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President's summary

Interdependence: Addressing trade and development challenges and opportunities after the global economic and financial crisis

(Agenda item 4)

1. Under this agenda item, the Trade and Development Board reviewed the state of the world economy and pending challenges. Many countries had recovered quickly from the initial effects of the crisis, but great vulnerability remained. Momentum for decisive action had been lost and there was a risk of lapsing into business as usual. Re-evaluating the role of the State and reforming the international economic architecture were paramount. Re-regulation and strengthened supervision of the financial sector were directly needed for global stability.

2. Regarding policy implications, the debate focused on five issues:

(a) Many countries' current high public debt to GDP ratios resulted from the crisis, rather than being its reason. Long-term debt consolidation should be attained through rapid growth, rather than debt deflation, hyperinflation or demand-dampening premature fiscal austerity measures. Specific growth policies had to be supplemented by monetary and financial policies that kept long-term interest rates below GDP growth rates;

(b) Widespread adoption of incomes policy, required to spur domestic demand through consumption, would necessitate moving away from a business model focused on maximizing shareholder value. Alternatives would include tax policy focused on raising disposable income and widespread adoption of minimum wages, combined with wage rules related to productivity growth;

(c) Recent price volatility in commodities was due mainly to financialization, which had led to speculation, much more than was due to supply and demand. Greater transparency and regulation were needed. Increased investment, with adequate and appropriate support, was considered key for sustained supply expansion;

(d) The sustainability of current-account imbalances was determined less by their size than by how they were financed. Real exchange-rate appreciation in surplus countries could help unwind imbalances without triggering global deflation;

(e) International trade was subject to rules while exchange rates evolved in a "non-system". UNCTAD's proposal for multilateral rules-based managed floating would be one option for reform.

3. Speakers agreed that moving out of the current crisis required the coordination of growth-enhancing macroeconomic policies. Experience from Argentina since 2003 highlighted that a number of monetary and fiscal policy reforms could be used to stimulate growth. In the longer term, attaining sustained inclusive growth was crucial. The G-20 process had so far had only modest outcomes. Given its universal membership and integrated mandate, UNCTAD was continuing to play an important role in consensus-building regarding global interdependence and the interrelated issues of trade, investment, finance and development.