latin America? What could IMF do to control decisions with such serious consequences?

Mr. CAMDESSUS (Managing Director, IMF), replying to the questions addressed to him, said that the microcredit procedure, which had been put in place in a particularly short time, had already been fully implemented in one country, Uganda. Three other countries - Bolivia, Côte d'Ivoire and Mozambique - were under consideration, and a total of some 20 countries would be involved. IMF was pleased with the functioning of that procedure and welcomed the cooperation of other multilateral agencies. He thought that the process could be continued providing that funding from the Enhanced Structural Adjustment Facility (ESAF) was not blocked by the conflicting requirements of donor countries.

With regard to control of the international financial system, he said that in view of the fickleness and herd mentality which characterized financial markets, IMF had increased its monitoring and considered the situation of all at-risk countries on a weekly basis. It had set up emergency financing systems for extreme cases, although that did not mean that countries which had ignored its warnings could count on it to provide automatic assistance.

There were encouraging prospects for the development of private financing over the next few years provided that all those involved behaved in

a reasonable manner, in other words, that the industrialized countries pursued sensible financial policies and that the developing countries continued to pursue cautious macroeconomic policies.

The observer for Pakistan had noted the importance of compensatory financing in the context of the liberalization of international trade. While IMF would continue to make use of its compensatory financing facilities in unforeseen trade crises, countries which boldly committed themselves to trade liberalization must be aware that they would have access to IMF financing for their balance of payments throughout their period of vulnerability.

Coherent financial, monetary and trade policies were the subject of regular consultations; IMF had signed an agreement with WTO under which their governing bodies would exchange information on all matters of common interest. In order to ensure that renewed inflationary tension did not put an end to the world economy's current growth phase, it was essential that monetary policies should be managed on a cooperative basis and that inflation be attacked before it appeared.

Mr. RUGGIERO (Director-General, WTO) informed the representative of Brazil that WTO's optimistic evaluation of the phenomenon of globalization was well-founded: trade liberalization had encouraged economic growth and current developments, while not perfect, were far from negative. Marginalization was not inevitable, and the High-Level Meeting on Integrated Initiatives for LDCs had been organized in order to combat it.

There was greater worldwide coherence than was sometimes believed; WTO had signed a very encouraging agreement with the World Bank and IMF which would allow it to participate in some of the meetings of those two institutions and to exchange information with them on a regular basis. In reply to the observer for Pakistan, he said that evaluation of the Uruguay Round in Singapore had been quite positive.

The problem of labour norms fell basically within the scope of ILO; WTO could contribute by encouraging the opening of economies in order to encourage growth. In any case, that problem could not be solved through protectionist measures. Lastly, the WTO working group responsible for considering the interrelationships of trade and investment had already met and that process, in which the UNCTAD secretariat was cooperating, was well under way.

Mr. RICUPERO (Secretary-General, UNCTAD) said he had attempted to show in his evaluation that there were both encouraging and discouraging aspects of the current economic situation. The mere fact that there were 36 million unemployed in the industrialized countries alone showed that the situation was not perfect. While that problem could not be attributed to globalization, neither could it be ignored.

It was encouraging that UNCTAD and WTO were working in close cooperation to address the question of the interrelationships of trade and investment and that they planned to consider very similar aspects of that question. Currently, UNCTAD was preparing a series of technical documents on 24 issues essential to the negotiation of multilateral investment agreements and was helping the LDCs to develop investment guides aimed at attracting increased investment flows. The next World Investment Report, which was to be published shortly, would focus on investment and competition. The two organizations were also cooperating closely in their preparations for the meeting on the LDCs. The problems which had arisen in that regard were the result of the fact that most LDCs, which were members of UNCTAD, had yet to become members of WTO.

In reply to the question from the delegation of Pakistan, he said that a procedure had been established, with the cooperation of experts from the major organizations, to evaluate the implications of the Uruguay Round for LDCs and help them to develop constructive proposals. The problem of coherence was a complex one, and it could not be denied that there were still difficult problems, such as those relating to competitive devaluation. UNCTAD had no mandate to deal with social norms because the developing countries themselves had not wanted to establish a connection between those norms and trade. However, the "1995 Trade and Development Report" considered that question at length.

Mr. RISCHARD (World Bank) said there were enormous possibilities for microcredit development since only 10 million of the current 500 million microentrepreneurs currently benefited from that procedure. The World Bank had established a consultative group, which dealt exclusively with microcredit, in order to assist the poorest countries and had

allocated 32 million dollars to that programme. At present, it was most important to disseminate best practices and to ensure that national financial legislation authorized microfinancing.

The special inter-agency team set up by the Administrative Committee on Coordination (ACC) to consider ways of creating an enabling environment for economic and social development, which was chaired by a vice-president of the Bank, was currently working on case studies for certain countries and would present its report to ACC in the autumn.

On prospects for the development of private capital flows, he said that displacement of growth from the North to the South and East, the enormous investment potential of the major pension funds and the fact that multinational corporations, particularly in the South, were increasing their direct investments in developing countries meant that there would be a steady, lasting increase in private flows towards those countries.

Lastly, with regard to policy coherence, there was regular cooperation between the World Bank and IMF. There had been considerable progress in cooperation with WTO, the Bank having signed an official cooperation agreement with that organization in April 1997.

The meeting rose at 1.10 p.m.