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Statement
BY
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"How to integrate the emerging economies in a globalized world"

Ladies and gentlemen,

At the threshold of the 21st Century, we are asking ourselves whether the world has been globalized and has truly integrated all countries in what I called a "receptive global system", one which helps all countries to grow in a steady and socially harmonious way, to share common prosperity and to equally benefit from technological progress. Asking the question is by itself a revelation that this has not happened.

The world remains a highly heterogeneous and unbalanced place and countries find themselves at extremely different vantage points as they attempt to achieve coherence or promote universal aspirations. In the struggle for development, efficiency and progress, there will be winners and losers, not only among individuals and firms, but among countries, regions, entire continents as well. Africa, for instance, and the 48 least developed countries risk becoming the absolute losers.

It is true that globalization, through the intensification of transborder flows of trade, finance and foreign direct investment has brought more riches to the world economy. Living standards in general have improved and have benefited from impressive technological progress. But at the same time, there has been more inequality and instability. While global prosperity has increased, there remain large pockets of poverty which maintain large segments of population in ignominious conditions. In addition precarious employment conditions resulting from unstable economic environment and increasing marginalization of the weakest have contributed to inflate the number of the poor around the world.

The challenge before us is formidable: how to turn into reality the aspirations of the needy to be equipped with adequate capacity to compete, to produce and to trade. This challenge has many facets: finance, trade, capacity building should be approached in an integrated way.

Let me start with finance. With globalization, the international financial system has also become private-sector driven. For example, private resource flows to developing countries and countries in transition are accounting now for more than 80 per cent of total flows. Private investors, whether transnational corporations or institutional investors, are holding large amounts of assets that they can move around globally in search of high profits. The predominant role of the private investors in the allocation of financial and productive resources worldwide is now a perennial feature of the world economy.

The distribution of international resources based on private profit has become more unequal. There is a dichotomy between a small group of emerging market economies (about 29) which have access to private sources of finance and the remaining majority of developing countries, and especially the least developed countries which have to rely on dwindling aid money. The first group of countries, which in general have liberal regimes of capital flows, are periodically facing a boom-bust cycle of financial flows, which can bring havoc to many years of development effort. The second group of countries in dearth of resources to finance their development are crippled with debt problems and are becoming more and more marginalized from the global economy. As time passes, it will become more and more difficult for these countries to catch up with the technological gap, making them even more dependent on aid money.

But aid money is shrinking. One of the most disappointing development in the 1990s is the retreat of official finance. The end of the Cold War brought hopes of a “peace dividend” from reduced military expenditure that could be used to fund increased development assistance. That hope was shattered, as recession in OECD countries in 1992-93 and budget cuts in these countries have further reduced the amount of official development assistance (ODA) to developing countries, which has fallen to unprecedented level.

ODA has not always delivered the expected results and this is the argument often used to justify the phenomenon of aid fatigue. However, there is strong evidence that the decline in ODA has been the outcome of broader public expenditure cuts in OECD countries, and aid budgets have been cut significantly more than public expenditure on average. The current debate about aid effectiveness and concerns with corruption have followed rather than led the decisions to cut aid budgets.

There cannot be sustainable growth if there is no investment to enhance supply capacities and no adequate institutional development. There seems to be a convergent view that the private sector should form the building block for development. Aid should be used to help poor countries to engage in a progressive process to rely more on private flows and domestic savings. This implies a major effort to put in place the appropriate frameworks, in terms of policies as well as institutions, to bring the mass of people out of poverty and to permit the private sector to thrive. This will require massive cooperation efforts, not only in terms of aid money, but also in terms of technical assistance.

Ensuring financial stability is another challenge. Financial crisis affects not only middle-income countries, but in turn also weakens poorer countries as trading opportunities are lost and sources of investment become scarce. Financial stability cannot be achieved only by developing countries through better management of capital flows. Developed countries should also share responsibility in avoiding negative effects of their macroeconomic policies on financial markets, in supervising and regulating the most speculative sectors of their financial markets, and in encouraging reforms of multilateral institutions to make them more amenable to dealing with crisis and development in a more effective manner. Private investors should also be made more responsible and more transparent in their activities.

Turning to trade, there are also imbalances in the multilateral trading system. After two decades of the Tokyo and Uruguay Rounds, the vast majority of developing countries have ended up with more trade deficits and less economic growth. This is in part the result of inadequate domestic policies, but there are other reasons, such as the sluggish growth of the economies and import demand of advanced countries. But a significant cause of this worrying state is certainly the asymmetries in the balance of mutual rights and obligations, including market access. Redressing imbalances is a priority before engaging in a new round of liberalization.

Pressuring developing countries to further opera markets, without giving them possibilities to export their way out of poverty and underdevelopment is a rather short-sighted approach. The risk is that developing countries' markets will become non-existent, as those nations will not be able to get through exports the resources they need to pay for their imports of capital goods and technology from industrial countries, without increasing their debt. Incurring debt that cannot be repaid out of their own resources earned through exports is, as you know, not an ideal solution either.

Addressing the poverty challenge will also require a massive, concerted cooperation effort for capacity building and institutional building. This is what solidarity means in a comprehensive sense. It stems, of course, from the fundamental unity of humankind, the only possible basis for a shared responsibility for fighting poverty and exclusion.

As the United Nations membership is embarking on the preparation for the Third UN Conference on the Least Developed Countries, assessments of the progress made in the last two decades do not, unfortunately, give reason for joy or optimism. Contrary to earlier expectations, many least developed countries (LDCs) have experienced regression in their economic development, in some cases losing even the small progress achieved in the immediate post-independence period. The number of countries in the LDC group has, in fact, increased rather than decreased.

Therefore, one of the greatest challenges facing the international community is how to deal with the credibility gap and the growing frustration on the part of the world's poorest countries. The evidence emerging from these countries suggest that poverty reduction strategies must take into account the following two important factors:

- Their limited supply capacity, poor infrastructure and low level of skills. An enormous effort of capacity building has to be initiated to provide LDCs with the institutional and educational tools needed to evaluate the impact of trade policies and to put in place the corresponding measures to attend social demands.

- Low rates of domestic savings and lack of capital. Availability of external resources through reversal of the declining trend in ODA and effective measures for debt relief is imperative.

True globalization should aspire to the unification of the planetary space for exchange and cooperation among people, cultures and civilizations. Eradication of poverty worldwide will be a test for an effective globalization. And clearly, private sector partners will have a role to play. Action to combat poverty should not be the exclusive “privilege” of the official donor community. I believe that concrete public-private partnership can mobilize resources and skills to help the poor in an efficient way.

UNCTAD has benefited from the active and substantial support of the Swiss Government for our technical cooperation programmes to enhance the capacity of developing countries to attract and benefit from foreign direct investment. These programmes include various components, ranging from international investment agreements, to international investment policy reviews, and also a "quick response window" to provide rapid assistance to developing countries on any policy aspect related to foreign direct investment. Over the years, these programmes have helped developing countries to prepare themselves better for a more globalized world through an effective interaction with foreign investors.

Another area where UNCTAD is having a good cooperation with the Swiss private sector is the area of commodity risk management. UNCTAD has developed an internationally recognized expertise on commodity risk management. And most recently UNCTAD has established contact with the Swiss Futures and Options Association, which has invited us to organize and chair a special roundtable on emerging derivatives markets at the Annual Bürgenstock Meeting last September. This also opens further cooperation opportunities with our Swiss partners on commodity risk management and added-value information on commodity exchanges.

These are concrete examples which show that UNCTAD and the Swiss official and private sectors can join forces to help emerging markets to integrate in an increasingly globalized world. I conclude by expressing my wish that such cooperation will be further strengthened for the benefit of the poorer countries.