Mr. President, Madam Deputy Secretary-General, Distinguished delegates,

My delegation would like to express its appreciation for your insightful remarks, as also those of the Deputy Secretary-General, Ms. Louise Frechette. I would also like to fully associate my delegation with the statement made on behalf of the G-77 & China.

This meeting is taking place at a time when the world looks very different from what it was two decades ago, when the North-South dialogue occupied the centre stage. The group of centrally planned economies has become fully integrated with world markets, eliminating an important fault line, which divided the world economy at that time. A broad consensus has evolved on what economic policies are likely to work, with a much greater acceptance of the role of markets, and the private sector, and the desirability of Open trade and investment policies. The process of globalisation, facilitated by the adoption of more open economic policies by most countries, has accelerated the integration of developing countries into the world economy. Financial liberalisation has unleashed an explosion of private capital flows across national boundaries adding a new dimension to the concept of international integration and interdependence.

These forces for integration are potentially positive developments. It would be comforting if we could also say that the system is working well, and provides an environment conducive to global economic prosperity in general, and the aspirations of the developing countries in particular. Unfortunately the system has not worked in this way. Even before the East Asian crisis, the long-term development of a large part of the development world had fallen below expectations. The crisis in East Asia, which has engulfed some of the best performing developing economies and is having ripple effect on other parts of the world, has added new worries and uncertainties. Let me elaborate on these two points.

As far as long term development is concerned, there is no doubt that significant advances have been made. Some developing countries, mainly in East Asia, achieved very high rates of growth over the past two decades, transforming the living standards of their people. Many others have made less dramatic, but nevertheless steady, progress. The relative importance of developing countries as a group in the world economy, measured in terms of shares of GDP or world trade has clearly increased.

These are important gains, but they do not tell the full story. Large numbers of developing countries in Africa, and many in Latin America, have experienced very low growth in the past two decades. There was some improvement in growth performance in recent years, but it is not a robust revival and is now threatened by the after shock of the Asian crisis. Per capita incomes in many countries, especially in Africa, are lower than they were in 1980.

It used to be thought that poor performance was due to weaknesses in domestic policies, but this explanation is less convincing because policies have in fact converged over the past decade. Besides, a large number of the developing countries experiencing poor growth have been engaged in structural adjustment programmes, under the close supervision of both multilateral and bilateral donors, aimed precisely at aligning their policies with current perceptions of best practice.
Despite this, performance has fallen short of what was projected. Some of the explanation may be in inadequate implementation at the national level which needs to be addressed. It is also possible that the benefits of the policy restructuring have been over estimated. This exercise underscores the importance of a more comprehensive identification of the constraints, which are holding up economic growth in large parts of the developing world. Some of these constraints are domestic and have to be addressed by the countries themselves. There are also external constraints, which can only be addressed jointly with the world community. This makes the international dialogue more imperative than ever before. Such a dialogue would need to embrace a range of issues.

The first relates to the flow of external financial resources. The developing countries have consistently argued that acceleration of development requires a steady flow of financial resources from the rest of the world, and this requires an increase in ODA and also flows of long term non-concessional resources from multilateral institutions. The story of ODA is well known. Instead of increasing, relative to GNP, to approach international targets, the percentage has actually declined steadily. What is more, the needs of the transition countries, and more recently also the special needs arising from humanitarian crises are being met from the shrinking ODA alone. The impact of the decline on normal development assistance has therefore been magnified. The flow of non-concessional resources from multilateral institutions such as the World Bank and the Regional Development Banks has also declined in real terms.

These declines would not have mattered if other sources of finance were available and reference is often made in this context to the growth of private capital flows. There is no doubt that globalisation has led to a remarkable growth in private capital flows to developing countries, and the scale of these flows now dwarfs the flow of official assistance. However, private flows are not a substitute for official flows in all cases. For one, they are concentrated in about a dozen developing countries. There is no doubt that a very large number of developing countries will not be able to benefit from these flows and for these countries, an expansion in official flows is clearly essential. Even countries which can attract private capital must recognise that some of these flows are potentially volatile, and this can present problems. As the East Asian crisis amply demonstrates, private financial markets are vulnerable to sudden, changes of perception and confidence, often triggered by contagion arising from problems elsewhere. They are also liable to overshooting because of herd instincts, leading to excess inflows in certain circumstances and large outflows in others. This can subject developing countries to sudden and destabilising behaviour, which they are ill equipped to handle.

Developing countries are therefore well advised to concentrate on inflows of foreign direct investment, which is typically long term, and take a more cautious approach to short term flows. In these circumstances, even developing countries which can attract private flows would be helped by a substantial flow of long term funds from multilateral institutions acting as a stabilising element in the capital account. Premature graduation from multilateral flows may not be desirable, especially if it is these flows that have to be activated in times of crisis. Private flows also cannot meet the financing needs of certain sectors such as the social sectors, environment protection and also certain types of infrastructure. At a time when an international consensus has been forged, through the series of high-level UN Conferences, and Summits, on a priority agenda in social development, protection of the environment, etc., it, is essential to ensure an adequate flow of public resources to achieve these shared objectives.
For all these reasons, serious consideration must be given to expand the flow of official resources to developing countries, including especially flows from multilateral institutions.

Developing countries trying to pursue open economic policies need assured access, to markets in industrialised countries. The early exponents of export oriented industrialisation faced a relatively benign climate in this respect. But with the advance of globalisation, and the persistence of high rates of unemployment in many industrialised countries, protectionist voices are heard more often in the industrialised world. There is much that is lacking in the international trading system from the point of view of developing countries. Areas of special interest to the developing countries such as textiles and agriculture remain subject to protectionist barriers with phase-outs promised only over relatively long periods. Even where markets are theoretically open, developing countries face frequent anti-dumping actions, which are difficult to counter, and in any case always expensive and time consuming. Efforts are constantly being made to introduce environmental conditions and social issues such as labour standards into the trade agenda. From the perspective of developing countries, these actions are seen as thinly disguised protectionism. If developing countries are to follow open economic policies in these turbulent times, they need greater confidence in a shared commitment to establish trading rules that are fair to developing countries.

These are the long term issues. We must also address some more urgent concerns raised by the Asian currency crisis, which has shaken confidence in the stability of the international financial system and our ability to manage crises once they erupt. Several features of the crisis are relevant in this context. First, it was not anticipated by any of the participants in the financial system, casting doubt both on the quality of market intelligence on which private sector participants take decisions, and also on the quality of surveillance exercised by the International Monetary Fund. Second, the crisis has proved difficult to manage partly because contagion effects spread the crisis to other countries, but more importantly because the usual prescriptions either proved ineffective, or involve a much longer transition, with greater loss of output and social distress than was envisaged initially. This has provoked considerable rethinking on what should be the ideal design of programmes to manage crises in future. Finally, the possibility of extended contagion effects beyond the Asian region, combined with the limitations on the resources available with the IMF for handling a large number of crises simultaneously, raises fears that the present international financial system is inherently unstable. The threat of a world wide deflationary spiral looms large.

Recognising these problems, the international community is currently engaged in searching for an appropriate architecture for the international financial system which could increase confidence in its stability. Some elements of this architecture are indisputable. There is need for much better regulation and supervision of the financial system in all countries, based on a common set of norms and standards. There is also need for much better information and transparency. There is also agreement on the need for more effective surveillance. But many questions remain unresolved.

- How can surveillance be made more symmetric so that it focusses not just on the financial system of recipient countries but also on financial institutions in the capital exporting countries?

- Is the present International Monetary Fund sufficiently equipped to serve as a lender of last resort in the international financial system, or do we need a somewhat different type of institution?
• Is the present system adequate for handling future crises or do we need other instruments and mechanisms for crisis management.

• In particular, how can we find ways of handling problems associated with large volumes of private sector debt, including equitable burden sharing between debtors and creditors in the event of a crisis.

• At what stage can private sector creditors be involved to force an orderly debt workout.

• Finally, does full convertibility of the capital account introduce too much potential instability in the system, which developing countries may not be able to handle?

• Should developing countries therefore concentrate on liberalising trade and direct investment flows as the major sources of benefit from integrating with the world economy, and maintain a more cautious approach to liberalising capital flows generally until they are better able to manage them.

No consensus has yet been evolved on these questions, but answers are urgently needed, if we are to restore confidence, not just in the international financial system but also in globalisation and liberalisation. I hope our deliberations at this meeting will move us closer to the answers.

Thank you, Mr. President

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