United Nations TD/B/57/L.1/Add.1

United Nations Conference on Trade and Development

Distr.: Limited
23 September 2010

Original: English

Trade and Development Board
Fifty-seventh session
Geneva, 15–28 September 2010
Item 3 of the provisional agenda
High-level segment: Towards sustainable recovery

Draft report of the Trade and Development Board on its fifty-seventh session

Held at the Palais des Nations, Geneva, from 15 to 28 September 2010

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II. President's summary

High-level segment: Towards sustainable recovery

1. The Board held a substantive discussion with a panel of high-level government representatives and experts, reviewing national and global experiences of the economic and financial crisis and the effectiveness of the policies that were put in place to help support demand and ward off complete financial collapse. There was broad agreement that the current trends of economic recovery were still fragile and uneven, and that the longer-term scenario was uncertain. Many long-term issues and imbalances had still not been adequately addressed. Unemployment was at unprecedented levels, leading to worsened levels of poverty, inequality and social distress, and undermining longer-term prospects for growth and recovery.

2. The need to promote domestic demand and to create a more dynamic process that would sustain and reinforce growth was widely accepted. Delegates spoke of the destructive impact of "beggar thy neighbour" policies with respect to wages or exchange rates, in an integrated and interdependent world.

3. Debate focused particularly on the sequencing question – when it would be safe for countries to begin to unwind the stimulus measures, and how this should be done. Discussions revealed wide disagreement on exit strategies, in particular on the question of the appropriate timing. Many countries, notably developed countries, were concerned about their borrowing capacity and the sustainability of their fiscal stimulus and expansion. The experience of Greece was described in detail – debt-servicing costs and high borrowing costs were constraining the Greek Government's ability to revive the economy, and severe expenditure cuts had been made in an attempt to constrain the crisis.

4. Other panellists argued that now was not the time for exit, citing lessons that could be learned from the past. In particular, the Japanese experience over the last 20 years illustrated the dangers that lay ahead for the world economy. Deflation was a bigger threat now than inflation, and unless addressed correctly, the impact of the ongoing world structural adjustments could become highly deflationary. Delegates were warned that Japan's attempts to reduce its fiscal stimulus prematurely in 1997 had made its recession worse. A similar scenario was sketched out for the United States, European and Chinese economies, if fiscal stimulus were to be removed prematurely.

5. Delegates heard that the world was suffering not from an "ordinary recession" but rather from "balance sheet recession", where liabilities exceeded the market value of the underlying assets. Money borrowed at inflated prices for assets now needed to be repaid, using the limited cash flows that were still available to firms and households. This situation was leaving households and firms virtually bankrupt, with little if any fresh investment or consumption, causing the economy to shrink still further. In such a situation, even zero interest rates were not sufficient to boost the economy, and governments should step in to provide for the lack of demand from the private sector and to mitigate the high rate of savings from the private sector. This supportive role of government needed to continue until the private sector balance sheet was repaired, when liabilities were smaller or equal to assets.

6. Several delegates emphasized that the situation required a stronger sense of urgency and responsibility, in light of rising levels of unemployment, poverty and social exclusion. The most vulnerable people were being hit the hardest, and social cohesion and democracy could be impaired. Others feared that the G-20 coordination which had done so much at the beginnings of the crisis now appeared to be losing steam, even though harmonization of

policies was needed for the removal of stimulus packages just as much as it had been needed at their inception. The European Union did not share this view.

7. The potential role that could be played by regional integration was cited by numerous delegates and speakers. Some emphasized the benefits for small, impoverished countries of being able to find regional markets and investors when domestic resources were lacking. The European Union disagreed with proposed measures for an internationally managed exchange rate system oriented at real exchange rates, as discussed in the *Trade and Development Report 2010*, while other speakers noted that mechanisms such as the euro could help to mitigate the exchange rate fluctuations that many developing countries were currently suffering. Another panellist commented that if countries were not part of regional financial institutions, they could only use trade policies, rather than other mechanisms, to stabilize their economies during times of crisis.

8. Many speakers emphasized the need for a completely new economic model, calling for new, stronger and more stable development pathways; a "new software" to redress fundamental imbalances in the world economy. Any new development models needed to address fundamental issues relating to (a) speculation and price volatility in commodities and agricultural markets; (b) the worsening situation of inequality and poverty; and (c) environmental sustainability. Some delegates stated that the challenge of climate change required steps that would go further than developing green and environmental technologies to lower greenhouses emissions; it would also require finding a new global energy model that all economies should adopt – including those of developing and developed countries. Otherwise, many countries would be paralysed by the lack of affordable energy, which would bring social unrest, increasing the social and economic costs of the remedies, and in turn, impacting on the rest of the world.

9. Numerous speakers commented on the relevance and timeliness of the *Trade and Development Report*'s analysis of the crisis and appropriate responses. Some delegates called for UNCTAD to be more critical and indicative, to guide governments from both developing and developed countries on the best way to use decreasing financial aid in each country or region, and the economic consequences of this. UNCTAD should propose solutions to foreign debt management issues, given their impact on development, on poverty and on inequality, and should find creative solutions to exit from the economic crisis. Other speakers noted that UNCTAD should participate prominently in the process to reform the global economic architecture, to support the cause of the world's underdeveloped countries. Within the G-20 framework, UNCTAD was requested to work closely with ILO and OECD on questions related to trade liberalization and its effect on employment.