

Statement by Mr. Mohammad Ali Zarie Zare, on behalf of the Group of 77, at the Third Session of the preparatory Committee for the International Conference on Financing for Development: Addressing systemic issues: Enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development

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I should say at the very beginning of our discussion of this theme that our Group considers it a very important element and would like to underline that the “systemic issues” should find a paramount place in the preparatory process as well as in the International Conference itself. A central challenge before all of us is to ensure an inclusive, participatory, transparent, equitable, rule-based, predictable global economic system in support of development. Heads of States and Governments of all our countries agreed, in the Millennium Declaration, that success in meeting the objectives of development and the elimination of poverty depends, inter alia, on good governance within each country. For the same token and along the same line of logic, it should be agreeable to all of us that such a success also depends on good governance at the international level and transparency in the financial, monetary and trading systems. The governance of economic globalization should ensure equitable sharing of both the opportunities and challenges, of benefits and risks. The Group of 77 and China believes that the existing institutional arrangements and international cooperation in these fields are lagging far behind the process of economic and financial integration at the global level.

- Broadening the meaningful and effective participation of developing countries in the international economic decision-making and norm-setting processes is imperative in the context of promoting increased and more equitable distribution of the benefits of globalization and world economic growth. In fact, enhanced representation and participation can actually bolster the effectiveness and efficiency of the relevant bodies and also contribute to enhancing the legitimacy of agreements and their follow-ups. Meaningful increase in the representation and effective participation of developing countries in global financial governance is urgently needed, inter alia, in the Financial Stability Forum, in the BIS and Basle Committee, and in a general sense, in the BWIs and WTO policy- and decision-making processes.

- The greater representation and participation of developing countries would not only promote their interests in those small forums, but would as well help enhance the legitimacy of these very institutions. And furthermore, a wide array of diverse insight and perspectives will, in its own turn, promote the sense of “ownership”. In this context, there is ample room for improving the existing arrangements for norm-setting and we are fully prepared to engage in a conclusive, participatory, accountable and open collective endeavors with the cooperation of Financial Stability Forum and relevant international bodies, towards the development of requisite procedures and operating modalities of the financial sector. The Group of 77 and China would like to emphasize that universal standards and codes should be developed through fully inclusive, participatory, accountable and open processes. Those bodies with restricted membership undertaking functions or actions with implications for global governance should explore ways and means and implement specific measures to ensure meaningful engagement of all relevant non-member stakeholders and secure their views, including through broader representation and effective participation of developing countries. Moreover, such bodies should also ensure that their policy recommendations with global repercussions would complement and serve as an input to the discussions in forums with universal intergovernmental participation and with clearly defined and broad-based intergovernmental mandates in order to ensure that international standards and codes with universal application would be developed through participation of all countries.

- The central role of the United Nations in promoting solutions to international economic, social and related problems is well recognized and established. What is needed more is for the Organization to work in collaboration and coordination with other institutions and agencies specialized in particular aspects of global economic governance, notably the Bretton Woods Institutions and WTO. The United Nations, as the most

universal and representative world body as well as the sole body with the most comprehensive mandate on economic and development issues, enjoys a unique position and strengths to lead such a coordinated undertaking. There is a strong need to expand cooperation between the United Nations and WTO, including through strengthening the institutional relations among them at the intergovernmental and secretariat levels, and, of course, the legal constraints for such relations should be addressed. The need for coherence and consistency of international monetary and financial policy with international trade policy and of both sets of policies with development objectives and commitments make such institutional relations necessary and imperative.

- The question before us now is how we can combine different factors and balance them in a manner to enhance the voice and participation of developing countries in global economic governance. The answer, or to be more precise, answers, depend, of course, on where you belong, to the North or to the South. But one thing is quite clear. Whatever the answer, if it fails to address more equity in the distribution of the benefits and challenges of global economy, it will not be a durable solution. Given the increasing fragility of the existing order and the rising systemic risks further ahead, it might be prudent to surmise that an overall movement towards a higher level of equity and a better distribution pattern at the global level may be considered inevitable for the long-term health and sustainability of the future world order. It should then be clear that the global economic governance could hardly afford to lead to more inequality and result, inter alia, in increasing the ranks of the Least Developed Countries in the world. A more prudent approach would instead call for addressing the inherent problems of underdevelopment in developing countries in a more transparent and predictable manner while strengthening the ownership of solutions through following a participatory process.

- The macro-economic policies and decisions of industrialized countries in general, and in particular the interest rate and exchange rates of big economies affect the international economic stability. These economies should fulfill their special responsibility and ensure that their policies are conducive to creating an international environment for equitable economic growth and development, international financial stability and enhanced financial flows for development. Multilateral surveillance should cover all members and its major component should be the impact of domestic macro-economic policies pursued by the largest economies on regional and global economy.

- International financial architecture. The Group of 77 and China firmly believes that a major challenge before the international community is to construct an international financial system which is responsive to the priorities of growth and development at the global level, particularly in the developing countries, and is geared to the promotion of economic and social equity. Reform and strengthening of the existing architecture is widely considered very much needed. It is a fact, however, that the reform progress at the international level has not held pace with that at the domestic level. We can go along with the conclusion that multilateral surveillance, particularly by the IMF, is both a service to individual members and a global public good, nonetheless, it should be done in a symmetrical manner. Moreover, it should go beyond the consideration of the impact of macro-economic policies on domestic economy rather it should seriously and meaningfully consider the impact of those policies, particularly of major developed countries, on the global economy. There is also room for promoting the scope of effective multilateral surveillance of international financial markets, including considering arrangements in destination and source countries to reduce the risks of excessive international financial volatility, including through promoting early warning, prevention of financial crises and capacity building in developing countries. Regional and other arrangements among countries for promoting mutual surveillance and preventing or constraining financial crises should also be encouraged and not discouraged. Measures should also be taken to strengthen regional and sub-regional response to financial crisis, including facilitation of emergency financing in times of crisis. The Group of 77 and China strongly supports, in principle, the role of the IMF in providing financial packages before and during crises. These packages play a vital role in providing a fundamental global public good and financial stability. Provision of emergency financing during crises should be the main pillar of the system to prevent contagion effect and manage the crisis situation. Adequate resources for emergency financing should be

provided in a timely and accessible manner for countries affected by financial crisis and the terms for utilizing such multilateral resources at the time of crisis should be consistent with and not extended beyond the mandate and responsibility of the lending agency.

- In providing policy advice in support of adjustment programmes and implementation of codes and standards, the special needs and implementing capacities of developing countries should be taken into account. We would like to reiterate that the internationally supported adjustment programmes should be development-oriented in a broad sense, and respect the realm of national sovereignty. We believe that the international system should respect national autonomy, especially in the areas of management of the capital account and choice of the exchange rate regimes. It should be further underlined that the implementation of international prudential standards and regulations for national financial system should take into account the various stages of economic development and administrative capacities of countries as well as their different cultural and legal traditions.

- The role of private sector in the prevention and resolution of financial crisis is a major element for strengthening the international financial system. International financial institutions should develop frameworks for involvement of the private sector in the resolution of financial crises in a manner that would help prevent moral hazards and both creditors and debtors accept their responsibility in the resolution and workout of the debt resulting from financial crises.

- Cooperation between destination and source countries to avoid costly crises and their contagion is crucial. Source countries, mostly developed economies, have the capacity to assess the volume and follow the path of financial flows and their target sectors in destination countries. Sharing such information with the host countries could allow these countries to harness the potential benefits of portfolio investment and short-term flows and constrain the excessive volatility and other risks associated with such flows. Increasing transparency in the criteria for sovereign risk assessment and over all transparency in provision of information by all countries could promote the objectivity of such risk assessments.

- Cooperation among regional and other groupings in the fields of international trade, investment, monetary issues and financial sector oversight could be very fruitful and can offer opportunities for macro-economic consultation and coordination, provision of liquidity during financial crisis, development of prudential codes and standards for financial markets and the banking system. Increasing the efficiency and effectiveness of such arrangements could provide a strong back-bone for international financial, monetary and trading systems.

- The International conference for Financing for Development and its follow-up mechanism should contribute to the realization of the United Nations potential as a central pillar of international coordination and cooperation, acting in collaboration with the Bretton Woods Institutions, and the World Trade Organization, to ensure that globalization will work for development and that its benefits reach all people. The Group of 77 and China firmly believes that the United Nations should play a key role in the management of global economic integration and in the development of adequate international policy responses in order to contribute to the equity, stability, coherence and consistency of the international monetary, financial and trading systems. The capacity of the United Nations should be strengthened to enable it, in cooperation with relevant stakeholders, to conduct a broad-based and participatory dialogue and to utilize that capacity to ensure and to promote an open, equitable, rule-based, predictable and non-discriminatory multilateral trading and financial systems. In this context, we note that the world leaders attending the Millennium Summit resolved to “reaffirm the central position of the General Assembly as the chief deliberative, policy-making and representative organ of the United Nations, and to enable it to play that role”. Constituted as such and equipped with various open and participatory settings and arrangements, the General Assembly is in a unique position to address broad, cross-cutting policy questions relating to global economic growth, stability, equity and integration. It can also contribute to identifying and dealing with institutional and policy gaps and policy

issues of global concern.

At the same time, we should also reaffirm importance we attach to the role of ECOSOC in policy coordination in economic and social matters, including as pursued through its regular interaction with Bretton Woods Institutions. We agree that the coherence and consistency of international monetary and financial policy with international trade policy, and of both sets of policies with development objectives and commitments, have been a concern of the international community. These concerns and general policy coordination issues in international economic, social and related matters could be discussed in ECOSOC. We believe the Financing for Development process provides an excellent opportunity to make real progress in this vital area. The United Nations, BWIs and the World Trade Organization should work innovatively and constructively on issues related to the international monetary, financial and trading systems, especially their consistency in support of development. In this context, we deem it necessary to emphasize the important role of UNCTAD as the major institution within the United Nations system for following and studying inter-linkages, interaction and impact of financial, monetary and trade policies with and on development.

As far as follow-up arrangements are concerned, consideration of issues related to the follow-up and implementation of the Financing for Development outcome is imperative. The Follow-up mechanism of the International Conference on Financing for Development should ensure an effective and integrated approach and coordination at the intergovernmental, international and regional levels and should include a regular high-level political dialogue among United Nations, the Bretton Woods Institutions and the World Trade Organization, with the participation of member and observer states of the United Nations, and also establishing a participatory process involving all stakeholders. We expect that many of the initiatives and actions in this area would require concrete implementation by a wide range of forums. International institutions and the United Nations system should be prepared to undertake the necessary measures for monitoring, implementation, review and update of these initiatives and actions. The Group of 77 and China is prepared to consider proposals for an appropriate institutional follow-up and review of the final outcome of the Financing for Development process.

Thank you, Mr. Chairman.