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POINT 4

MONDIALISATION ET AJUSTEMENT STRUCTUREL

AFRIQUE DU SUD

Déclaration

Mr. MBM MPAHLWA

Ministre du Commerce et de l'Industrie

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COUNCIL AT MINISTERIAL LEVEL

3-4 MAY 2005

ITEM 4

GLOBALISATION AND STRUCTURAL ADJUSTMENT

SOUTH AFRICA

Statement

Mr. MBM MPAHLWA

Minister of Trade and Industry

**South Africa's Statement to the OECD Ministerial Meeting on
"Globalisation and Structural Adjustment"
3 May 2005, Paris**

Thank you, Chair. South Africa welcomes this opportunity to share its views on the complex issues that arise in discussing globalisation and structural adjustment. My comments focus on three aspects: i) economic; ii) national and international responses; and iii) global governance.

The widely used but often ill-defined term "globalisation" has political, economic, cultural and ideological connotations. With regard to its economic policy dimensions, a most significant development has been the massive extension and deepening of markets. Integration of production is forging a single global economy characterised by intensifying competition.

Globalisation is by no means benign. Growth in international trade, FDI and financial flows has increased the impact of global markets on national economies with profound implications on their financial stability, the location of investment, and the dynamic competitiveness of manufacturing. Global competitiveness can no longer be sustained on traditional comparative advantage as the ability to compete increasingly turns on technological and innovation capacity.

Overall growth in the global economy masks a complex balance sheet of winners and losers. Many countries are marginalized from the increased flows of investment, finance, technology and trade. It is striking that despite losing share in world manufactures trade, developed countries increased their share in world manufactures income: from 65 percent to 73 percent. Conversely, developing countries more than doubled their share of global trade in manufactures from 11 percent in 1980 to 27 percent in 1997 but their share in world manufacturing income did not keep pace, increasing from 17 to 24 percent.

A significant feature of the current era has been a narrowing of government discretion over public policy. Structural adjustment programmes and strengthened trade rules combine to set parameters of government policy. Notwithstanding a relative loss of sovereignty over policy making, governments retain considerable scope to intervene in the economy to mediate the impact of the global economy and promote development. Policies must, however, take into account global markets and rules as financial markets inflict harsh discipline on countries seen to be pursuing unfavourable policies through higher risk assessment, leading to financial outflows and denial of access to new finance.

Policy interventions must respond to the changing basis of competitiveness and be geared to developing competitive markets with a clear set of consistent transparent rules. These should be designed to ensure that markets function effectively, address market failures, and to ensure competition, innovation and public interest objectives. Market forces may be central, but government performs a strategic coordinating role in production beyond ensuring property rights, contract enforcement, and macroeconomic stability. This is an issue of getting the policy *process* right where firms and the government engage in strategic coordination.

Support for launch of negotiations at Doha was based on an assessment that without negotiations developing countries would be locked in existing rules that prejudice their interests. Notwithstanding advances made in the Uruguay Round, WTO agreements exhibit a range of imbalances that prejudice their trade and development interests. Developing countries thus have an interest in strengthening the system to promote development.

The key to sustained global economic growth lies in unlocking the growth and development potential of developing countries. To achieve this, developing countries must pursue industrialization by processing their natural resources where they possess comparative advantage. The strategic objective in the new negotiations is for developed countries to undergo structural adjustment and allow relocation of investment to developing countries that possess comparative advantages in specific areas. The existence of an 'overhang' of capital in developed economies is the basis for resource transfers, if production possibilities are opened in the developing countries. Such structural adjustment would give impetus to a new round of global economic growth.

The Financing for Development Conference forged an agreed, balanced agenda to guide efforts at strengthening the global financial architecture to support development. Three elements stand out in the Consensus: i) developing countries must participate in decision making if they are expected to implement outcomes; ii) debt relief must be pursued vigorously for the most indebted; and iii) ODA should be increased, demand driven, and may also focus on boosting trade capacity while cushioning adjustment costs.

The outcome of the World Summit on Sustainable Development advanced these broad objectives by providing a renewed political commitment to the objectives of sustainable development. In drawing together the outcomes of previous conferences, the Summit agreed that sustainable development required: i) fair access to Northern markets; ii) instruments to manage adjustment costs of reform in the South; iii) measures to stabilise international financial flows, and encourage FDI in developing countries; iv) debt relief; v) improving the quantity and quality of ODA; and vi) more democratic multilateral agencies.

The African continent is undergoing important changes in governance. In the past five years, more than two-thirds of the countries in sub-Saharan Africa have had multi-party elections. The Organisation for African Unity has been transformed into the much stronger African Union and the New Partnership for Africa's Development (NEPAD), which sees better government as an essential pre-requisite to Africa's development.

These efforts need to be supported at the multilateral level. Multilateral governance represents the most appropriate inter-governmental and institutional policy response to globalisation and interdependence. However, as imbalances in the global economy are perpetuated by imbalances and deficiencies in the systemic "rules of the game", it is imperative to reform multilateral governance structures to ensure greater equity. Democratic decision-making in the multilateral institutions is an essential ingredient to ensuring that globalisation is legitimised in the eyes of the international community. These actions, taken together, should advance the objectives set out in the Millennium Development Goals.