

United Nations Economic and Social Council
High-Level Segment
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Mr. President, Excellencies, distinguished delegates, ladies and gentlemen,

1. The last 18 months have been a good period for development and international development cooperation. With the global economy growing in 2004 at a fairly robust 4 per cent, developing country economies grew at a rate of 6.4 per cent, one of the highest of the last three decades. Even excluding the star performer, China, which grew at 9.5 per cent, the rate of growth of developing countries last year was 5.7 per cent. The rate varied in the different regions, but all of them shared in the overall growth. Asia led the pack with a rate of 6.9 per cent (6.0 per cent with China excluded). Latin America reached 5.7 per cent, a welcome recovery following five years of stagnation and crisis. Africa recorded its highest real GDP growth in about a decade at 4.6 per cent, marginally up from 4.3 percent in the previous year.

2. Global growth has continued into 2005, but at a slower pace, with a forecast expansion of GDP for the year closer to 3 per cent. Most of this deceleration is attributable to the slowdown in developed economies, but some developing countries are also showing signs of losing momentum. Still, developing economies as a whole are forecast to grow at 5 to 5.5 per cent in 2005.

3. At the same time, important steps are being taken to put in place an international environment which could decisively support the development efforts of developing countries. A major component here is the process of reflection and discussion leading to the September Summit General Assembly Session that will review progress in the implementation of the Millennium Development Goals and chart the future course. This is already moving forward the international consensus on development cooperation embodied in the Millennium Declaration, the Monterrey Consensus, the Sao Paulo Consensus and other international commitments. Central to this consensus-building effort are the United Nations Secretary-General Report *In Larger Freedom: Towards development, security and human rights for all* and its supporting documents, the Report of the High Level Panel on Threats, Challenges and Change entitled *A More Secure World: Our Shared Responsibility* and the Report of the Millennium Project entitled *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*.

4. Meaningful movement is also taking place at the intergovernmental level. The decision of the Finance Ministers of the Group of Eight to propose the cancellation of the whole of the debt owed by Completion Point Heavily Indebted Poor Countries to the World Bank, the IMF and the African Development Bank is a significant step forward. Together with the growing acceptance of the need to substantially increase flows of concessional development assistance to developing countries, they decisively reaffirm the principle that, while development is primarily the responsibility of

developing countries themselves, a conducive international environment is an essential pre-requisite for success.

5. There are therefore, Mr. President, grounds to hope that significant progress can be made in the period ahead towards the achievement of the internationally agreed development goals, notably those contained in the Millennium Declaration. Yet, at the same time, there are both potential pitfalls and a wider development agenda that needs attention.

6. To start with, the good growth performance of developing countries is essentially the result of the strengthening of world demand, notably from China, and the strong performance of the United States economy. This is particularly visible in Africa, where growth was largely due to higher prices for the region's non-fuel primary commodity exports and for petroleum, although better agricultural performance, owing to clement weather conditions, and improved political stability as well as increased levels of external resource inflows, via aid and debt relief, also contributed. The fact, though, is that the average growth rate in Africa masks considerable differences in country performances. Only 13 countries recorded real output growth of more than 5 per cent in 2004, and about two-thirds of these are either oil exporters or are recovering from a very low base. Once more, the vast majority of African countries fell short of the 7 per cent per annum growth rate necessary for attaining the MDGs - a target which was met by only six countries in 2004. Prospects for 2005 are of some further improvement, but one still substantially short of the level required.

7. Equally in Latin America the recovery took place on the back of export expansion and the improvement of terms of trade. Gains from changes in the terms of trade were very significant for oil and mining exporters, and lower but still relevant for agriculture exporters. On the other hand, some Central American and the Caribbean countries which export labour-intensive manufactures and are oil-importers suffered losses from terms of trade. Those countries managed to compensate this situation through higher exports in volume (owing to expanding imports from the US) and workers remittances.

8. With a GDP growth of rate of 7.1 per cent in 2004, East and South Asia recorded its highest growth since the Asian crisis. As already indicated, China was the country with the highest rate of growth, but growth was also strong in South Asia¹ (6.5 per cent), the ASEAN-4² (5.9 per cent) and the Newly Industrialized Asian economies³ (5.7 per cent). Unlike in the other two continents, growth in this sub region was generally led by a combination of strong foreign demand and a robust domestic demand. The sub region is to that extent somewhat less vulnerable to changes in the world economic performance, although other parts of Asia are not.

9. A worrying implication of the above is that any significant slowdown of world economic dynamism, and particularly of the growth rates of China and the United States, could set back the performance of Africa, Latin America and many countries of Asia. In the light of potential problems such as those stemming from the high

¹ Afghanistan, Bangladesh, India, Pakistan and Sri Lanka.

² Indonesia, Malaysia, Philippines and Thailand.

³ Hong Kong China SAR, Rep. of Korea, Singapore and Taiwan Province of China.

prices of oil and the imbalances in current account affecting notably the United States this is not a scenario that can be dismissed.

10. A second troublesome implication is that, even in the hypothesis of a smooth continuation of present trends, some parts of the world, notably Africa and the least developed countries, will simply not reach the growth rates needed to achieve the MDGs within the envisaged time horizon, let alone launch a balanced and rounded process of sustainable development. Here is where the need for a substantial increase in the availability of external resources appears.

11. The debt relief initiative referred to above is a move in that direction, but it needs to be expanded in coverage both of countries and of types of debt. Most importantly, given the magnitude of the resources required, it must be supplemented with substantial progress on the trade front, allowing developing countries to take advantage of the opportunities offered by the international trading system, and with a large increase in the availability of official development assistance. The latter need was recognized in the Monterrey Consensus and was reaffirmed by the G8 Finance Ministers. The UNCTAD secretariat, having advocated for the first time in its Report on *Capital Flows and Growth in Africa* in July 2000 the need to double official development assistance to Sub-Saharan Africa, is particularly happy that this approach has now become part of the generally accepted wisdom on development cooperation.

12. On the trade front, the way forward has been spelled out in sufficient detail in the Millennium Declaration, in the Monterrey Consensus, in the Sao Paulo Consensus and in the Secretary-General's Report *In Larger Freedom*. What is now needed is the political will to put those recommendations in effect.

13. But there is a further area of concern, Mr. President, and this has to do with what I termed above the wider development agenda. International attention has so far focused primarily on the issue of poverty eradication, on the plight of the poorest countries and on salient social aspects of the development problematique, such as health and nutrition. This is right inasmuch as these are no doubt the most pressing and the most morally compelling dimensions of the problem. But they are not the only ones. Indeed, UNCTAD's research has shown that a substantially increased rate of economic growth is a necessary condition for the elimination of poverty, particularly in the least developed countries. It has also shown that different investment and growth strategies have different implications for the pattern of distribution of the benefits of growth, and that these in turn have different effects on poverty and on social entitlements. Thus, the question of what are the right development strategies that can put to good use the additional resources that may be made available becomes a central one.

14. The issue is clearly stated in the Secretary-General's Report *In Larger Freedom*. Paragraph 30 reads:

At the same time, we need to see the Millennium Development Goals as part of an even larger development agenda. While the Goals have been the subject of an enormous amount of follow-up both inside and outside the United Nations, they clearly do not in themselves represent a complete development

agenda. They do not directly encompass some of the broader issues covered by the conferences of the 1990s, nor do they address the particular needs of middle-income developing countries or the questions of growing inequality and the wider dimensions of human development and good governance, which all require the effective implementation of conference outcomes.

15. The references to the particular needs of middle-income countries and the issue of inequality are especially apposite. Middle-income developing countries still have formidable development problems to surmount, and they have a right to count on the international community to support their efforts. The entirely justified concern with the poorest countries should not detract from the need to pay attention to the development predicament of middle-income countries.

16. Equally important is the emphasis on the question of the distributional implications of different development strategies. It is by now well established that a development model that generates inequality is not only politically and socially unstable, but also economically less efficient than one that leads to more equality. What is sometimes less widely perceived is that it is inequality, rather than absolute poverty, that breeds social unrest, violence and even terrorism. By and large, the destitute do not revolt. It is those who seem to see an unbridgeable gap between their education and their aspirations and the insufficient opportunities for advancement offered by an unequal society that take up the path of violence. In turn, it is the combination of inequality and poverty that makes violence a mass phenomenon, a relation clearly spelled out by the High-Level Panel on Threats, Challenges and Change⁴.

17. What are needed therefore are development strategies that will speed up investment and growth, generate employment and in the process reduce inequality and eradicate poverty. Macroeconomic balance and fiscal and monetary responsibility are a necessary but not a sufficient condition. African countries have already by and large achieved it. What are needed now are growth- and investment-oriented policies. Market forces and the private sector must be the privileged agents of the strategies but they must be supported by an active, effective, efficient and honest public sector. Policies are needed to foster industry; not the old fashioned industrial policies of picking winners but what Joseph Stiglitz has called a modern industrial policy, a market-friendly but decisive set of policy interventions aimed at addressing market failures in the allocation of resources and steering investment and accumulation in desired directions⁵.

19. Stiglitz adds that the needed policies and strategies should be guided by a national vision of where the economy is going and where it should go. That vision, and the policies stemming from it, should be specific to the conditions, the history and the circumstances of each country, and should be owned by the national government and the civil societies of the country; in his words, "both the public and the private

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A more secure world: our shared responsibility, Report of the High-level Panel on Threats, Challenges and Change, December 2004, paragraphs 44-45

⁵ Stiglitz, J., "Development Policies in a World of Globalization" paper presented at the seminar "New International Trends for Economic Development" on the occasion of the fiftieth anniversary of the Brazilian Economic and Social Development Bank (BNDES), Rio Janeiro, September 12-13, 2002.

sector will need to ask, what will be the comparative advantages in the future, how can they, how should they, alter those comparative advantages through investments?"⁶

20. This, however, has a logical counterpart. If national governments are to assume control of their own development destinies, it follows that they should be able to use a range of policy instruments to devise and put in effect their chosen development strategies. This is the question of policy space. The Eleventh UNCTAD Conference was seized with this issue, and the São Paulo Consensus conceptualized it in the following terms: "The increasing interdependence of national economies in a globalizing world and the emergence of rule-based regimes for international economic relations have meant that the space for national economic policy, i.e. the scope for domestic policies, especially in the areas of trade, investment and industrial development, is now often framed by international disciplines, commitments and global market considerations. It is for each Government to evaluate the trade-off between the benefits of accepting international rules and commitments and the constraints posed by the loss of policy space. It is particularly important for developing countries, bearing in mind development goals and objectives, that all countries take into account the need for appropriate balance between national policy space and international disciplines and commitments".

21. The call for consideration of the issue of policy space therefore does not equate to demanding a license to renege on international economic commitments freely entered into. What it means is that when setting the agenda for future economic negotiations, when implementing existing disciplines and commitments and when interpreting rules, the question of the impact on the policy space of developing countries should be kept in mind. UNCTAD is evolving a programme of work relating the issue of policy space with the issue of policies to expand productive capacity and foster competitiveness in developing country economies.

22. There is yet a further corollary from the above, and this was also considered by UNCTAD XI. For the process of emergence and successful implementation of nationally rooted and owned development strategies to take place it is also important that the governance process in the countries concerned be improved and perfected. An ineffectual or corrupt State can hardly generate or put into effect the right development policies and use productively the resources at its disposal. It should be noted that the Conference discussions included both governance at the national level and at the international level, the latter in terms of both the coherence and the transparency of the financial, monetary and trading systems and the full and effective participation of developing countries in global decision making.

23. At the national level, the Conference's outcome on governance is comprehensive, referring, in addition to issues of economic governance, to such aspects as solid democratic institutions responsive to the needs of people, freedom, peace and security, domestic stability, respect for human rights, including the right to development, the rule of law, gender equality, and an overall commitment to just and democratic societies. UNCTAD, as a specialist economic organization of the system, has a number of programmes where a contribution is being made to improving economic governance. A particularly successful one is a programme on

⁶ Ibid., p 21.

modernization of customs through the application of computerized procedures, the Automated System for Customs Data, ASYCUDA. This programme, active in over 80 countries, has, by reducing bureaucratic red tape and increasing transparency, succeeded in improving the efficiency and effectiveness of customs, raising the government revenue and reducing the possibility of dishonesty and corruption.

24. The importance of improving economic governance, i.e. the soundness and integrity of economic management by the government cannot be overstated. Indeed, it is often the case that it is this aspect of governance that it is of most direct and immediate concern to the population. A recent publication of the United Nations Development Programme dramatically exemplifies this issue in the case of Latin America. The document, entitled *Democracy in Latin America*, reports the results of a public opinion survey covering 18 countries in the continent with a sample size of about 17000 respondents. A majority of the respondents (56.3 per cent) stated that they believe economic development is more important than democracy; and an equally sizable majority (54.7 per cent) said they would support an authoritarian government if it resolved economic problems. The imperative of accelerated development seems, therefore, to be relevant not only for moral, social or humanitarian reasons, but also as the only means to safeguard democracy, the rule of law and human rights in the long run.

25. To conclude, Mr. President, the future for once looks hopeful. The United Nations, seat of multilateralism, has taken a decisive lead and should continue to collectively guide the process, which nevertheless should be owned by national governments and national societies. The forthcoming Summit General Assembly will be the embodiment of this partnership. Much has already been accomplished, but there is no room for complacency: there is still a long way to go. One of the greatest poets in the Spanish language, the Peruvian Cesar Vallejo, wrote: "Hay, hermanos, muchísimo que hacer", "There is, my brothers, so much to be done". It is incumbent upon the international community now get on with the task.

Thank you, Mr. President.