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INTERACTIVE DEBATE

**Keynote speaker: Mr. Enrique Iglesias,
President, Inter-American Development Bank**

Summary

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I. Keynote statement

Mr. Iglesias stressed the need to develop adequate responses to globalization at the national and the international levels and to devise rules that can help make it as fair as possible. The historical experience of Latin America was worth considering in that regard

In the 1950s, Raul Prebisch and the economists at the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) had developed a paradigm that diverged from the neo-classical approach in several significant ways. They had denounced the inequality in the relationship between the centre and the periphery of the world economy, called for structural reforms and supported import substitution strategies. Those ideas had shaped the overall architecture of United Nations bodies dealing with economic and social issues and had led to the establishment of UNCTAD. Latin America, which for some years had experienced satisfactory growth, had its own paradigm to propose to the world. UNCTAD was among its strongest advocates.

The so-called “lost decade” that had started in the mid-1970s with the first oil crisis had been influenced by both international and national factors. Among the former were inflation and instability, for which countries lacked appropriate policy responses. At the national level the period had witnessed the exhaustion of the ECLAC paradigm, with fiscal imbalances, excessively loose monetary policies, inefficiencies caused by over-reliance on import substitution and a loss of competitiveness in world markets. Too much attention had been paid to the nominal magnitudes of income distribution, and too little to education, health and social services.

The 1990s had seen a return to orthodoxy, under the so-called “Washington consensus”. Throughout the region inflation was controlled, fiscal reforms introduced and the regional integration process revitalized. Growth had been restored at an average annual rate of 3.5 per cent.

Today, democratically elected Governments in Latin America have to deal with the challenges of globalization, for which a different development paradigm is needed. The global picture is one in which, despite economic progress, growth remains volatile, income distribution lopsided and unemployment and underemployment a cause of social exclusion. Reforms have been insufficient and have failed to solve all structural problems.

The main issues that need to be addressed, he said, are macroeconomic vulnerability and social vulnerability. The former include the need to double the region’s growth rate and reduce its volatility, increase its domestic savings (in order to reduce its dependence on foreign short-term capital), and vertically diversify its exports (in which raw materials still hold a disproportionately high share)

With respect to social vulnerability, despite the region’s historically high levels of social expenditure, one out of three Latin Americans still lives in poverty. This clearly points to a need to make the Governments’ social programmes more efficient, and in particular to include groups such as indigenous communities, black minorities and the rural poor.

What is urgently needed is to build on the achievements of the past and, as ECLAC propose, to “reform the reforms”. While macroeconomic stability remains important, new approaches to fiscal and monetary policies are required. To promote an increase in domestic savings, social security systems and capital markets should be reformed. In order to enhance the competitiveness of exports, the problem of the “country costs” must also be addressed; this includes enhancements in the infrastructure and reduction of public sector inefficiencies.

The only way to break the vicious circle of poverty is to invest in education, Mr. Iglesias stressed. The difference between Asia and Latin America is striking in this respect. Equally important are policies aimed at supporting the integration of the informal sector.

Latin America also cannot afford to remain outside the emerging knowledge society, if it is to stay competitive in world markets. To make this happen, strategic alliances between Governments, the private sector and civil society need to be forged. The role of the State must be redefined, and in this respect good governance remains a pillar of development.

Economic integration in Latin America has a long record of success. It should be not be halted. The countries of the region should resist the temptation of protectionism. Dispute settlement mechanisms are needed and ambitious goals, such as a common currency for the Southern Common Market (MERCOSUR), should be pursued.

Turning to the international environment, Mr. Iglesias said the serious asymmetries in the multilateral trade and financial system must be addressed. The failure of Seattle, where developing countries had been the main losers, was a wake-up call for a system that has not adapted sufficiently with time. Industrialized countries still protect their producers in key sectors such as textiles and agriculture. Developing countries must be given the opportunity to participate more actively in the WTO. Consensus needs to be built in such areas as environment and labour standards, where UNCTAD is making an important contribution.

The force of ideas is a major asset of the United Nations and UNCTAD in particular, Mr. Iglesias said. Paraphrasing Mexican writer Octavio Paz, he concluded by saying that the twenty-first century should be the century of brotherhood and solidarity.

II. Ensuing discussion

In the discussion that followed Mr. Iglesias' presentation, several points were raised regarding the special characteristics of the Latin American region. For example, the importance of export orientation had been recognized early on, in the 1960s, but the initial successes had come to a halt in the 1970s. Among the reasons for the subsequent relatively lower success of the region -- compared, for example, to South-East Asia -- are shortcomings in education and the inability of the State to assume a role that is well-adapted to changing requirements. The international community had also responded in quite different ways to the financial crises of the 1980s and the 1990s. Unlike the recent situation, in the 1980s neither international economic conditions nor the international response to the debt crisis had supported rapid recovery, and a development crisis had thus been generated.

One area that attracted considerable interest among participants in the ensuing discussion was the importance of the regional and subregional dimension. It was pointed out that regional integration is important for development from several points of view. It contributes significantly to the participation by member countries in the global economy and increases their effectiveness in international forums. It expands markets and becomes a contributing factor to the success of import substitution, export expansion and diversification efforts; it can also contribute to the creation of an information society and the handling of environmental concerns. Moreover, social policies and integration can be

linked, reducing the exposure of small and medium-sized enterprises (SMEs) to global difficulties. Thus, the strengthening of regional and subregional institutions is required as much as that of international institutions. In Latin America, regional integration has been a success because there is a vocation for, and a long tradition of, integration. Technological advances also provide opportunities for deepening this process.

The lack of effective actions on the social front despite a widespread appreciation of the importance of integrating social and economic dimensions of development was also emphasized. Although there is only one least developed country (LDC) in the region, recently the situation of disadvantaged groups within many countries has deteriorated significantly. Crises always affect the same groups. Governments often greet reports on social issues coldly. Social safety nets are not enough; economic policy must incorporate social objectives. There is a crucial need to strengthen interactive dialogue, particularly within countries. Civil society can help respond to social problems and improve the situation of disadvantaged segments of society. Globalization has a particularly negative impact on the situation of women, who are the principal “managers of poverty”, and more emphasis must be put by UNCTAD on correcting this.

Until recently, the theme had been to reduce the role of the State. The new frontier is to redefine it. There is a need for a proactive State that supplements markets by intelligent action. It must support horizontal, and especially vertical, diversification in commodity-dependent countries. It needs to improve, with international support, the technology-absorbing capacity of enterprises, and the negotiating capacity of SMEs. Enterprises need to become active seekers of technology. In the process of redefining and strengthening the State, civil society must also be strengthened. The United Nations has a critical role in this regard and in dealing with complex issues such as environment and labour standards.

International trading rules must respond to the needs of all countries and allow for the possibility of implementing socially based policies that everyone, including the IMF, advocates. The lesson to be learned from Seattle is that there is a critical awareness of the process. The political will for reform is also there. An open and just trading system, particularly with the elimination of subsidies in developed countries, will contribute significantly to enhancing earnings and saving possibilities in the countries of the region.

Additional ideas on the international reform process included the need for labour mobility, taking steps to deal with the volatility of short-term capital flows, and the need to counter the increasing global influence of mega-enterprises. Concern was expressed as to whether the necessary leadership existed to establish and maintain an open trading system and a financial architecture that generates sustainable resources for development.