

11th UNCTAD Debt Management Conference

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Keynote Speech

delivered by

H.E. Ms. Inga Rhonda King

Permanent Representative of Saint Vincent and the
Grenadines to the United Nations and Vice-
President of the ECOSOC

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.



KEYNOTE SPEECH

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**Permanent Representative of Saint Vincent and the Grenadines
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On the Occasion

of the

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Mrs Durant [Deputy Secretary-General of UNCTAD]

Mr Kozul-Wright [Director of the UNCTAD Division on Globalization and Development Strategies that is in charge of this conference]

Excellencies, Distinguished Delegates and Participants,

I am pleased and honoured to deliver the keynote speech at this important event. UNCTAD's Debt Management Conference is the largest such conference in the world, bringing together academic experts, high-level policy-makers and practitioners of debt management, civil society representatives and the private sector to discuss one of the most pertinent current economic topics to affect not only developing countries, but the global economy as a whole: How best to manage debt – in all its increasingly complex forms – as a financing instrument for transformational development?

The science of economics plays a central role in shaping the activities of the world as we know it. Our discussions this week will endeavor to go “Beyond business as usual”, which must necessarily include challenging some of the assumptions upon which these activities rest. You may recall that Albert Einstein once said “*we cannot solve our problems with the same thinking we used when we created them.*”

Most of us are now of the view that climate change is real, the evidence is overwhelming. We have come to appreciate, at least intellectually, what Gandhi concluded many years ago that the *“Earth provided enough to satisfy every man’s need, but not for every man’s greed”*. Similarly, the German Economist, E. F. Schumacher suggested, in the seventies, *“There can be “growth” toward a limited objective, but there cannot be unlimited, generalized growth.”*

The little book entitled *“The Collapse of the Western Civilization: A View from the Future”* by Oreskes and Conway suggests that those who must look back and make sense of this period that preceded the collapse would have to conclude that this was an era, the first in the history of mankind, in which *“knowledge did not translate into power”*.

The financial crisis resulted in the disintegration of the intellectual framework that undergirded it. Still, for the most part, many are pretending nothing has really changed.

Criteria of success or failure, systems of values, standards of consumptions and behavior patterns are modeled by the developing world after the developed world. One result is increasing indebtedness and perpetual dependency of the developing on the developed.

Debt has become the main driver of global economic growth over the past decade or so: Exuberance of debt-issuing drove us into the global financial crisis of 2007/08. Since then, the record level of global stocks of debt reached at the onset

of this crisis – USD 142 trillion – has been surpassed by over USD 75 trillion by the end of 2016. Much of this debt stock is held by advanced country governments and their positions in international financial markets – as should be, to encourage a post-crisis recovery. Yet, such continued dependence on debt for global growth is also a reflection on the profound systemic instability of the global economy and its governance structures, and of the absence of concerted policy action to stimulate global demand in a sustainable, balanced and productive manner.

This instability, and the associated vagaries of a post-crisis recovery of the global economy, are, by now, having a profound effect on many developing countries: We witness growing incidences of financial distress in all types of developing economies: In large emerging markets, the largely uncontrolled growth of private corporate debt is setting off alarm bells, having reached over 140 per cent of combined GDP in 2016. In smaller and poorer developing countries, the issue is rather how sovereign debt sustainability will be, or already is being, affected by their fast-growing exposure to high market risks, following their fast integration into international financial markets and a series of external shocks, ranging from prolonged negative commodity price shocks to environmental disaster.

This is the broad global economic context in which we meet here to debate ways in which our countries can make responsible use of debt – external as well as domestic – as a financing instrument for transformational and sustainable development. There are, therefore, many challenges that we, as developing countries, will have to meet, in cooperation with the wider international community, of which we are part.

Allow me to highlight some of these challenges here, that are of direct concern to my own region, the Caribbean Community (CARICOM), but also to many other middle-income developing countries.

The global economic slowdown that has taken place since the global financial crisis of 2007/08, and the fragility of global economic growth that I have just mentioned, has highlighted the limits of a development agenda that is narrowly focused on economic growth. This less favorable external environment for catching-up development, driven by economic policy decision-making in advanced economies, and its negative impact on all efforts to promote sustainable development, has also drawn renewed attention to two sets of issues faced by middle-income countries.

First, the so-called middle-income trap. While there is no clear or widely shared definition of this term in the relevant literature, this refers to the phenomenon that developing economies have made progress in poverty reduction to the point of being classified as middle income countries and, subsequently, experience prolonged periods of economic stagnation, without necessarily being clear about what the reasons for this are.

Second, the increasingly obvious pitfalls of assessing development on a Gross National Income (GNI) per capita basis at the cost of disregarding broader social, environmental and human dimensions of the process of development.

The result is a paradoxical situation in which middle-income countries that are highly vulnerable, for example: to environmental disasters, to precarious public services or, that rely heavily on agriculture and tourism as their main source of foreign exchange income, are overlooked in the provision of concessional lending by the international community.

It is a well-known fact that even though many countries have managed to make the leap from low-income to middle-income — usually situated somewhere between 5.000 and 10.000 USD GNI per capita — only a handful, mostly located in East Asia, have been able to make it into the high-income category. According to the World Bank, middle-income countries encompass a very wide range of economies, including some very poor, Sub-Saharan, commodity exporters as well as relatively wealthy member states of the European Union.

These countries have little in common, other than their classification as middle-income economies. But what is striking, as pointed out in UNCTAD's Trade and Development Report of 2016, is that these countries show no more signs of further convergence to the performance of high-income countries, once they have surpassed the threshold to the middle-income category. That is to say, they face a “relative income trap”, as some economists have labelled the observation. When compared to income levels in the world economic lead countries, middle-income countries face persistent obstacles to narrow the gap and catch-up further.

What are the reasons for this?

A key part of this challenge is the ability to switch from a model of promoting economic growth based on the accumulation of core factors of production, such as labour and capital, to one that is based on growing efficiency in the use of those factors of production. That is, from an input-led model of growth to one that places productivity increases and innovation at its center.

What the few developing economies that have managed to escape the middle-income trap and move on to higher income shores have in common is a successful process of structural transformation. This involved the development of a domestic manufacturing sector and associated learning skills, growing levels of domestic value added combined with a strong investment drive in both the private and public sector. Private sector investment was decisive in reaching levels of competitiveness required to succeed in the global economy, while public sector investment secured the educational, social and physical infrastructure that nurtured this dynamic process of catching-up development.

The challenge faced by many middle-income countries is that their growth trajectory has not allowed them to promote such structural change successfully and persistently. In some cases, it was the commodity-price boom of the early 2000s that supported their economic growth and their graduation to middle-income status. But the price paid was increased dependency on commodity exports and high vulnerability to external shocks emanating from commodity markets they do not control. This, of course, is what happened since around 2014. In most middle-income countries, a narrow focus on fiscal indicators — part of

the package of global economic policy wisdom that sees fiscal expansion as threat to stability rather than a long-term and necessary means to achieve this — has led to systematic underinvestment in the social, educational and physical infrastructure required to facilitate private investment in competitive and innovative manufacturing production and wider development needs. Thus, GNI per capita levels have increased, but this has so far failed to be reflected in the living standards of millions of people, who continue to struggle to access basic public services.

These dynamics are clearly present in the Caribbean region. Even though most of the countries in the region are considered middle- and high-middle income countries, recent economic performance shows a troubling picture. Over the past three decades, GDP growth for the region has steadily slowed down from close to 4% annually in the 1980s to closer to 1% in this decade.

This downward trend is very obviously caused by the high external vulnerability of countries in the Caribbean. Their profile of economic specialization, based on tourism, financial services and commodity exports, made them especially vulnerable to the difficult global economic environment observed since the crisis. In addition, the impact of natural disasters associated with climate change has imposed a significant burden on the region. It is estimated that since 1980, natural disasters have cost the region an average of 2.2 per cent of GDP every year. The capacity of Governments in the region to deal with these dynamics has been impaired by high and growing levels of public debt, contracted, in the first

place, to address the manifold challenges arising from structural transformation, climate change and a lack of multilateral financial support.

The ensuing tradeoffs in terms of an effective allocation of public resources have long-term consequences. Given the regional income levels, impacts in terms of life expectancy, child malnutrition, average schooling years and depletion of natural resources are better than might be expected. However, this is offset by negative impacts in terms of youth unemployment which is significantly below what should be expected, given their levels of income. The homicide rates are also cause for concern.

An area of special concern is the high level of environmental vulnerability present across the region. According to the UN Environmental Vulnerability Index (EVI) most of the countries in the region are considered extremely or highly vulnerable. Their capacity to invest in climate change adaptation and develop a resilient infrastructure is simultaneously limited by their high levels of public debt and their “graduation” to middle- income status which, effectively, makes them ineligible for immediate and efficient financial support from multilateral sources.

The current approach to the provision of Official Development Aid (ODA) and concessional lending, based on GNI per capita levels, creates additional artificial obstacles to countries making the transition from low income to middle income status. As countries graduate to the middle-income category, international support steadily vanishes despite the fact that their population continues to face many of the same social, economic and environmental challenges as before. A

clear example of this dynamic can be observed in the case of ODA for climate change purposes. Despite the fact that Caribbean countries are amongst the most environmentally vulnerable in the world, they currently receive a very small share of these resources mainly because of their GNI per capita levels.

Similar observations can be made with regard to concessional lending. Despite the high levels of public debt present across the region — the region's average debt-to-GDP ratios reached 77.7% in 2016 and are much higher in some countries — and despite high costs imposed by natural disasters, most of the countries in the region are barred from accessing lending in concessional terms. For example, only 6 countries in the region (Dominica, Grenada, Guyana, Haiti, Saint Lucia and Saint Vincent and the Grenadines) are able to access the lending facilities of the IMF and the World Bank on concessional terms.

This creates a situation in which countries are left to tap into international and domestic financial markets under extremely difficult, highly risky and volatile conditions. As middle-income countries are left to literally fend for themselves, they become subject to recurrent financial crises which further undermines their prospects to marshal public resources for long-term structural transformation projects, and lock private investment into these projects to provide technological know-how and improve our international competitiveness.

Unfortunately, the Caribbean is yet again an example of this vicious circle. With the exception of Trinidad & Tobago, credit rating agencies are currently handing out non investment-grades. And the IMF considers that most of the countries in

the region face high levels of default risks, given their current and projected levels of public debt. Thus, the region is expected to continue repeating the cycle of defaults that has become common place since the early 2000s, since when we have witnessed a total of 13 episodes of default.

The CARICOM Commission on the Economy has advised that the burdensome indebtedness of CARICOM States is not temporary and manageable through domestic policy adjustments. Instead, the complexity of the public debt situation in Member State requires sustainable solutions which should be comprehensive and involve multiple pillars, namely – *fiscal consolidation (involving both efficiency-driven expenditure and revenue reforms); debt re-organization/re-profiling (with debt restructuring in specific circumstances); structural reforms to increase growth; and resilience building measures*. Several initiatives are currently being pursued by CARICOM States towards the achievement of fiscal and debt sustainability including the adoption of sustainable debt management practices as well as the adoption of measures to infuse discipline, credibility and transparency in the public finance management process. In the latter regard, the Commission has received the concurrence of the Conference of Heads of Government to elaborate a fiscal responsibility framework for the Community.

CARICOM States are currently confronted with a number of challenges which exacerbate the lack of resilience exhibited by their economies. A major challenge is the De-risking action which has been taken primarily by U.S. banks as they seek to avoid risks associated with financial institutions in CARICOM. The U.S. banks have curtailed or terminated correspondent banking relationships with several

financial institutions in CARICOM in an effort to reduce compliance costs and to avoid the risk of sanctions. De-risking is an umbrella term used to describe strategies adopted by global banks to lower the overall risk exposure of their asset portfolio in response to tighter regulatory standards imposed by national and international regulatory bodies with respect to prudential risks, AML-CFT risks, tax information exchange risk, and risks of violating sanctions as well as to protect the value of their brand. De-risking has been viewed as an “existential threat” to the region because of its potential to adversely impact CARICOM economies by restricting trade and commerce and disrupting international payments, capital inflows and even remittance flows.

The De-Risking challenge remains despite the concerted attention of the multilateral financial institutions, regional initiatives and focused advocacy by impacted States. Additionally, discussions have been initiated on the national-level initiatives required to lift confidence in the integrity of the financial system in Member States. However, according to the World Bank, it is still unclear whether financial institutions *“are being de-risked to prevent money laundering and the financing of terrorism (AML/CFT) and the proceeds of nefarious activities to have access to financial systems, or if legitimate clients, transactions, and jurisdictions that are perceived as high risk or unprofitable are simply being kept out of global financial and payment systems.”* Moreover, compliance with the global tax transparency reform agenda is emerging as another de-risking driver which can result in the targeting of certain jurisdictions. In the circumstances, it is generally acknowledged that an appropriate resolution of the issue requires a public-private multi-dimensional collaboration, since several of the perceived de-

risking drivers cannot be addressed by individual national policy actions alone. CARICOM States have therefore continued to advance the agreed intensive advocacy programme in accord with the decisions of Heads of Government.

However, the global tax transparency and related agendas remain a source of considerable concern for CARICOM States as efforts are being made to establish lists of non-compliant jurisdictions and to label countries as tax havens. The institutions which are currently in the forefront of these initiatives are all primarily OECD-based and while they are touted as being inclusive, small States like CARICOM are at a disadvantage because of the significant resource demands for effective participation and compliance. CARICOM believes that the United Nations should consider the broadening of its tax cooperation mandate to either incorporate these issues in its agenda or to provide the support that Small States require for their effective participation in these processes.

These are challenges that are peculiar to my region, but do affect many middle-income countries in the world, in one shape or another. As the incidences of natural disaster associated with climate change are set to increase, this too, will become a growing factor to worsen the middle-income trap I have described, across the board.

One of the main tasks of the United Nations Economic and Social Council is to ensure that the Follow-Up and Review Process on Financing for Development is effective.

The Addis Ababa Action Agenda (AAAA) has firmly put sustainable and inclusive development at the center of development finance. In line with Agenda 2030, the Addis Ababa Action Agenda (AAAA) confirms the importance of a holistic approach to development finance, aiming to mobilize all resource flows — public and private, national and international — in a systematic manner and align them with developmental, social and environmental priorities. It recognizes the need for an ambitious and comprehensive approach to development finance “beyond business as usual”.

It is also quite clear that the financing requirements, arising from Agenda 2030, are enormous. However many preliminary estimates may vary, they all range in the trillions of USD, not billions, per year. These investment requirements certainly cannot be met by developing countries in domestic contexts, especially not in the circumstances I have outlined.

What is less clear, at this point, is how exactly different financial resource flows can be coordinated effectively to bridge the current financing gap to achieve structural change, and transformational as well as sustainable development in our countries.

But the commitments made in the Addis Ababa Action Agenda (AAAA) will be impossible to meet without a strong emphasis on tackling systemic issues, such as global economic fragilities, environmental challenges, global economic governance reforms, to name but a few, through enhanced and constructive

policy coordination between developing nations, and between developed and developing countries.

To achieve this requires, first of all, the recognition that the current growth model is broken and that the international community continues to search for a new path, which would lead to more stable, sustainable and inclusive outcomes.

This new path cannot be achieved without facing up to challenges to the international community that go beyond the scaling up of resources. The speculative bias of financial markets, the instability of unregulated capital flows and the financialization of corporate governance have created an economic environment which is systemically unequal, fragile and prone to damaging boom-bust cycles and financial crises.

If we want to take forward the important spirit of Monterrey, Doha and Addis Ababa, our first task will be to help promote an enabling international environment, that does not ignore these pressures, and that will reinvigorate the role of financial sectors in supporting long-term productive investment, all the more so as stable monetary and financial arrangements are a prerequisite for making trade, technology and transnational companies work for inclusive growth and development.

Such reforms of the international financial architecture are, thus, a prerequisite of our advancing, as the United Nations, in the direction of seriously promoting sustainable development, the 2030 Agenda and its financing mechanisms.

One issue, that I have highlighted here, and that we can change, is the narrow focus on GNI per capita levels for the provision of ODA and concessional lending. This effectively undermines the efforts made by countries to improve the living standards of their populations, and to progress towards sustainable structural transformation.

Even though it is clear that governments must make an effort to improve the mobilization of domestic resources, the international community must make a similar effort to also support us in this complex endeavor.

As a start, we need to address the shortfalls of the current approach to ODA and to concessional lending. The holistic approach that underpins the 2030 Agenda calls for a true revolution in the way we think about the prioritization of resources. We need to move away from GNI per capita towards a multidimensional approach that, by taking into account the different challenges faced by our countries, provides them with effective multilateral support throughout their processes of structural transformation and sustainable development. This includes renewed calls for an overall increase in transfers from advanced economies to developing economies in line with the 0.7% of GDP target.

Moreover, much further work remains to be done to align fragmented policies that currently guide the international finance and trade system with the objective

of us, the United Nations, to promote our 2030 Agenda, and to find workable and reliable ways to bridge the glaring financing gap.

During the second Financing for Development Follow-Up and Review process held in New York in May of this year, the ministers and high representatives declared that they intend to “devote themselves collectively to the pursuit of global development and of ‘win-win’ cooperation, which can bring huge gains to all countries and all parts of the world”. This was a wise declaration and, as Schumacher says, *“No one is really working for peace unless he is working primarily for the restoration of wisdom.”*

I applaud the work, done by the UNCTAD, to promote in-depth analysis, multilateral links and on-the-ground technical cooperation, for a better understanding of what we, as developing countries, require from the international community and why, at this juncture. This 11th Debt Management Conference is an integral part of this effort, and I warmly welcome its focus on the United Nation’s concern with the Financing for Development Follow-Up and Review process.

I wish you a fruitful conference and look forward to strengthening our links.

I thank you all for your kind attention.