

Statement by the Secretary-General of UNCTAD

First Session of the Multi-Year Expert Meeting on
“Enhancing the Enabling Economic Environment at all Levels in Support
of Inclusive and Sustainable Development”
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AS PREPARED FOR DELIVERY

Excellencies,
Distinguished delegates,
Ladies and gentlemen,

It is a great pleasure for me to welcome you to the first session of UNCTAD’s Multi-Year Expert Meeting on “Enhancing the Enabling Economic Environment at all Levels in Support of Inclusive and Sustainable Development”. This first session is entitled “Prospects for building resilience to external shocks and mitigating their impact on trade and development”. It aims to achieve three objectives:

Firstly, it aims to enhance our understanding of the various forms of external shocks and the channels through which they affect trade and development. Secondly, we would like to identify concrete policies and measures to build resilience to such external shocks, and to highlight the role of an enabling economic environment in effective resilience. Finally, this meeting can enhance our understanding of how statistics can help to design policies to build resilience.

Ladies and gentlemen,

The global repercussions of the financial crisis are a stark reminder of the economic interdependence in our globalizing world. No country was spared by the shock waves that originated in the financial systems of

developed economies. Transmitted through both trade and financial channels, they led to an economic slowdown in most countries, and even outright recessions in others. These recent events call for a thorough examination of the different kinds of possible shocks to the external economic environment and the channels through which they spread. We also need to better understand the factors that determine countries' vulnerability to such shocks, and how we can strengthen the resilience of different economies.

The background paper discusses a number of different external shocks, as well as the measures taken by different countries to build their resilience.

Perhaps the most obvious case of an external shock is that of a financial crisis, such as the Asian financial crisis, or the most recent global financial crisis. These shocks have demonstrated that countries need to build resilience against the shortcomings of our international monetary and financial system. The most pertinent shortcoming for the purposes of this meeting is its failure to avoid a disorderly expansion of short-term capital movements, which have been a major factor in creating economic instability. Partly as a result of the experiences of the Asian Financial Crisis, many developing countries have built up their resilience and are in a stronger position today to withstand shocks originating in international capital markets than in previous decades. Lower debt-to-GDP ratios and improved debt management have been contributing factors in this resilience. But the most important factor in shielding these countries from the volatility of capital flows has likely been their accumulation of foreign-exchange reserves. However, reserve accumulation as an insurance against the instability of capital markets is a

costly policy measure, and one that is always second-best to multilateral measures to better regulate these markets. Furthermore, not all countries have been able to build up such a "war-chest". Indeed, some countries are now left with little reserves to cope with future needs that may arise in international financial markets, making them more vulnerable to external shocks.

A second external shock that has recently affected many developing countries is the sharp slowdown in demand for their exports in the developed markets after the recent financial crisis. In the decade preceding the crisis, many developing countries were able to benefit from a trade-led expansion, allowing them to achieve growth rates that were sometimes 4 or 5 percentage points higher than those of the developed world. This resulted in a significant shift in the balance of the world economy, with developing countries accounting for a growing share of trade, GDP and growth, and led some pundits to argue that we were about to witness a "de-coupling", which would see developing countries continue to grow despite the unsatisfactory performance of developed countries.

However, prospects in the developing world remain heavily influenced by the growth dynamism and in the developed countries. To the extent that developing countries continue to rely on exports to developed countries as their key growth driver and have to cope with unfettered capital flows generating boom and bust cycles, their economies will remain vulnerable to shocks to their external economic environment.

Most forecasts predict that the current difficult external environment is likely to remain for the near future, with only a slow

recovery towards a weak growth path in advanced economies. This suggests that developing and transition economies will need to reduce their export orientation to developed economies if they want to continue to grow and increase their resilience to external economic shocks. Instead, they will need to rely more on domestic, regional and South-South trade. Thus they will need to adapt their development strategy in order to strengthen resilience.

Once again, coordinated measures at the multilateral level to expand global demand would be preferable. For example, increasing domestic demand in advanced countries with a current account surplus would stimulate global demand while helping to reduce global imbalances. This would be preferable to the current process of global rebalancing, which is being led by demand compression in deficit countries, accentuating the risks of a global economic downturn.

These are only two examples of significant external shocks that developing countries are vulnerable to. I am sure that your deliberations will cover many others as well.

Identifying external shocks and mitigating their impact on trade and development requires the availability of statistical tools that capture the growing interdependence of national economies. Among the many measures that are available, the terms of trade is a key indicator of the impact of external shocks, especially in countries with a high share of external trade relative to GDP. UNCTAD has been particularly active in this area, pursuing the development of more disaggregated terms of trade figures by estimating the contribution of different product groups to changes in the terms of trade.

Ladies and gentlemen,

All of the issues I have just mentioned require the attention of policymakers. I hope that this meeting can contribute not only to a better understanding of the problems, but also help in finding solutions. I wish you all very fruitful and productive deliberations over the next two days and I look forward to their outcome.

Thank you very much.