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**Plenary on Interdependence (Item 4) and
Development strategies in globalized world (Item 8)**

General statements by regional groups
Speaker: European Union

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EU Statement

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TRADE AND DEVELOPMENT BOARD

59th Session

(Geneva, 17-18 September 2012)

Item 4

**Interdependence:
Coordinating stimulus for global growth**

Item 8

**Development strategies in a globalized world:
Reducing inequalities for balanced and sustainable development**

Mr President,
Secretary General,
Excellencies,
Distinguished Delegates,

I have the honour of speaking on behalf of the European Union and its Member States.

We thank the Secretariat for the background document Trade and Development Report 2012 and appreciate their analysis. We understand that this report remains the responsibility of UNCTAD Secretariat and as we may acknowledge the significant contribution of some statements, we cannot agree with some other elements in the report. For example, the analysis of the recession currently gripping the European Union, the statement that the authorities have failed to present a solution to the area's debt difficulties, and the assertion that the tight fiscal policy is making difficult the return to sustainable economic growth are biased interpretations of the economic situation.

As we have mentioned before, the 2007 crisis did not have its origin in Europe and other countries around the world are faced with similar problems of unemployment, reduced growth, low private consumption and fiscal restrictions. The European Union has addressed the severity of the situation by introducing important measures, and this work is continuing. We have launched a process to strengthen the architecture of the Economic and Monetary Union and our economic policy is

orientated towards sustainable and inclusive growth. Due to the fact that the downturn is so wide spread it is clear that remedial efforts take longer to have effect on economy.

We welcome the fact that growth has been and is expected to remain relatively high in developing and transition economies. We acknowledge the positive sign that most developing countries have managed to regain the ground they had lost as a result of the crisis. There may be different reasons for this growth depending on the geographical region but we would like to underline the importance of private domestic demand, high prices for primary commodities and investment in infrastructure and natural resources. Inclusive and sustainable economic growth is crucial to long-term poverty reduction.

Macroeconomic stability and debt sustainability remains a significant ingredient to set the basis for sustained and inclusive economic recovery. To get results in a more volatile environment macroeconomic policies have to be steered by the needs of the people and promote inclusive growth. Developing and developed countries will need to pay attention to the following set of issues:

Fiscal policy is significant to meet the challenges of sustainable growth, poverty eradication and equity. However, fiscal policy instruments should also address growing inequalities because these inequalities may hinder poverty reduction –despite high growth- and may impact negatively on the long term sustainability of growth.

Structural reforms are necessary to unlock domestic potential for growth. These reforms may include exploiting the potential of a green and inclusive economy, developing and implementing effective policies to combat poverty, opening up competition in network industries, implementing reforms to improve employment levels, etc.

Economic diversification plays an important role to ensuring sustainability and reducing a country's economic volatility. Developing countries may want to explore the different options for structural transformation by diversifying their exports and stimulate the interaction between FDI and local productive capacities.

Domestic savings are often insufficient to finance better education, health and infrastructures, and private foreign financing remains sometimes limited for low-income countries. Innovative financing may be a solution to ensure that financing of investment projects does not result in an increase of

unsustainable debt burden. Blending instruments, combining grants with loans to leverage additional non-grant funding, have unlocked projects which would not have materialized without the grant element;

Developing countries need competitive firms able to take advantage of export opportunities and national policies in order to improve access to finance for SMEs and private investors, to design measures to record and improve data on remittances through formal channels and to help developing countries to formulate and enforce competition law.

There exists an important empirical and theoretical support for the view that greater equality of income distribution is positive for economic growth, for poverty elimination and for health; in general, more equality promotes development. However the current situation is one of rising inequality in many countries, both among developed and developing countries.

Countries which have put human development and improved income distribution high on the agenda, have not lost out in the global economy because building-up human resources enhances their productivity

The types of policies likely to improve income distribution include agrarian-focused and employment-intensive growth strategies; ensuring there is a conducive environment for private sector development (particularly for micro, small and medium enterprises); high and widely spread expenditure on education; redistribution of assets; a structured market to direct education, training, and asset accumulation towards deprived groups; and strong policies towards social protection and social income. Gender balance and women empowerment are necessary to improve intra-household income distribution. It is essential to consider not just vertical income distribution but intra-household and horizontal inequalities as well.

We would like to make a reference to the Rio Summit as it will have significant consequences for sustainable and inclusive growth. The EU welcomes the decision at Rio+20 to advance work on global and coherent SDGs. However, the SDG process should not pre-empt the Millennium Development Goals (MDGs) review or prejudge its outcome. It is important that the **SDG process is coordinated and coherent with the Millennium Development Goals (MDGs) review process** and that it does not deviate action from the achievement of these by 2015.

There may be different views about inequality, whether rising income inequality is an inevitable outcome or whether it is possible to reduce it to achieve more inclusive growth. However developing and developed countries have to work together towards defining economic and social policies to reduce inequalities; and to promote inclusive and sustainable economic growth characterized by people's ability to participate in and benefit from wealth creation.