Multi-year Expert Meeting on Promoting Economic Integration and Cooperation 2015

Opening Remarks

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Strengthening sub-regional, regional, and interregional dialogue and cooperation and their contributions to economic integration and development: Policy lessons for development-oriented regional integration

Excellencies,
colleagues,
ladies and gentlemen,

The Sustainable Development Goals (SDGs) involve an entirely new, comprehensive and coherent blueprint for development: One which will require profound transformation, and; One in which closer subregional, regional and interregional cooperation - not least South-South - can, and must, play an important role if we are to achieve the world we want by 2030.

Today **I'd like to briefly address the magnitude of the challenge we face, particularly in LDCs**, in meeting the SDGs and why that challenge requires stronger regional cooperation. Then **I'd like to offer some suggestions on how we can scale up regional cooperation**. Finally, **I will speak to the financing mechanisms needed to help finance regional cooperation,** particularly in line with SDG achievement.

First, the magnitude of the challenge ahead of us.

International trade in the two decades pre-crisis expanded more than twice as fast as global output. In that period, hundreds of millions of people were lifted out of poverty. We saw an almost tetonic shift in global economic power. And we saw important, albeit insufficient, improvements in the living conditions of many citizens in developing countries. But, despite these important achievements, LDCs largely remained marginalized. While many LDCs were having export growth of approximately 20% annually, fuelled by sharp price hikes in commodities and boosting export revenues, the vast majority of these countries experienced far less, and many times little, improvements in poverty reduction.

This is what UNCTAD has coined the "LDC paradox". And if we are to fullfil the SDGs for LDCs in the next 15 years, we have to overcome this paradox. This will be a serious challenge. What makes the challenge even bigger is that, since 2009, international trade has barely kept up with the world economy's new, slower pace. Data for the 1st quarter of 2015 show trade values declining for many countries.

In this sluggish global environment, regional markets are even more important than in the past, and regional integration with the goal of boosting trade growth is increasingly central to many countries' development strategies.

And beyond boosting growth, the regional integration process - done right - can structurally transform economies, to improve the lives of everyday people.

Regional arrangements are the natural home for the regional value chains that many developing countries need to improve productivity and create good jobs for all. Intra-regional trade can build new productive capacities and favor structural change and diversification. It is this very process - of more efficiently using trade as a vehicle for productive capacity - that can offer one way out of the LDC paradox: Indeed, even a way out to help restart the engines for trade growth.

So how do we scale up regional cooperation globally?

Lets start with the facts: Intra-regional trade represents only 14 per cent of the total trade of African countries. If informal intra-African trade were accounted for by the statistics, it would equal that of Latin America (some 22% of regional exports.) But consider that intra-East Asia trade is over 50 per cent, let alone intra-EU trade which is 65%!

So clearly, there is important untapped potential for increased regional trade in many developing countries. But too many regional initiatives are top-down in nature. The main challenge many regional initiatives face is implementation. We have had lots of process, with little outcomes. So we need less talk, and more action.

Simply put, a piece-meal, nuts-and-bolts bottom-up approach may be what is needed to deliver the leap of faith national economies need to engage in meaningful regional integration.

States/provinces, cities, districts, villages – they all need to push for increased connectivity between themselves to make regional integration work. Local entrepreneurs need to see the opportunity and benefit. Many are trading with each other already, informally, along our borders.

Concerted small steps toward integration may get less fanfare, but they are critical in building momentum. EU regionalism began with a single agreement on steel and coal intended solely to prevent yet another bloody war between France and Germany. The Greater Mekong Subregion in Southeast Asia also has been successful because it began with small-scale thinking from the start.

The Mekong example demonstrates that local stakeholders are key – business and governments approached international agencies, giving them homework: feasibility studies, where to put specific bridges? Specific railroads? Who to get finance them?

This brings me to my final point: how do countries mobilize finance for increased regional cooperation?

Tetonic shifts are underway in the global investment landscape. Developing Asia is now the largest source and destination of FDI. And FDI inflows to developing economies reached their highest level ever last year, at $681 billion - 200 bn more than to the developed world. Developing economies

now account for 5 of the top 10 FDI recipients in the world. And China, for the first time in history, became the world's largest recipient of FDI. Moreover, developing economies now account for more than one third of global FDI outflows, up from 13% in 2007. This is remarkable. Developing Asia invests more than EU and North America.

At the same time over the last decade, FDI stock has tripled in LDCs and SIDS, and quadrupled in LLDCs. With concerted effort, it could be possible to have FDI stock in structurally weak economies quadruple again by 2030.

This growing tide of investment in and from developing economies must be harnessed for regional cooperation, connectivity and reducing trade costs, for example through investment in physical infrastructure investment and regional technology hubs. UNCTAD calculates that developing countries as a whole face a current investment gap of 2.5 trillion USD annually for the fulfilment of the SDGs.

Normally, infrastructure projects generate long-term social benefits that tend to be much greater than the private profits that may be captured by investors. However, with the low-interest rate environment, profit-seeking private firms and institutional investors have more and more incentive to invest in infrastructure.

Development banks, especially regional ones, also can contribute to filling the important financing gap for developing regional infrastructure. In recent years we have witnessed initiatives to design and set up regional development banks such as the newly created New Development Bank, Asian Infrastructure Investment Bank, and the Bank of the South.

The creation of these banks is timely, given both financing needs for infrastructure development and the amount of foreign reserves currently held by emerging economies.

As more and more new financing initiatives come forward, combined with the existing international financial institutions, the onus will be on experts, like you, and inclusive platforms, like UNCTAD, to help build a consensus on how all actors - private and public - can do their best to finance the regional cooperation we need to achieve the SDGs.

We need to make better use of all of the available building blocks in trade, investment and finance to strengthen regional cooperation for people-to-people and business-to-business connectivity. Actions are required at all levels - local, national, regional and global - to maximise resources and a genuine commitment to implementation of these ambitions.

I hope this Multi-year Expert Meeting will help to shed further light in this direction. I wish you all a fruitful one and a half day of deliberations on these important issues.

Thank you for your attention.