Draft report of the Trade and Development Board on its fifty-sixth session

Held at the Palais des Nations, Geneva, from 14 to 25 September 2009

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High-level segment –
The global economic crisis and the necessary policy response

1. The Board held a substantive discussion with a panel of high-level government representatives on the causes and impacts of the ongoing global financial and economic crisis, and on the policy responses to it, with a particular focus on the development dimension. The recent global financial and economic crisis was considered unique, in its breadth, depth and universality, and in the magnitude of the policy response to it.

2. The global economic crisis was having profound consequences for economic growth in developing countries, and it was impairing their development and poverty-reduction objectives. Although developing countries were not at the origin of the crisis, as it stemmed from the financial system of developed countries, the crisis had rapidly been transmitted to the real sectors of developing countries’ economies. These countries had seen their growth sharply reduced, as a result of declining global demand, shrinking trade volumes and falling commodity prices, lower levels of remittances from migrants, decreased flows of foreign direct investment (FDI), capital outflows, higher yield spreads and declining aid. The least developed countries (LDCs) had been the most negatively affected, as their structural weaknesses and lower resilience impaired their ability to tackle the crisis. In addition, this crisis had come on top of other crises affecting these countries, such as the food and fuel crises. All this represented a setback to the progress achieved over recent years, and was even further endangering the achievement of the Millennium Development Goals.

3. While there were some economic indicators that were showing an improvement, these were mostly related to the financial sector, and revealed the return of speculative activities in financial markets. The prospects for global recovery were widely regarded as uncertain – so long as unemployment was rising and there were no real signs of strong macroeconomic fundamentals. The full social consequences of the crisis remained to be seen.

4. The source of the crisis had been multidimensional, stemming from financial liberalization, a build-up of macroeconomic imbalances, and increased volatility and vulnerabilities associated with greater globalization. Most delegations and panellists emphasized that deregulation in financial markets was the major cause of the crisis, as it led to excessive speculation and the detachment of financial activities from the fundamentals of the real economy. This could be seen very clearly in the extraordinary increase of financial activities in comparison with productive activities. The crisis had revealed that self-regulation of financial markets did not lead to optimal outcomes, and it highlighted the dangers of financial innovation in securitization and of uncontrolled remuneration for financial agents.

5. The impacts of the crisis and the economic policy responses had varied among different countries. A number of developing countries had shown some resilience to the crisis, as their previous macroeconomic policies, healthy current account positions and accumulation of reserves had provided them with some policy space. Some other economies had been able to handle the crisis by turning to their strongly growing domestic markets. On the other hand, many of the poorest developing countries lacked the necessary fiscal policy space, and had had to obtain additional financial resources from the International Monetary Fund (IMF). However, this assistance was tied to procyclical conditionality, which affected the possibilities of recovery for these countries. It was felt that this should be avoided. In fact, continuing countercyclical monetary and fiscal policies
were widely considered to be the appropriate recipe to fight the crisis. Fiscal stimulus measures in a number of countries and a coordinated macroeconomic response had shown some results in this regard. However, many delegates felt that the policy response should address the need to reactivate credit for productive activities.

6. The international response to the crisis had been unprecedented, in terms of the scale of the stimulus packages, the increase in resources to IMF and multilateral banks, the coordination of central banks, the mobilization of financial institutions, and the trade measures – with regard to financing trade and calls to prevent protectionism. Panellists and delegates alike agreed that there were many lessons to be learned from the crisis, as had been highlighted in the *Trade and Development Report 2009*. It was clear that business as usual could not continue, and that the international community had to address the underlying causes. This would imply measures at the national, regional and international level, which should complement each other. It was felt that financial markets should be subject to adequate regulation, and there should be appropriate surveillance to discourage excessive risk-taking. This should include not only microprudential but also macroprudential regulation to prevent systemic risks. The main objective of the financial system should be to channel financial resources to productive investment.

7. There was broad consensus that the current global financial and monetary system was in need of deep reform, as the world economy had changed considerably since the Bretton Woods Agreement was struck. It was felt that the discussions guiding the design of the new international financial architecture should place development at the centre, and should be inclusive in nature, making the United Nations the ideal forum for such an undertaking. However, measures to address the crisis discussed at other forums such as the G-8 or the G-20 were appreciated too, as steps in the right direction. The United Nations, the Bretton Woods institutions and the different “G” groups all had a role to play, and it was important that they work cooperatively. In addition, it was felt that reform of the multilateral system should not only be in terms of voice and representation, but also in terms of purpose, responsiveness and effectiveness. The aim of reform should be a system that is transparent, stable and predictable. It was felt that reform of IMF itself should be considered, including of its governance and of aspects related to the role and allocation of special drawing rights. The issue of an international reserve currency and the proposal for a multilaterally agreed framework for the management of flexible exchange rates also deserved further consideration. These reforms would require strong political will.

8. The importance of strengthened international macroeconomic coordination and cooperation was repeatedly underlined. In addressing the challenges, particularly those facing LDCs, there was a need for an increase in official development assistance. UNCTAD’s proposal for a temporary debt moratorium to countries affected by external debt problems was also welcomed. It was felt that UNCTAD should also explore innovative sources of development finance. Equally important was the need to maintain a fair, open and equitable trading system. This could be achieved through a successful conclusion to the trade negotiations of the Doha Development Round. Broad support was also given to fostering green growth as part of the crisis response, as future development needed to become carbon-neutral. There were also many lessons to be learned from recent regional cooperation initiatives that it may be useful to consider in the design of international response mechanisms.