

Distinguished Guests and Colleagues, Your Excellency the Ambassador of Philippines,

It is a great pleasure to welcome you here in Palais des Nations in the name of the Director of the Division on Globalization and Development Strategies, Mr. Richard Kozul-Wright, in the name of my colleagues from the Unit on Economic Cooperation and Integration among Developing Countries, informally known as the South-South Unit, and my own. A big thank you to all of you coming from far away at this time when in many countries activities are turning to celebrations and festivities. In particular, a big thanks to Neissan and Steve, for working tirelessly to organize this meeting.

The topic of the meeting is very important, given the state of the world economy. It is very important because it deals with one aspect of the world economy about which we have no hard data, only anecdotal evidence and guesses.

Let me explain by putting it in a larger context. At the end of 2015, more than seven years after the start of the Great Recession, we still have deflationary tendencies, declining wage shares and massive underutilization of labor. In spite of the historically low interest rates throughout the whole period, we still have a shortage of the effective global demand. At the same time, we also have rising profit shares, excessive financial leverage, a huge debt overhang and large, short-term and volatile financial flows.

In fact, the increase in the interest rate of the FED, just yesterday, may have signaled a beginning of a new phase of the ongoing crisis, this time with the developing countries on the receiving end. While many developing countries have been spared the worst in 2008 and 2009, and were mostly undisturbed by the propagation of the debt crisis in the European Union periphery in the subsequent years, this time might be different.

The first increase in interest rates of the FED in more than nine years is signaling the coming of an end of the expansionary monetary policy in developed countries. This change of stance also means that the era of large capital inflows to developing countries is coming to an end. It is telling that in the anticipation of the FED's increase of the interest rate, there has been a net outflow of capital from developing countries in the four of the last five months. It is inevitable to be worried about it and to ask ourselves: is it the end of the boom and the beginning of a bust in developing countries.

UNCTAD's TDR of this year addressed the issue whether the current international monetary and financial architecture is conducive to economic development. It shows that the existence of a global financial cycle based on the changes of monetary policy stance of the most important developed countries affects primarily developing countries, resulting in familiar boom and bust cycles. All this is a consequence of the fundamental change that characterize the post-Bretton Woods international monetary and financial architecture, namely the fact that the supply of international liquidity is now provided by the private sector, unlike in the BW system when it was from official sources.

There are two additional adverse trends in the world economy that are of particular relevance to developing countries. First, international trade has been growing since the beginning of the Great Recession much slower than before. The pre-crisis period 2003-2007 has recorded growth rates of trade on the order of 7.2 per cent annually. But even if we take a longer period, we see that international trade grew by 6.8 per cent per year in the two decades prior to the crisis. In contrast, the growth rate from the start of the crisis has been on the order of 2.5 per cent, more or less in line with the growth of the world GDP.

Given the state of the effective aggregate demand today, it is very likely that international trade will not become more dynamic in the next couple of years. So, what does that mean for developing countries? It means that exports cannot be an engine of growth as it was in the two decades prior to the Great Recession. Export-led strategies are not feasible in an economic environment where international trade grows al par with the world GDP. When capital inflows were substantial, from 2010 to 2014, developed countries were able to rebalance towards domestic sources of growth, and to some extent also to regional partners. However, with capital outflows entering the scene, there is a high likelihood of exchange rate depreciations, increased inflation, and tighter monetary and fiscal policies. In such circumstances, domestic demand will be subdued at best.

The third adverse trend is related to turbulent times for commodities. Most international commodity prices have fallen significantly in 2014 and 2015, continuing their downward trend from their peaks of 2011-2012. The most dramatic fall has been that of crude oil prices. Since the mid-2014 they have fallen from around \$100 per barrel to \$37 yesterday. If this means the end of the so-called super-cycle of commodity prices, developing countries, many of whom derive the bulk of their export earnings from a few commodities, are in for a rough ride in the next couple of years. So, we are now in a particularly delicate conjuncture for the developing countries.

These three trends of capital outflows, sluggish international trade and declining commodity prices do not bode well for economic prospects of developing countries. Already, there are decelerations of growth dynamic in many countries and in all likelihood this is bound to continue. The fragilities and vulnerabilities are evident in some cases and less so in others, but the policy space for addressing these adverse trends is restricted for most developing countries.

In such circumstances, it is of great importance to have an idea of the magnitude of the South-South cooperation. When private liquidity is retrenching, the governments of developing countries are faced with the challenge of liquidity provision. As their international liabilities are far greater than the international reserves they are holding, the governments will have to look for other options. However, their options will be limited, and will tend to become fewer and costlier over time. In particular, low-conditionality international liquidity will be scarcer, especially for some categories of countries like the least developed ones. In that situation, the role of SS cooperation becomes even more important.

Over the past two decades South-South Cooperation (SSC) has grown rapidly, becoming an important complementary source of financing for many developing countries. Now would be a good time to have an idea of the magnitude of these flows, their origin and destination, the composition (private or official) and the like. Concessional and non-concessional development finance, grants, debt restructuring and debt forgiveness, export credit lines, and the like, are crucial for the analysis and understanding of the trends in S-S cooperation. Unfortunately, we are in the dark on most of these issues. Simply put, there are no statistics on these issues that are reliable, coherent and systematic.

Let me now turn briefly to UNCTAD. It was formed in 1964 by Raul Prebisch to provide developing countries with the analysis of economic issues from the point of view of developing countries. Throughout that period, G77 and China supported our work and put on our agenda new issues and challenges. Today, UNCTAD is governed by its 194 member states.

Reflection on development is at the heart of UNCTAD work. It produces often innovative analyses that form the basis for recommendations to economic policymakers. The aim is to help them make informed decisions and promote policies that will result in people-centered sustainable development. Within the

UN, UNCTAD is the focal point for international trade and development and interrelated issues of finance, technology, investment and sustainable development.

Every four years, UNCTAD holds a ministerial level conference to discuss major global economic issues and to decide on its programme of work for the next four-year period. Our next conference will be held in July of 2016 in Nairobi, and it is a great opportunity to put some of the issues you will be dealing with over the next couple of days on the UNCTAD agenda. UNCTAD is also a forum where representatives of all countries can freely engage in dialogue and discuss issues which they deem important from the point of view of economic development.

Regarding South-South cooperation, UNCTAD has been at the forefront of research and analysis, proposing among other things ideas such as the new international economic order and commodity-price stabilization funds. In those years, UNCTAD had a whole division dedicated to the issues of SSC. Unfortunately, the neoliberal offensive in the 1980s and 1990s has stripped us of funds and mandates, so the work on SSC was greatly reduced.

The changing trends in the last 15 years, and the so-called rise of the South, have also revived interest in issues of SSC. The UN General Assembly has approved resources for UNCTAD to start working again on these issues, so in 2010 the Unit on Economic Cooperation and Integration among Developing Countries has been formed.

In the last five years, the ECIDC has worked on the following issues: global value chains and south-south trade, industrial policy in China and its lessons for other developing countries, regional financial cooperation in Latin America and West Africa; regional value chains in leather and food processing in South Asia, regional value chains in leather and leather processing in Africa; national development banks as an instrument of industrial policy, the New Development Bank, and so on.

This is just to show the breath of issues we are dealing with and the kind of analytical capacity we have in the house. Going forward, our plan is to strengthen the statistical part of our work, counting on the cooperation with the Statistics Branch. In addition, we are considering the issue of a forum for discussion on some of the topics which have so far been badly neglected. Among these, the most important is a forum to address aid issues from the perspective of the recipients and donors from the South. Currently, there is no such permanent multilateral forum and developing countries are not inclined to discuss these issues within the OECD.

Finally, let me wish you a productive and engaged debate on these important issues over the course of the next two days. I am looking forward to learning a lot from all of you and hope you all the best. Thank you!