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Summary record of the 7th meeting

Held at Headquarters, New York, on Monday, 9 October 2006, at 12 noon

Chairperson: Mr. Fonseca (Vice-Chairperson) . . . . (Brazil)
later: Ms. Intelmann (Chairperson) . . . . (Estonia)

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06-55897 (E)

In the absence of Ms. Intelmann (Estonia), Mr. Fonseca (Brazil), Vice-Chairman, took the Chair.

The meeting was called to order at 12.10 p.m.

Agenda item 51: Macroeconomic policy questions

(b) International financial system and development (A/61/136)

(c) External debt crisis and development (A/61/152)

(d) Commodities (A/61/202)

1. **Mr. Montes** (Chief, Policy Analysis and Development Branch, Department of Economic and Social Affairs), introducing the Secretary-General's report on the international financial system and development (A/61/136), referred to post-war expectations that growing populations and the relative scarcity of capital in developing countries would attract financial resources from developed countries. Instead, however, the major destination for net outward transfers from developing and transition economies had been industrialized countries. The increase in net transfers had been accompanied by increasing net private capital inflows. Furthermore, the risk of a disorderly unwinding of large global imbalances and resulting financial instability persisted. The international community had recognized that action for the orderly resolution of those imbalances was a shared responsibility, requiring concerted and sustained implementation by every country involved, and had called for multilateral action towards that end.

2. The International Monetary Fund (IMF) had recently embarked on a medium-term strategic policy review of its role in the international financial system, notably concluding that, as international policy coordination was most effective when undertaken within a multilateral institution, the Fund's role in the area of multilateral surveillance should be strengthened. Steps should be taken to restore the Fund to its primary role as the central institution responsible for fostering global financial stability and growth and as the forum for cooperation and decision-making in the global international monetary and financial system. It had been suggested that IMF should redefine itself as a global financial institution rather than as a lending institution to developing countries, and find new ways to engage all member countries.

3. In order to further strengthen surveillance at the multilateral and regional levels, IMF member countries had agreed to establish a new process of multilateral consultations, bringing together countries which had systemic influence over the global economy and, where relevant, entities formed by groups of countries. The challenge was to translate that agreement into effective, coordinated actions. Moreover, if those actions were to be effective, all countries must be given an adequate opportunity to participate. It was therefore critically important that the ongoing consideration of the governance structure of international financial institutions should result in prompt decisions on comprehensive reform, as well as a timetable for action. IMF members had also agreed that further efforts should be made to tailor the timing and intensity of bilateral country surveillance, including measures to streamline surveillance by focusing on country needs rather than relying on a standardized approach. They had also stressed that surveillance should become more focused and selective.

4. The potential efficacy of crisis prevention arrangements and the role of IMF remained among the most important unresolved issues with respect to the financial system. The IMF strategic policy review had proposed a new high-access contingent financing vehicle, which would be available to all members which had strong macroeconomic policies, sustainable debt and transparent reporting mechanisms but still faced balance-sheet weaknesses and vulnerabilities. Conditionality would focus on addressing underlying vulnerabilities, and performance criteria would be defined so as to indicate where policies were beginning to derail. Reconciling the different demands on such an instrument would be difficult, and any solution must reassure countries that they could draw on IMF resources quickly, should a capital crisis occur, without signalling a potential crisis to the markets. Crisis prevention, multilateral cooperation in addressing systemic imbalances, and expanding a stable flow of financial resources to developing countries were the key challenges to the international financial system.

5. **Ms. Tran-Nguyen** (United Nations Conference on Trade and Development (UNCTAD)), introducing the report of the Secretary-General on recent developments in external debt (A/61/152), said that

there had been a noticeable improvement in the external debt situation of the developing countries over the last three years. However, that improvement should not lead to complacency, since many of the favourable conditions in the global economy that had supported growth in the developing countries risked being reversed. The rise in oil prices could ultimately lead to increased interest rates in major capital markets and the current account deficits of the most vulnerable oil-importing countries might worsen, contributing to significant increases in external debt. A disorderly resolution of global imbalances might reduce global growth and weaken non-oil commodity prices.

6. Many countries were still facing serious debt problems. For countries having access to capital markets, the immediate concern was the risk of reverse capital flows and the abrupt withdrawal of those flows from emerging markets. A number of developing countries had recently accumulated large foreign exchange reserves partly as a means to insure against such capital reflows; however, those reserves might be costly in terms of forgone returns. Other solutions might require a strengthening of regional monetary and financial cooperation, measures to regulate short-term capital flows, and structural reforms of domestic capital markets.

7. Credit rating agencies played an important role in the new international financial architecture of the twenty-first century, in that they gave developing countries access to international private debt markets. Since their ratings determined the cost of debt, it was important to gain a better understanding of the rating methodologies.

8. The reliance on bond financing also required consideration of appropriate mechanisms to allow for orderly debt restructuring in case of defaults or payment difficulties. For seriously indebted middle-income countries, innovative approaches could include debt swaps to finance Millennium Development Goal projects and bolder debt reductions in the context of the Evian approach of the Paris Club.

9. With respect to heavily indebted poor countries, the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) could be implemented more expeditiously. Innovative solutions to development financing needed to be found and a substantial increase in aid in the form of grants was required.

10. Finally, since long-term sustainability of debt depended mainly on the growth and export prospects of debtor countries, debt sustainability analysis should focus on growth and long-term development needs rather than governance indicators.

11. *Ms. Intelmann (Estonia) took the Chair.*

12. **Mr. Arda** (United Nations Conference on Trade and Development (UNCTAD)), introducing the report of the Secretary-General on world commodity trends and prospects (A/61/202), said that the report focused on the impact of the recovery in international commodity prices and on South-South relationships in the commodity sector. Although the report was generally optimistic, the problems that had been plaguing the commodity market for decades had not disappeared.

13. Important issues included the impact of unstable export earnings, both internationally and domestically, and how to make the commodity sector an engine of poverty reduction. With respect to commodity prices, it was important to note that the recovery was broad-based, owing partly to the economic boom in China and India and the resulting rise in domestic commodity consumption and to speculative inflows of funds into metals and energy markets.

14. The impact of the rise in commodity prices on the developing countries had been varied. In the case of oil or mineral commodity exporters, the terms of trade had improved; however, that was not the case for producers of agricultural commodities because they were obliged to pay higher prices for fuel. Another problem was that the benefits of commodity earnings were not always retained in the country, owing to the tax system. Since many metal and mineral companies were foreign-owned, there was considerable repatriation of earnings.

15. The increase in South-South commodity trade and South-South investment in the metals and minerals sector was a positive development. There were prospects for an increase in food trade in fast-growing countries such as China, where the demand for meat and feed crops was expected to climb.

16. With respect to the formulation of specific commodity policies called for in General Assembly resolution 59/224, it was encouraging that the African Union had adopted the Arusha Declaration on African Commodities. There had also been a positive response to the calls for "reinforcing ... financial and technical

support" contained in paragraph 8 of the resolution. One example included the European Union All ACP Programme for agricultural commodities, in which UNCTAD was a partner along with the Common Fund for Commodities, the Food and Agriculture Organization of the United Nations (FAO), the International Trade Centre UNCTAD/WTO (ITC) and the World Bank. Finally, although the International Task Force on Commodities launched at UNCTAD XI had not come into existence, owing to the absence of financial support, certain action was being taken by partnerships and action groups.

17. **Mr. Sambo** (Nigeria) asked whether increases in oil prices generally affected the commodity markets positively or negatively.

18. **Mr. Baird** (Australia) asked whether the significant increases in the construction of commodities infrastructures, particularly in China and India, was likely to lead to marked changes in commodity market patterns.

19. **Mr. Zalaquett** (Chile) recalled that a significant number of IMF member countries had proposed using special drawing rights allocations as a way to mitigate cyclical imbalances in the world economy. He wished to know the views of the Chief of the Policy Analysis and Development Branch of the Department of Economic and Social Affairs on that proposal, especially with respect to the overall feasibility of the proposal and its potential impact on the international system of financing for development.

20. **Mr. Arda** (United Nations Conference on Trade and Development (UNCTAD)), responding to the question raised by the representative of Nigeria, said that oil prices affected the prices of commodities, both directly and indirectly, through various channels. First, high oil prices affected commodity prices by slowing world economic growth. Second, oil prices affected countries' competitiveness because they were a key factor in transportation costs. As fuel prices rose, the cost of the commodity increased. Third, certain products — such as natural fibres — competed with petroleum-based products and benefited from higher oil prices. A fourth, longer-term impact could be observed in the area of alternative products such as biofuels, which became more competitive as oil prices rose. In turn, the agricultural commodities used in the production of biofuels — such as sugar and vegetable oils — became more competitive.

21. Turning to the question posed by the representative of Australia, he said that the significant increase in the construction of commodities-related infrastructures had been instrumental in improving demand for raw materials. That demand would continue, notably in China and India, but would not have a negative impact on commodity prices.

22. **Mr. Montes** (Chief, Policy Analysis and Development Branch, Department of Economic and Social Affairs), responding to the question raised by the representative of Chile, said that, although there was currently no significant requirement for increased liquidity in the international financial markets, the proposal on special drawing rights provided an opportunity to address the broader, underlying question whether IMF had sufficient resources to deal with a capital account crisis. Discussion of the proposal should also involve discussion of the participation of developing countries in IMF and the allocation of IMF votes, which continued to reflect post-war realities.

23. **Mr. Chowdhury** (Under-Secretary-General and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States) expressed satisfaction at the successful conclusion of the recent High-level Meeting on the Midterm Comprehensive Global Review of the Implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010.

24. In the Declaration adopted at the Meeting (A/RES/61/1), the Assembly had reiterated the international community's determination to redeem the commitments made in Brussels in 2001 to address the special needs of the least developed countries. The Assembly had also recognized that the efforts of the least developed countries should be given concrete and substantial support by Governments and international organizations, and noted that the internationally agreed development goals, including the Millennium Development Goals, could be effectively achieved in the least developed countries through the timely fulfilment of the seven commitments of the Brussels Programme. It had further recognized the Cotonou Strategy for the Further Implementation of the Brussels Programme and had welcomed the Strategy as an initiative owned and led by least developed countries.

25. Although the three reports before the Committee would doubtless assist in the formulation of

appropriate policy guidance from Member States, such macroeconomic guidance would be facilitated if such reports focused more on the concerns of the most vulnerable countries, which composed a large segment of United Nations membership. He looked forward to collaborating with all concerned in order to make that possible in the future.

26. The Secretary-General's report on the international financial system and development (A/61/136) noted that multilateral surveillance and the associated process of policy coordination and cooperation remained at the centre of crisis prevention efforts, and that the international community should continue to assist low-income countries in addressing the macroeconomic aspects of the development challenge. Those efforts would be more meaningful if a special focus was given to the concerns of the most vulnerable countries, which were well articulated in the Brussels Programme, the Almaty Programme of Action, the Programme of Action for the Sustainable Development of Small Island Developing States ("Barbados Programme"), and the Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States.

27. Because of the continued increase in the number of international, regional and national regulatory initiatives, many of the most vulnerable countries were overwhelmed by multiple reform goals. It should also be borne in mind that the financial sectors in those countries were still underdeveloped, presenting serious risks to macroeconomic stability. In conducting their various midterm reviews during 2006, the least developed countries had called on the international community to ensure their full and effective participation in the global decision-making process. Consideration of the governance structure of the various multilateral institutions should result in decisions on comprehensive reform which favoured the increased participation of least developed countries.

28. Progress had been made towards increasing ODA and untying aid to least developed countries. The announcement by the European Union and other donors of their time-bound schedules for increasing ODA should further the achievement of the Brussels ODA targets for least developed countries. However, a key issue that had emerged during the midterm reviews of the least developed countries had been their continued lack of resources to finance their development requirements. That problem might be largely resolved if the donor countries met their commitment under the Brussels Programme to increase ODA to between 0.15 and 0.20 per cent of GNI. Aid effectiveness and aid predictability were two further key issues to be considered with respect to ODA levels, although some progress had been made in that regard.

29. As noted in the report, net outward transfers of financial resources from developing to developed countries had increased in 2005, with the exception of sub-Saharan Africa. However, FDI inflows into the group of least developed countries had recovered dramatically in 2003 and had increased further in 2004. Although that was a positive development, concern remained that those inflows had been concentrated in a few least developed countries. Efforts should be made to enhance non-debt-creating FDI flows to the least developed countries. The Brussels Programme had stressed that external debt overhang in the majority of least developed countries constituted a serious obstacle to their development efforts and their economic growth. All the debt of least developed countries had become unsustainable and should be written off in order to secure the desired impact on their development efforts.

30. As most least developed countries were commodity-dependent, it was of urgent importance to reach a global agreement on agricultural subsidies. Unfortunately, in view of the suspension of the Doha Round negotiations, it was not likely that the functioning of world markets for agricultural products and supportive measures for developing countries would improve in the near future. The development of the commodity sectors would therefore have to rely on commodity-specific policies at the international, national and regional levels. As noted in the report on world commodity trends and prospects (A/61/202), such policies should target producers in least developed countries. Technical assistance and capacity development aimed at improving the competitiveness of commodities producers were particularly important in that context. It was equally important that the aid-for-trade mechanisms should be pursued independently of developments in the Doha Round, with most of the resources going to least developed countries, including through the enhanced Integrated Framework (IF). Lastly, the International Task Force on Commodities should, when it became operational, address the special needs of least developed countries in the commodities sector.

The meeting rose at 1.10 p.m.