Statement by Ambassador S.R. Insanally, Permanent Representative of Guyana to the United Nations and Chairman of the Group of 77, on Item 2: Mobilizing International Private Financial Flows for Development, in the informal meeting of the Ad hoc Open-ended Working Group on Financing for Development

New York, 17 March 1999

Mr. Chairman,

In the view of the Group of 77 and China, our discussion of this topic must be considered initially in the light of the economic globalization and financial liberalization processes which are occurring in world today. The increasing rapid flows of international financial resources, particularly private financial flows, constitute an important aspect of the current trend. As result a substantial growth has been witnessed in the flow of private capital into the developing countries. For developing countries able to attract these flows this is in many ways a positive development. Regular flows of capital can certainly enhance the capacity of developing countries to participate in the global trading system in their pursuit of economic growth. As such the degree of financial integration should be complementary to the globalization of trade. The Group of 77 and China therefore attach great importance to the role of international private financial flows for their development.

The process of global financial integration however, has brought with it increasing risks, for international speculative capital to create instability. The international community has not as yet been able to formulate effective mechanisms and methods to contain and resolve these risks and the crises arising therefrom. Global financial crises have caused tremendous arm to many developing countries and in the long term will impact on the developed countries as well. They have also fully exposed the potentially negative effects of international private financial flows.

Against this background, the Group o 77 and China are of the view that when the question of international private financial flows comes up for consideration by the high-level inter-governmental forum on financing of development, the following issues/aspects must form an important part of the agenda:

First, there should be agreement to work for the consolidation of best practices and lessons learnt from global financial integration. Clearly global financial integration has brought about more massive and rapid flows of international financial resources, thereby contributing to the promotion of economic development in the world. There have been a number of successes in the developing countries in the utilization of international private capital. Efforts should therefore be made to summarize the successful experiences and to share them with other countries, both developing and developed, for the benefit of all. The high level Intergovernmental forum should also devote attention to strengthening the UN's role in funding and building consensus.

An examination should also be made of ways and means of optimising international private, financial flows for development. International private financial flows are generally viewed as resources to be tapped for development. One of the major issues concerning the international private financial flows relates to the sources of these flows and the motivation for the direction which they are channeled. We need to consider what modifications can be made to make both the sources and directions of these flows mutually beneficial to both the developed and developing countries.

Equally important is the need to develop an ability to sustain the level and direction of flows for the benefit of the global economy. Private financial flows are often concentrated in a small number of counties and regions for varying reasons. This means that private financial flows can and should not be a one-to-one substitute for official development assistance (ODA) for countries and regions. Many developing countries, particularly in Africa and the LDCs, have found it difficult to benefit from the flows. Despite their best efforts at policy institutional reforms the high-level meeting should look at the issue of private financial flows within the overall framework of partnership in the financing of development, ensuring that the crucial role of ODA is not downgraded and diminished as a result.

There is also urgency to work toward a convergence of the needs and priorities of stakeholders. In this regard a clear understanding of the limitations of private financial flows will be he essential. The profit driven nature of private capital leads it to be concentrated in sectors that promise quick returns. Very often, this will be at great variance with the economic and social development priorities of developing countries. It will be extremely important to study ways and means by which the international community, transnational corporations (TNCs) and receiving countries can cooperate to influence the flows of private capital in order to encourage better convergence with the needs and priorities of recipient developing countries. Taking into account the different forms of private capital flows (FDI, private short-term capital and foreign capital portfolios), the introduction of standards at the international level needs to be discussed in a transparent manner with full participation of developing countries given that they are at different levels of development.

Yet another area of concern must be the linkage between the financial sector and the real economy. Due attention has to be given to the negative potential of private capital flows, especially short-term private financial flows and trade in currencies. A clear understanding of the linkages between private short-term financial flows including trade in currencies and of how they impact the real economy is needed. The speculative and unstable nature of short-term flows is liable to cause financial and monetary crises leading eventually to economic crisis. In developing countries this also often leads to a breakdown of the financial and banking system which makes recovery more difficult. The international community has not been able as yet to formulate effective mechanisms and methods to contain and solve these risks and crises. The developing countries, faced with discrepancies between their capacity in macro-economic management and the pressure of the speed and degree of liberalization of their capital accounts very often suffer serious consequences.

A final - and major - issue which must find a prominent place on the agenda for high-level discussion is the reform of the international financial system, an issue that will be looked at also under theme No. 7 of the report. I mention it here because it is clearly linked to the questions of international private flows. The existing arrangements and the current level of international cooperation on in this field have been deemed to be lagging far behind the process of economic globalization and financial integration. A reform of the international financial system which recognises that the global economy is made up of counties at various stages of development cannot be avoided. New regulatory measures are also required to restrain excessive speculation in capital and currency markets, to strengthen market monitoring, and to reduce as much as possible the risks that accompany the flows of private financial resources. A main objective should be to promote a more equitable sharing of the benefits from the process of economic globalization and liberalization.

These then, Mr. Chairman, are some thoughts of the Group of 77 and China on the issue of the contribution of investment to development. We will of course be attentive to tie views and suggestions of others and will be ready to contribute further to our dialogue on these matters.

I thank you.