Statement by
Supachai Panitchpakdi
Secretary-General of UNCTAD

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Excellencies,
Distinguished delegates,
Ladies and Gentlemen,

First of all I would like to thank you for inviting me to speak at the IPU Assembly, particularly as this brings me back to my home town, which always gives me great pleasure. Last year I spoke to you about some of the pressing global challenges arising from the financial and economic crisis. My speech focused mainly on the short-term needs of countries to stimulate demand, revive trade, and protect vulnerable sections of society exposed to the effects of the crisis but in no way responsible for it.

Today, in the post-crisis context, I would like to elaborate on the issue of recovery, the danger of sliding back to "business as usual" and the need for systemic reform of international finance and economic governance. This will be necessary not just to achieve sustained economic growth but to break with the pattern of rising economic insecurity and inequality that was a prominent, but insufficiently discussed, feature of the boom and bust era.

Rahm Emanuel, President Obama’s Chief of Staff, pithily observed last year that “you never want a serious crisis to go to waste”. The message I would like to leave you with is that the crisis provides a rare opportunity to forge a more balanced and inclusive global economy through two channels: measured government intervention and strategic policy action at the national level, and through better coordinated and more inclusive economic decision making at the international level.

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Looking back at the crisis from the perspective of 2010, we can see that markets were not in fact self-regulating - the accepted orthodoxy of the last 30 years: in the event, they needed considerable support from government and by extension tax payers. What took place in 2009 therefore, was a massive socialisation of the costs of imprudent financial behaviour. Risk was transferred from the private sector - which could no longer shoulder its own risk exposure - to governments and ultimately the taxpayer. The financial crisis threatened people's jobs and jeopardized their savings, leading to a social crisis that in the most vulnerable countries also deprived people of nutrition, education and health opportunities. The aftershocks from the crisis have also had an impact on the political stability of several countries.

The crisis itself was triggered by the bursting of a series of bubbles first in real estate, then in commodities and finally in financial and credit markets themselves; the second round effects of the crisis created widespread unemployment, wiped out the last three years of global GDP growth and forced an additional 100 million people into poverty. Such instability has exposed the danger of basing growth on unsustainable levels of debt and came close to undermining the sovereignty of governments, several of which are now facing critical levels of debt themselves.

Governments had no choice but to pick up the bill. Despite criticism of government action in recent years, it remains the only agent with a systemic view of the problem, and which can act with system-wide effect. The unprecedented level of government intervention and coordination across the major economies in 2008/9 helped to staunch the financial haemorrhaging and kick-start a recovery. Indeed, policy makers, financial analysts and media pundits all appear to be heartened by the news coming from different parts of the world that the worst is over. However, what is particularly worrying to me is the creeping return to "business as usual". The chatter surrounding stock options and asset prices is back at levels heard before Lehman Brothers toppled. At the same time, talk of reforming the financial sector, particularly at the international level, has become a good deal more muted.

UNCTAD strongly believes that the crisis could have been prevented if there had been stronger governance mechanisms to regulate financial innovation and the build up of various imbalances at both the national and international levels. Moving forward on this reform agenda to create a new pattern of balanced and sustainable growth will require bold thinking. Parliamentarians can, I believe, play a pivotal role in this regard.

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Rarely in history have there been concerted efforts to imagine an alternative long-term development path for the global economy and to establish institutions and rules to bring it to fruition. The creation of the Bretton Woods institutions was certainly one such moment, and its architects gave to it a strongly Keynesian design covering the interaction of monetary and fiscal issues, employment creation and trade flows. The emergence of a series of UN development bodies, including my own, in the early 1960s was another such moment, and perhaps the establishment of the WTO in 1995 was the last.

UNCTAD has long advocated a multilateral approach to international finance. The principle that well-defined multilateral rules, with a transparent and fair arbitration process to adjudicate on the infringement of those rules by all players, underpins an open and stable economic system and is orthodoxy in the WTO. Yet the same thinking is somehow regarded as anathema when applied to the financial system.

Beggar-thy-neighbour policies on currency depreciation are tantamount to protectionism, and indeed can have a far more distorting effect than tariffs.

In the same way as intended by multilateral trade rules, a well-designed global financial system has to create equal conditions for all parties involved and help to avoid unfair competition. Avoiding competitive depreciations and other monetary distortions that have negative effects on the functioning of the international trading system is more important in today's highly interdependent world than at any other time in history.

Instability in international currency and financial markets is the result of unregulated international financial activities and clearly cannot be remedied by national policies alone. Therefore, apart from strengthening national and international frameworks of financial regulation, it is also imperative to provide for an institutional framework for better international coordination of financial regulation and supervision. Equally important is to reshape international monetary arrangements that help avoid the build-up of large current-account imbalances and their counterpart, large unbalanced asset positions across countries. Such an agreement would hopefully address the current potential for regulatory arbitrage, which under a system of loosely coordinated national policies, makes a mockery of efforts at financial system reform.

The realization that in a globalized world "shocks" emanating from one segment of the financial sector of one country can be transmitted rapidly to other parts of the interconnected system, including those countries with only weakly developed financial sectors, raises some fundamental questions about the wisdom of global financial integration of developing countries in general.

The experience with the current financial crisis calls into question the conventional wisdom that dismantling all obstacles to cross-border private capital flows is the best recipe for countries to advance their economic development. This has been part of mainstream economic advice since the 1980s.

While it is agreed that global finance has caused the current crisis, there is still a good deal of resistance to reforming the global financial architecture. Debates about reform focus primarily on improving national prudential regulation and supervision of financial players of systemic importance. These are important issues. But the experience of this financial crisis also supports the case for a more fundamental rethinking of global financial governance with a view to stabilizing trade and financial relations by reducing the potential for gains from speculative capital flows.

One problem that has received renewed attention is dependence on the United States dollar as the main international reserve asset. Against this background, a proposal first discussed in the late 1970s has recently resurfaced. It argues for facilitating reserve diversification away from dollars without the risk of a major dollar crisis by giving central banks the possibility to deposit dollar reserves in a special "substitution account" at the IMF, denominated in SDRs. These SDRs could also be used to settle international payments. Indeed, in response to the increased needs for international liquidity in the current financial and economic crisis, the G20 at its London Summit in April 2009 announced its support for a new general SDR allocation, which would inject $250 billion into the world economy and increase global liquidity.

The large reserves which have been accumulated by developing countries over the past 10 years, and being held as a form of insurance against reversals in capital flows, now represent a considerable opportunity cost for development: China's reserves amount to US$ 2.3 trillion and developing countries in general hold roughly three quarters of all foreign reserves. It would be more efficient and potentially safer if the reserve system could use a currency not specific to any country, namely SDRs.

Additionally, the time has come to seriously rethink governance reform at the IMF, so that it can focus most properly on what its founders intended: the avoidance of contractionary macroeconomic responses to financial shocks and instability. If it is to have a strengthened role in reserve currency management, it should remove itself from other areas, such as development finance and poverty reduction, which serve only to clutter and confuse its mandate. The IMF should also strengthen its oversight and surveillance functions so that it is in a better position to warn of crises such as the one we are currently experiencing. In any reform of the international financial institutions, or any institutions governing economic activity for that matter, it is imperative that the composition of committees and supervisory boards reflects a diversity of economic views.

One of the criticisms levelled at both the IMF and the Financial Stability Forum (now Board) was that the similarity of intellectual backgrounds of members led to a convergence and even reinforcement of opinion, which failed to foresee the coming crisis. Instead of voices pulling in different directions to test views and policy recommendations, a kind of flocking emerged which proved nearly fatal for the global economy. It should, however, be said that there were several voices that did raise concern about the crisis and how it could be avoided, not least in UNCTAD, which has been analysing global imbalances since as early as 2004.

Another development which we have seen in response to the deficit of governance at the global level is increased cooperation at the regional level, particularly in the South. Regarding financial integration, the strengthening of the Chiang Mai Initiative has helped maintain confidence in regional currencies and financial systems. It has also provided liquidity and a Swap facility for currencies between members of the ASEAN + 3. Following the 1997/8 Asian financial crisis, countries in the region took an explicit decision not to be reliant on the IMF or its policy conditionality. The development of the Chiang Mai Initiative therefore has important implications for global economic governance and for other emerging and developing economy regions, such as Latin America, where experiences could be shared.

Compared to the current reserve holdings in many Asian countries, however, the Chang Mai Initiative seems small: to increase the impact of regional financial cooperation, it will be necessary to expand the Swap facility, strengthen regional financial markets and eventually to coordinate currency movements. Ultimately, Asia could move towards deeper financial integration, including monetary union. Deeper integration could also involve the foundation of a new regional investment bank, along the lines of the European Investment Bank, which would more efficiently link reserves to regional infrastructure development and help accelerate economic convergence.

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Today, after almost three decades of allowing unregulated finance to drive the global economy, there is an urgent need to rethink long-term economic development.

Moreover, it is now imperative that economic development be linked to a series of additional and interrelated threats, including climate change, energy and food security. Yet, the existing multilateral system appears to be straining to deal with these interrelated challenges, as we witnessed in the climate talks in Copenhagen. Even multilateral trade negotiations under the Doha round are forcing countries to rethink the value of international trade agreements relative to regional or bilateral initiatives, not just North-South but increasingly South-South.

The financial and economic crisis has changed the landscape of economic policy and presented one of those rare occasions when a new direction could be taken. The measures implemented so far, with regard to bonuses, prudential regulations and taxation, whilst welcome in the current economic climate, are really no more than window dressing. What is needed is deeper reform of the existing financial architecture, and new modalities of cooperation.

By expanding the G8, an important step has already been made towards greater policy coherence and cooperation, but we should not forget about the rest of the world. A truly inclusive multilateralism must be based on the G192, the number of all member states of the UN. Some regions, such as Europe, have already gone through their own integration process and understand the need for smaller countries to have a voice. Asia and other regions are now moving in that direction. The future stability of the international financial system, and the prosperity that such a system can help deliver, depends on the inclusion of all countries in the decision making, monitoring and regulatory architecture.

If an interdependent world is not to be a zero-sum game, then international policy must be more than the summation of national and regional interests. But to be truly effective these actions must be based on a level of trust across the whole international community. Global trade talks and climate negotiations suggest that the deficit in trust poses a very serious challenge at a time when an effective multilateral system is needed more than ever.

I do not, I think, need to underscore to this gathering the general virtues of open, participatory systems in building trust and solving difficult problems. And to do so in an inclusive way which has been at odds with the political culture that has grown up in recent years around the financialization of economic and social life. This will, first and foremost, have to proceed through national parliamentary actions. But it is imperative if a more open and democratic system of global economic governance is to emerge that parliamentarians carry this agenda to the international level as well.

Thank you for your attention.