Sixty second session of the Trade and Development Board

Interdependence: Financialization and macroeconomic fragility in the global economy (Item 3)

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Opening remarks for the Deputy Secretary-General of UNCTAD

AS PREPARED FOR DELIVERY

Mr. President,

Distinguished Delegates and Panelists,

Ladies and Gentlemen,

It is already been seven years since the outbreak of the world financial and economic crisis. But the world economy is not yet out of the crisis. Growth remains sluggish. Global output is expected to expand by about 2.5 per cent in 2015, roughly the same rate that has prevailed since 2011. Volatility persists. Employment rates have not picked up. The road to FDI recovery remains bumpy and trade is now growing at a lower rate than global output.

The world economy is not yet out of the crisis. In fact, the crisis seems to have entered a third phase.

During the **first phase** of the crisis, virtually all countries enacted policies to avoid the implosion of the financial system and mitigate economic recession. Twin fiscal and monetary policies were successful in that respect.

During the **second phase**, we witnessed diverging paths in developed and developing countries. As early as 2010, developed economies shifted towards fiscal stringency to restore the confidence of financial markets, relying on monetary policies to support economic activity. At the same time, developing countries maintained counter-cyclical policies, providing the engine for global demand and the hope for recovery.

Today, we seem to be going through a **third phase** of the same crisis: Declining commodity prices have affected trade and fiscal balances in many developing and transition economies. In addition, reversed capital flows have often led to currency depreciation and monetary tightening. External debt may once again become a serious problem.

On the other hand, most developed countries have benefited from gains in the terms of trade. But no one is anymore immune to economic slumps in the developing world, especially in emerging countries.

In its Trade and Development Report, UNCTAD has highlighted a number of ideas that, in my view, remain highly relevant to address the challenges of this new phase. I would like to mention three of them.

1) The first idea is related to interdependence.

Although individual countries may implement (and need to implement) supportive policies at the national and regional levels, these policies should be consistent with international economic recovery. For instance, the strategy of limiting domestic demand and growing through exports will be self-defeating if followed by many trading partners at once. It would only aggravate the weakness of global demand -- the main factor hindering economic recovery.

International trade cannot be an autonomous source of growth: external demand to one country is the domestic demand of another country, and vice-versa. Domestic demand and international trade will recover or stagnate together.

All countries can, and should, improve efficiency and productivity to improve the livelihoods of their people. But all cannot improve their relative competitiveness at the same time. In particular, currency wars are fights with no winners.

2) The second idea is that policymakers should avoid false dilemmas. They must resist the temptation to oppose demand and supply policies, or structural and short-run measures.

To be clear, the crisis revealed many shortcomings on the supply side; recovering growth will demand investment and structural change. But this process cannot take place without sustained recovery of demand. In addition, to be sustainable, demand recovery cannot rely on ever-expanding debt and asset bubbles. It must rely on rising wages.

And structural changes are not only related to the supply side of economies. They are also related to the demand side, which rests on income and redistribution policies. We need to reverse the growing inequality we have witnessed for over 30 years now.

3) This leads us to the third and last idea I would like to highlight today: addressing the causes of the crisis.

Short-term measures to mitigate the effects of the crisis should be consistent with long-term goals. This requires using fiscal tools to recover demand and monetary tools to restore confidence to financial markets.

It also requires introducing new tools, the most relevant of which are income and industrial policies. Growth and development must be restarted on new foundations if we are to avoid secular stagnation. To this end, we must address fundamental causes of the crisis: the economic policies, including in relation to financial sector that spawned asset bubbles.

I would like to stop here. Not because we do not have any more ideas in UNCTAD, but because we want to listen to our distinguished panelists, as well as delegations.

I wish you a productive session and thank you very much for your participation.