Sixtieth session of the Trade and Development Board
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Items 4 and 8: Interdependence and Development Strategies

Statement by the Secretary-General of UNCTAD

AS PREPARED FOR DELIVERY

Mr. President,
Distinguished Panellists,
Excellencies,
Ladies and Gentlemen,

It is a great pleasure for me to welcome you to this consideration of items 4 and 8 on the agenda of the Board, entitled “Interdependence” and “Development strategies in a globalized world”.

When the United Nations decided to create UNCTAD in 1964, it reflected member States’ awareness of the increasingly interdependent nature of the world economy and the fact that this required an integrated treatment of trade, finance and development. Today, this interdependence has only grown stronger. This was vividly demonstrated in the 2008 crisis that had its epicentre in the housing and financial sectors of a small number of advanced economies, but spread far and fast, causing a global recession.

But it is also demonstrated today, five years after the crisis, when the world economy struggles to achieve a sustained recovery. At one stage it appeared that the rapid recovery of developing countries could prompt a permanent “de-coupling” which would act as a kind of immunization and provide independence from the slow growth of advanced economies. However, as UNCTAD member States have long recognized, it is interdependence that dominates in the long run. In the absence of a recovery for the traditional markets in Northern economies, developing and transition economies are now also struggling to fully maintain their growth momentum. And barring major policy changes in advanced countries, this situation is unlikely to change in the next few years. Indeed, according to UNCTAD's latest *Trade and Development Report*, global economic growth, which has been slowing from 4.1 per cent in 2010 to 2.2 per cent in 2012, is unlikely to recover in 2013, but may even decelerate further, to about 2.1 per cent. Growth in developed countries is estimated to remain sluggish at about 1 per cent. Developing and transition economies are estimated to continue to grow at around 4.5 and 2.5 per cent, respectively, based largely on domestic demand, but they are facing new vulnerabilities from slow demand in advanced countries.

Ladies and Gentlemen,

UNCTAD research suggests that this new global economic landscape is not a temporary abnormality due to the fallout from the financial crisis, but rather that we are witnessing fundamental structural changes. One such change is the fall in demand in advanced economies, which is reducing export opportunities for many developing countries. Indeed, a large part of trade among developing countries, for example as part of global value chains, is also affected by the sluggish demand in advanced economies.

But there are also other important structural changes in the world economy: These include a greater proneness to boom and bust episodes, a diminished role of the State with limited capacity to act; rising inequality, which has weakened the demand of households and hence undermined the role of investment; and a rise in indebtedness that provoked a financial bubble that eventually burst. All of these factors are compounding the development challenge that developing countries are facing today.

Against this background, the *Trade and Development Report, 2013* argues that countries need to fundamentally change their development strategies. Developed countries will need to address the fundamental causes of the crisis: rising income inequality, the diminishing economic role of the State, the dominant role of a poorly regulated financial sector and an internal system that is prone to global imbalances. Developing and transition countries will need also to change their strategies, considering a more balanced growth strategy that relies less on foreign resources and export-oriented growth and more on domestic and regional finances and demand. The word "balanced" is important here: UNCTAD does not propose shifting from an imbalanced growth process to a different kind of imbalance, focused exclusively on domestic markets. But with the expected slower growth in developed economies in the coming years, developing countries must strengthen their own sources of economic dynamism.

In the past, greater reliance on domestic demand was often considered unviable for developing countries, due to their small market size. However, the report highlights the changing shape of the international economy, in which developing and transition countries now represent 40 per cent of global output (twice as much as 20 years ago) and almost 50 per cent of global trade, compared with only 30 per cent in 1995. Demand from developing countries is already much greater than that of developed countries for most commodities, which was not the case 10 years ago. And the perspective of the expansion of middle classes in large and populated developing countries would significantly increase the demand for a variety of goods and services, in particular durable goods.

However, the needed expansion of these markets will not happen automatically, and will have to be supported by active policies. In this context, one key consideration relates to the composition of those domestic markets: What will be the distribution of consumption and investment, of public and private consumption? Household demand will mainly come from which social groups? This is important, because demand from low- and middle-income sectors tends to be less intensive in imported goods and services than that of high-income groups, and hence supports domestic production and employment. Income distribution and public policies will therefore be crucial in shaping the structure of demand and, consequently, of supply.

Another consideration is related to the coordination with other developing countries, in particular the main trading partners. If demand is boosted in a few isolated countries, these countries are likely to suffer balance of payments restrictions. But if many countries expand their domestic demand simultaneously, their economies could become markets for each other, fostering regional and South–South trade. Hence, this policy reorientation is consistent with a cooperative approach among countries, contrasting with the export-led growth strategies that frequently turn into a "beggar-thy-neighbour" behaviour, as countries try to expand their market shares through lower wages and taxes.

Ladies and Gentlemen,

The required reorientation of development strategy does not only involve changes on the demand side, but also on the supply side of economies, which need to be financed. Productive capacities must adjust to the new demand patterns, and this means increasing investment in most developing and transition countries.

Unfortunately, recent experience has shown again that international capital flows are not always a reliable source of financing investment for development. They are particularly volatile, entering and exiting from developing and transition economies according to the monetary policies and risks in developed countries, rather than the development needs of recipient countries. This tendency was once again exemplified in the last few months, when fears over monetary tapering in the United States of America generated volatility in capital flows to the developing world.

Moreover, it is another sign that there is something amiss in the financial sector that seemingly “excess capital” floods in and out of developing country financial markets, while small and medium enterprises in advanced economies – which are the sources of these flows – are finding themselves unable to borrow the investment funds they need.

Thus, in both developed and developing countries, there is a need for fresh consideration of the role of the financial sector. In particular, developing countries should be allowed to protect themselves from the vagaries of capital markets, which have frequently led to currency mispricing, macroeconomic instability and financial crises. Instead, these countries should follow a cautious and selective approach towards foreign capital, channelling it to productive uses. The report argues that countries should rely predominantly on domestic financial sources, encouraging the reinvestment of benefits and orienting bank credit towards productive investment.

I hope that this brief summary of some of the themes of current UNCTAD research and policy analysis will help to stimulate an interesting and productive debate.

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