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Development-centred globalization:
Towards inclusive and sustainable growth and development

Round Table 1
Enhancing the enabling environment at all levels in support of inclusive and sustainable development

UNCTAD XIII

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Summary prepared by the UNCTAD secretariat

1. The discussion showed that, following the worst economic crisis since 1929, the outlook ahead for the global economy was for recession to go on in developed countries for several years. The risks for a renewed crisis were high and measures applied did not allow for seeing the way out of the tunnel. Panellists highlighted the importance of the debate to have the correct diagnosis on the causes of the crisis. The global crisis was created by deregulation in the financial sector, not by fiscal policies; fiscal deficits were the consequence but not the cause of the crisis. This was also the case for many crises in developing countries during the 1980s and 1990s. On the basis of a wrong diagnosis, the policies aimed at solving the global crisis through fiscal adjustment and labour market flexibilization tended to aggravate the situation by reducing global and domestic demand.

2. Panellists also referred to experiences of structural policies conducted in past decades in developing countries, in many cases imposed by the international financial institutions, which involved trade and capital account liberalization, privatizations and financial deregulation. Such policies led to de-industrialization, financial instability, slow growth and insufficient job creation. It was noted that, for many African countries, even if in recent years they had experienced strong GDP growth, poverty had not significantly decreased. They were also registering high rates of unemployment, with particular incidence in the youth population. Many panellists and speakers expressed concerns

regarding this process of growth without development. Income inequality, including gender inequality, was also identified as one of the major challenges in the global economy, which negatively affected economic growth and social stability.

3. It was also emphasized that many developing countries, particularly in Africa, were strongly dependent on their commodity exports, whose prices were highly volatile. This increased their vulnerability to external shocks. Moreover, foreign direct investment (FDI) in raw materials tended to be capital-intensive. For sustainable development, those countries needed policies that allowed for value addition in order to create jobs.

4. The discussion revealed flaws in the functioning of the financial sector, since financial markets were not self-regulating, were prone to speculation, and led to volatility and price misalignments. This affected markets of vital importance for the world economy, and particularly for developing countries, such as foreign exchange and commodities (especially food and oil).

5. Regarding recommendations on the necessary policies to be applied, panellists and speakers agreed on the need for a change in paradigm towards a development-centred globalization and inclusive growth. This should imply a significant change of direction in macroeconomic policies and in reforms of the international monetary and financial system. In particular, there was wide agreement on the need for improving financial regulation in order to put the financial sector to the service of the real sector. This included regulation of capital flows, financial instruments, speculation in commodities, hedge funds, fiscal paradises and rating agencies, and oversight of financial products. Panellists also emphasized the need for a new international financial architecture, with larger representation and decision power of developing countries, enhanced used of Special Drawing Rights and the establishment of a financial transaction tax.

6. There was also wide agreement on the role the State in economic development. Public investment in infrastructure was essential for enlarging productive capacities and enhancing overall investment rates. As it sustained economic growth, it was possible to expand public expenditure without jeopardizing fiscal balances. However, lack of the necessary financial resources could be an obstacle in many countries, even in natural resource-rich countries, which required an increase in taxation.

7. It was recognized that the role of the State was also of vital importance for strengthening domestic demand through income and employment policies, such as minimum wages, collective bargaining and social transfers. Strong domestic and regional markets would allow for a rebalancing of the economies of developing countries and reducing dependency on exports, particularly in a context growth slowdown in developed countries. In the particular case of China, concerns were raised on the fact that an eventual liberalization of capital flows might lead to financial instability.

8. Countercyclical economic policies allowed many developing countries to cushion the impacts of the global financial crisis. The previous accumulation of foreign exchange rates had provided the necessary policy space. However, it was also noted that a number of developing countries that suffered external debt problems faced more difficulties to handle the impacts of the crisis, and official development assistance had declined in the previous year.

9. Panellists stressed that the policy responses applied in developed countries to handle the crisis were not reaching the expected results in those countries and were having a negative impact in developing countries. For example, on the fiscal side, the attempt to institutionalize fiscal austerity had negative social, economic and environmental effects, and had a recessionary impact in the rest of the world. On the monetary side, quantitative easing was not reviving economic activity in developed countries, but generating bubbles that affected developing countries. As shown in successful recoveries from financial and

economic crises in developing countries, the macroeconomic response to the crises should include supportive fiscal, monetary and incomes policies.

10. Regional integration was mentioned as an important factor for reducing external vulnerability and strengthening long-term growth. It was felt that this should cover financial and trade areas, but also infrastructure integration, particularly in transport, to make regional agreements deliver the expected outcomes. Regarding international trade issues, several panellists stressed the importance of the completion of the Doha Development Agenda with a true developmental outcome, in particular for least developed countries. International cooperation efforts should also aim at a green economy to address the challenge of climate change.

11. Several panellists and speakers acknowledged the need to reinforce the role of UNCTAD in its research and analysis on the causes and consequences of financial crises, as well as on the appropriate policy responses. It was generally recognized that UNCTAD provided a valuable second opinion to that of other international organizations on growth and development policies, and on reform of the global international financial system.