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Item 4 – Interdependence
Item 8 – Development Strategies in a Globalized World

**Speaker: Statement by Indonesia on behalf
of the Group of 77 and China**

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Statement of the Group of 77 and China
59th Session of the Trade and Development Board
Agenda Item 4 – Interdependence
Agenda Item 8 – Development Strategies in a Globalized World

Mr. President,
Excellencies,
Distinguished Delegates,
Ladies and Gentlemen,

Mr. President.

1. These discussions today on agenda items 4 and 8 are particularly important given that we are embarking on the implementation of the Doha outcomes, as well as beginning our contemplation for two important processes ahead – the preparations for UNCTAD's 50th anniversary and the MDG review in 2015. Both events are unique opportunities for UNCTAD to make a meaningful and profound contribution to the global discourse on development, and to bring back the debate to the basics, and the importance of addressing the economic fundamentals of development. We therefore underscore the importance of focusing on our substantive deliberations.

Mr. President.

2. The focus of the panel this afternoon on agenda item 4 is especially important: coordinating stimulus for global growth. Recent events have caused considerable concern, with key economies advocating and pursuing pro-cyclical policies including active measures to curb public-sector spending and expansionary economic policies. How this will stimulate growth and help boost recovery in developed countries is beyond our comprehension, but the experience of developing countries in this regard is not very encouraging, and one reason for the demise of the credibility of the Washington Consensus.
3. It is therefore rather worrying that the call of the Group of 77 and China to ensure that countries have the appropriate policy space, to pursue appropriate and effective policies, to address their own unique priorities, challenges, and circumstances, now seem to resonate with some countries that at least pronounced themselves uncomfortable with the concept. In view of the now evident importance of policy space for countries on all sides, UNCTAD may consider taking a deeper look at policy space and how it can be best operationalized by all countries, developing and developed alike.

4. This is particularly important for developing countries. While some developing countries fared relatively well because of their pursuit of, among others, expansionary counter-cyclical policies, they remain vulnerable to external shocks and if they strike, and if rescue is needed, massive state-bailouts are not an option for most countries of the South. They will then be vulnerable to external institutions which may not fully appreciate the benefit, value, and effectiveness of counter-cyclical policies and an important role for the state.
5. This is not a call for central planning or alternative economic systems, but rather a rational and pragmatic recognition of today's economic realities and what has worked for development and developing countries. It is therefore important to continue pursuing analytical work on the role of the state, and related to this pursuing new models and approaches to development that provide sufficient flexibility for countries to adopt policies that work for them. Such approaches to development include mobilizing private investments as a means of overcoming public financing gaps in strengthening the development-related infrastructure of developing countries through public-private partnerships. We have every confidence in UNCTAD and in its ability to find solutions that work for developing countries.
6. One area that merits serious attention, and an area of focus in our work towards Doha, was with regard to pursuing more inclusive development. In this regard, we have observed that several regions and groups of countries have seen an increase in income inequality since the 1980s. This trend towards greater income inequality has coincided with a broad reorientation of economic policy.
7. Developed countries abandoned their previous policy approach, which was focused on sustaining growth while creating jobs and maintaining real wage growth, based on the belief that this approach could not solve the problem of stagflation that had emerged in many developed countries in the second half of the 1970s. This general reorientation involved a change in macroeconomic policies with monetary policy giving almost exclusive priority to fighting inflation.
8. The resulting sharp increase in interest rates triggered the debt crisis of the 1980s whose effects threw many countries in Africa and Latin America into economic stagnation and depression and seriously increased income inequality on these countries.
9. The rise in income inequality in Asia is a more recent phenomenon and has been linked to rapid economic growth that lifted all boats but to different degrees. By contrast, recent rapid growth in Latin America has been accompanied by a decline in income inequality.
10. These different experiences indicate that the relationship between economic growth and income distribution is complex and influenced by various factors. These factors unleash forces that may well pull in opposite directions, and the strength of these forces is likely to depend on country-specific and time-bound factors.
11. This year's *Trade and Development Report* suggests that inclusive growth will require investments in productive capacity and a stable expansion of consumption based on both positive demand expectations of entrepreneurs and

favorable income expectations of the working population. Inclusive growth further requires active employment and redistribution measures, supportive macroeconomic, exchange rate and industrial policies that promote productive investment and create decent jobs.

12. The shifts in income distribution over the past three decades occurred in parallel with accelerating trade and financial flows, the spread of international production networks and rapid technological change. Together with the increase in developing countries' integration into globalized trade and finance, these flows have affected distributional outcomes through changes in production structures.
13. In the rapidly industrializing developing countries in Asia, labour has moved from low- to high-productivity jobs, especially in manufacturing, while in Latin America and sub-Saharan Africa labour has moved in the opposite direction towards jobs in informal services and the production of primary commodities.
14. While this process of de-industrialization in some regions could raise concerns, it is not necessarily detrimental to income distribution. The recent experiences in Latin America suggest that an improvement in the terms of trade can accelerate the pace of capital accumulation and the building of domestic productive capacities. Public expenditure and general government policies can help support the creation of employment and wage opportunities by developing linkages between export-oriented primary sectors and the rest of the economy.
15. A country's actual income and fiscal gains and losses from changes in the terms of trade are mediated through rent sharing with transnational corporations, and associated profit remittances. There is a fundamental need to achieve the right balance between the objective of generating income from the exploitation of natural resource endowments with the help of foreign direct investment (FDI), on the one hand, and government appropriation of a fair share of the rents accruing from the higher prices in the extractive industries, on the other. There is a need to mobilize and channel investments in support of sustainable development objectives.
16. It is therefore evident that this complex mix requires sharper analytical tools, and a broader range of policy options, if developing countries are to fully maximize development gains from their participation in the global economic system.
17. We look to UNCTAD to continue stimulating a wide range of discussions within UNCTAD through its analytical work, as well as its ability to convene and stimulate discussion and deliberation, resulting in work for the benefit of developing countries.
18. We therefore look forward to increasingly focused analysis as well as events as we move closer to the 50th anniversary celebration of UNCTAD, and as we work towards contributing to the global review of the MDGs in 2015.

Thank you Mr. President.