STATEMENT BY MR. GEORGE TALBOT OF GUYANA ON BEHALF OF THE GROUP OF 77 AND CHINA ON THEME NO. 7: GOVERNANCE OF THE INTERNATIONAL FINANCIAL, MONETARY AND TRADE SYSTEMS, BEFORE THE AD HOC OPEN-ENDED WORKING GROUP ON FINANCING FOR DEVELOPMENT

New York, 7 April 1999

Mr. Chairman,

The present monetary, financial and trade systems have been with us for over half a century. Founded during the period 1944-1947, they were based on cooperation between an institutional tripod designed at Bretton Woods:

- The International Monetary Fund (IMF) was charged with responsibility for the monetary system (including exchange rate stability and balance of payments problems),

- The International Bank for Reconstruction and Development/IBRD (World Bank), was responsible for the financial system and development (although it was not a financial regulatory body, since international financial relations were mostly performed among governments, the IBRD promoted some guidelines for lending and borrowing);

- The General Agreement on Tariffs and Trade (the International Trade Organization never came into force) defined the basic regulations of the trade system and provided a forum (of Contracting parties) for discussions of trade and related issues.

The main objective of this institutional structure was - and to a reasonable extent still remains - the promotion of trade in a stable monetary and economic environment. From 1947 to the 90s, the international economic scenario underwent many changes; those three "institutions" have also been changed but at pace and depth not in keeping with the evolution taking place in the world economy.

The end of the fixed-exchange rate regime in 1971 represented a landmark for the three systems. Despite the imbalances in the monetary and financial systems, trade has continued to increase over the world output mostly because of a series of multilateral trade negotiations to reduce and eliminate barriers to trade, especially among developed nations.

On the other hand, from 1972 to present, we have witnessed a number of systemic economic crises, which have to varying degrees negatively affected all countries, particularly developing countries.

Amidst the major changes in the international economy since the 1960/70's, the following could be underlined:

- Developing countries became the major clients of the IMF and the IBRD, because of recurrent balance of payments (liquidity) difficulties. The result was that those institutions started to design basic and general macroeconomic principles to be implemented by developing economies with balance of payments problems;

- An increasing amount of international private financial capital started to flow into the world economy without surveillance by any specific institution nor appropriate international regulations;

- The exchange rates among major international currencies floated excessively, thus creating waves of instability;

- The institutional framework proved incapable of preventing major financial crises, while solutions prescribed invariably caused great pain for developing countries affected by those crises. At the same time trade benefits remained unevenly distributed between developed and developing nations;

- The liberalization of capital accounts by developing countries served to compound the instability present in the system.

It is fair to say that the institutional architecture of the monetary and financial systems, an important part of which still relies on the major national economies, has undergone some change, mostly in terms of ad hoc amendments, which for the most part fell short of real reform, at least in the sense of structural modifications. However, the system has undoubtedly been impacted by the entry into the world economic scenario of a number of new and relevant international actors: the Bank of International Settlements, OECD and the G-7 (in the monetary and financial area) and UNCTAD (trade area) are probably among the most important ones. By contrast, the trade system has witnessed significant structural reform with the creation of the WTO and the increase in its scope to include services and other aspects related to trade (TRIMS, TRIPS, etc.), as well as a set of new or revised codes. It also provides a certain stability and predictability regarding many of the variables that impact on trade with the exception of exchange rates and interest rate values.

In examining this tripod of systems, therefore, one of the most important developments to be observed in their governance over recent decades is the emergence of a lack of coherence, a sort of disconnect, between the international monetary and financial systems on the one hand and the international trading system on the other. While the question of governance in this context cannot be viewed as a panacea, it can hardly be denied that financing for development, either by domestic or international financial resources, responds directly to the functioning of the international monetary, financial and trade systems. Exchange rates, interest rates, international liquidity and access to markets are some of the economic elements that affect financial flows as a whole. Unstable (or volatile) and unpredictable monetary and financial systems have negative effects upon the allocation of international capital and investments in the world economy as well as on trade. In addition, it needs to be said that systemic crises in the international financial market (including the debt crisis and decrease in ODA) have seriously impaired the development capacity of developing economies, who are least equipped to influence decisions taken in or by the system. It is also fair to say that developing countries, the major clients of the systems, by and large have felt marginalised from and ill-served by both the decision-making process as well as the process of consultation on global macroeconomic issues. The asymmetries in this regard have been more pronounced in the case of the monetary and financial fields than in the trading system, where a more consensual approach prevails. Be that as it may, this approach has yet to prove effective in eliminating trade barriers that affect the main interests of developing countries (e.g., in agriculture and textiles) and ensuring equitable distribution of trade benefits.

The huge increase in the volume and volatility of financial capital flows (especially short term flows) in the nineties, the Mexican crisis in 1994 and more recently the Asian and Russian crises with its contagion effect on emerging markets have raised a debate on the necessity of reforming the international financial system. A number of objectives might reasonably be pursued in this regard, including: (a) to promote greater coherence among the major systems, in keeping with the fundamental Bretton Woods objectives (b) to make the international economic system responsive to the needs of achieving human centered development; (c) to improve and create mechanisms (or even a new framework) capable of ensuring a more stable and enabling international economic system to pave the way towards sustainable development and equity; and (d) the way in which the concerns of development and developing countries finds expression in the decision-making process is a matter that needs to be handled with sensitivity in any discussions of reform.

Although there is no consensus on the type of reform that should be implemented, the international debate has pointed out some important aspects and issues:

a) The present crisis is a global one and thus requires global solutions through joint responses from developed and developing countries as well as international organizations;

b) The existing international monetary and financial system/architecture is not able to cope with the negative effects of financial crises;

c) Capacities and modalities of the international financial institutions must be improved with regard to prevention, management and resolution in a timely and effective manner of international financial crises;

d) The private sector should be involved in the prevention and solution mechanisms and share the burden of financial crises affecting developing countries;

Many technical or specific issues have also been discussed in various fora:

- International liquidity management;

- Global consistency of macroeconomic policies and financial regulation;

- Adoption of codes of conduct, improved information and financial supervision and regulation at national and international levels;

- Liberalization of capital accounts VERSUS preservation of the autonomy of developing countries with regard to capital account issues;

- Incorporation of internationally sanctioned standstill provisions into international lending;

- Long term solution for external debt of developing countries, in particular LDCs and Africa;

- Design of a network of regional and sub-regional organizations to support the management of monetary and financial issues;

- Lender of last resort and "moral hazard" issues;

- Best practices (requirements on short-term capital inflows, taxes, prudential regulations on domestic financial institutions, etc.);

- Increase membership in the most important decision-making organizations and other relevant fora.

As the most universal and democratic international forum, the UN should contribute to the efforts of reforming and strengthening the international monetary, financial and trade systems. The UN can provide a forum for discussing issues of coordination and coherence in the broader context of human centred development Its involvement can also help to ensure that reforms and changes in the trade-financial area take fully into account universal values and objectives related to human centred development, including in particular the social ones. By virtue of its comprehensive mandate, the United Nations is unique in the breath of vision and in the political perspective it can bring to bear in an analysis of what needs to be done in building a more credible system. In the financial sector, the UN perspective in the dialogue with the BWIs and other relevant institutions, such as the BIS, could help to broaden political support, where appropriate for proposals that being considered. In the trade area, the UN, through UNCTAD, has a long record of contribution to the system (enabling clause, GSP, technical assistance to developing countries, etc.) and can still play an important role in the permanent trade negotiation process, particularly by imbuing it with a strong development orientation.

Looking forward to the high level event, it may be noted that General Assembly resolution 53/172 on the impact of financial crises on growth and development recognized inter alia "weaknesses in the international financial system and the urgent need to work on a wide range of reforms to create a strengthened international financial system". This represents a consensus that could be built upon.

The relevance of these issues for the provision of adequate financial resources for development is widely recognized. There is a also a common perception that the stability of the financial system and adequate regulation and supervision of the financial markets are essential components of an international economic environment conducive to growth and development. These are central elements for the high level consideration of financing for development. Further elaboration on the issues of governance of the international monetary, financial and trade systems could greatly benefit from their discussion, from the UN perspective, under the agenda of an international conference on financing for development.

I thank you.