2008 Economic and Social Council, High-Level Segment

Informal Summary of the High-level Policy Dialogue on current developments in the world economy

Monday, 30 June 2008, 11 a.m. - 1 p.m.
UNHQ, New York

High-level policy dialogue among the representatives of UN Department of Economic and Social Affairs, UN Conference on Trade and Development, the World Bank, the International Monetary Fund and the World Trade Organization was held during the 2008 High-Level segment of ECOSOC in New York on 30 June.

Mr. Sha Zukang, Under-Secretary-General for Economic and Social Affairs, serving as moderator, indicated that the High-level Policy Dialogue presented an important opportunity to help understand and define a collective response to many challenges including the financial turmoil, energy and food crises, as well as growing anxiety over globalization. The 2008 *World Economic and Social Survey* (WESS) recommends that a more active policy response, including increased investment and more universal social policies, is needed to help communities and countries better manage these new manifestations of economic insecurity. The weakening global economic environment is compounded by the steeply rising prices of food and energy, resulting in cost of living increases, and social and political unrest in a number of developing countries.

Multilaterally coordinated policy action is necessary to prevent a global recession and a disorderly adjustment of the global imbalances. In the longer run, Mr. Sha called for deep reforms in the mechanisms of international financial regulation and supervision, including broader representation of developing countries in the governance structure of the IMF. He also asked the Economic and Social Council (ECOSOC) to help foster consensus-building for policy coordination.

Finally, citing mixed progress in international development cooperation, Mr. Sha emphasized the need for donors to accelerate the rate of growth of official development assistance (ODA) flows to about 16 per cent per year if they are to achieve the 2010 aid target. Conditionality attached to aid flows should be limited and streamlined to make disbursements more predictable and to eliminate conflicting conditions among donors. The Under-Secretary-General expressed hope that the international community could take on the economic challenges as swiftly as it has responded to the global food crisis.

Mr. Supachai Panitchpakdi, Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), remarked that five years of robust growth was coming to an end and that we must face a new world economy. He outlined seven issues and events that have complicated policy making and called for new tool-kits to deal with these problems.

First, Mr. Supachai cited the unprecedented confluence of crises faced by the world today. As these crises sometimes require conflicting solutions, we need a new global, regional as well as local approach to these challenges. Second, the world is now on the threshold of a breakthrough for the Doha Round of negotiations and a final push is needed. Third, the spin-off effects of the sub-prime mortgage crisis need to be examined to see if the bottom of the crisis had been reached or if there is possibility of its further deepening. Fourth, financial flows from developing to developed countries persist, and there is strong movement in sovereign wealth funds that bring challenges. Fifth, he noted the challenge of inflation, especially in developing countries, which requires the international community to take a global approach. Next, there is a need for countries to take action to cope with increasing energy prices. Finally, the food crisis needs a long-term solution beyond short-term humanitarian relief. Mr. Supachai called for a second green revolution in Asia and a first in Africa, indicating that we already possess adequet technologies to provide food for staple consumption, cash crop and trade.

Given the complex situation, Mr. Supachai enumerated some policy options that governments could consider taking. First is to strengthen market mechanisms to ensure they work at their optimum level. Such actions should be supplemented by global collective governance. Secondly, in dealing with inflation, he cautioned against over-adjustment that might hurt economies and urged developed countries to consider their policy impacts on other countries. For developing countries, he suggested to adjust monetary policies to encourage people to save more. Thirdly, on agricultural development he cited the recent call by the United Nations Secretary-General on three key actions: delivering various immediate food assistance needs; minimizing export restrictions; and increasing the share of agriculture and rural development in ODA. Agricultural policies must be complemented by research and extension programs that had resulted in the Green Revolution of the 1970s. Fourth is a global energy strategy that promotes, among others, energy efficiency, conservation, alternative energy sources and more public transportation. Fifth is to complete the Doha Development Agenda and to expedite aid for trade. Lastly, we need to revisit Poverty Reduction Strategies to ensure targeted subsidies and assistance and disciplined macroeconomic policies with least impacts on the poorest segment of society.

Mr. Murilo Portugal, Deputy Managing Director of the International Monetary Fund (IMF), noted that the global economy is slowing in the wake of financial dislocations and the effects of soaring commodity prices on global demand. Although global activity seems to be more resilient to the financial shock than the IMF originally feared, a protracted slowdown is still anticipated. There are important downside risks to the outlook: accelerated inflation risks from rising commodity prices, limiting central banks' room for maneuver; fragile overall market confidence and the potential for wider credit deterioration; and new concerns about protectionist backlash and the possibility of future financial vulnerabilities from the shifting pattern of global imbalances. Each of these challenges is serious in its own right, but their combined impact has wider implications.

Mr. Portugal observed that the task of responding to a cyclical slowdown and dealing with financial strains has been considerably complicated by the volatile behavior of oil and other key commodity prices. Policy makers need to respond flexibly, and work to rebuild confidence and resilience in the financial system. He stressed that no one country can overcome all the complex and inter-related challenges on its own. Therefore, Mr. Portugal called for international cooperation to help find global solutions to interrelated global problems. International institutions should not operate in isolation or compartmentalize the work needed on food prices, on climate change, on biofuels and on achieving the Millennium Development Goals. The efforts must be coordinated to successfully meet the challenges.

Mr. Justin Lin, Senior Vice-President and Chief Economist of the World Bank, noted that turmoil in financial markets, slower growth in high-income countries, and the rise of oil and food prices have all adversely affected near-term growth prospects of developing countries. In this period of uncertainty and increased risks, policymakers in all countries face the difficult challenge of managing the short-term slowdown and potential financial stress against the risks of rising inflation. Although developing countries have shown impressive resilience so far, the combination of lower export growth and capital flows and increasing energy and food prices place particular stress on them. Governments face a daunting challenge of protecting the most vulnerable in a fiscally responsible and sustainable manner. Mr. Lin urged governments to use or expand social safety nets to provide targeted income support and to avoid export bans and price controls. The international community needs to take coordinated action to ensure that countries' immediate humanitarian needs are met and to support the strengthening of their safety nets. Longer-term actions must be taken to facilitate a strong agricultural supply response. A sensible policy towards biofuels is needed, and efforts to improve energy efficiency, manage demand and enhance supply must be strengthened.

Mr. Lin mentioned the mixed progress at the halfway point towards the MDGs. There is considerable variation across regions and countries, yet most MDGs remain achievable for most countries if stronger efforts are made by the countries themselves and their development partners. With a number of high-level meetings taking place, 2008 is a crucial year to generate the necessary momentum to accelerate progress and make it more inclusive and agree on priorities for action and milestones for tracking progress. Strong and inclusive economic growth must be at the center of the strategy to achieve the MDGs, while sound macroeconomic policies, a conducive private investment climate, including access to key infrastructure, and good governance are essential to robust growth. Mr. Lin urged accelerating progress towards the human development goals and integrating environmental sustainability into core development work. He said that achieving a successful outcome of the Doha Round is one of the most important steps nations can collectively take to enhance inclusive and sustainable growth.

Mr. Lin urged donors to scale up aid in line with their commitments. The High-Level Forum on Aid Effectiveness in Accra in September will provide a timely opportunity to address the issues of scaling up aid and ensuring its effectiveness. More innovative public-private partnerships are also needed to leverage more private capital in support of development. The Financing for Development conference in Doha represents a unique opportunity to re-energize the mutual accountability framework by reaffirming and building on the commitments made in Monterrey.

Ms. Valentine Rugwabiza, Deputy Director General, WTO, briefed delegates on the present status of Doha Round and steps planned for the near future. Global attention on the negotiations has increased due to economic slowdown and rising food prices. A successful conclusion of the Round, along with other measures, can create the necessary impetus to return to a path of economic growth. The promise to address the concerns of developing countries has yet to be fulfilled. Yet, much progress has been made, including in Agriculture and Non-Agricultural Market Access (NAMA). Already, negotiators have agreed on the elimination of export subsidies by 2013 and their marked reduction by 2010, and they aim to strengthen and develop new disciplines for other forms of export support. Members are working towards cutting tariffs according to a methodology where there will be deeper cuts on higher tariffs, generating new business opportunities and providing potential for increased and more diverse South-South trade.

A Ministerial meeting has been called in latter this month, which will attempt to bridge the differences that remain, including modalities for cuts in trade distorting support in agriculture and cuts in tariffs in both agriculture and industrial goods. Ms. Rugwabiza observed that while the outstanding issues are difficult, they can be resolved if Members show the necessary political will. She stressed that the urgency of concluding the Doha Round is more acute than at any point in the last seven years, and not concluding the Round could have serious implications for development and for investment in developing countries. A successful conclusion will also have important implications on commodity prices, provided that trade-distorting agriculture subsidies are addressed and import tariffs for agricultural products are reduced. She urged developed and larger developing countries to look beyond mercantilist gains and resist domestic protectionist pressures in order to rebalance the multilateral trading system in favour of development and poverty reduction.

Following the opening statements, two interventions were made from the floor.

Mr. Ricardo Ffrench-Davis, Chair of the Committee for Development Policy (CDP), reported on some key findings of the work of the Committee. He stressed the need for a development-friendly international financial architecture to provide adequate counter-cyclical official liquidity to low- and middle-income economies when they are affected by external shocks. There is a great urgency to improve existing compensatory financing mechanisms and/or design new ones where gaps exist, arising from the gloomy global economic outlook and the increases in price of oil and foodstuffs. Although some countries have built reserves and fiscal resources, high levels of reserves carry large burdens in terms of the opportunity costs of productive investment foregone and direct financial losses due to relatively low interest earnings on reserve assets. Official compensatory flows can play a crucial role in avoiding unnecessary, inefficient costs to developing countries by reducing the need to hold such high levels of reserves and by helping to avoid recessive adjustment. This can be a very effective mechanism to protect economic growth and incomes of poor people in affected countries.

To improve the volume and quality of compensatory financing, the Committee considered that reinitiating issues of special drawing rights (SDRs) could be directed to finance a significant increase in the availability of compensatory financing. The Committee also recommends that the reform of the existing compensatory financing mechanisms of IMF should be greatly simplified. All compensatory facilities should have the attributes of speedy disbursement, scale that is commensurate with the external shocks, and low conditionality to maximize the beneficial impact on the recipient countries.

Mr. Achim Steiner, Executive Director, United Nations Environment Program (UNEP), stated that UNEP's work is integral to both the sustainable development agenda and the world economic outlook. Markets try to rationalize trends and predictions about the future state of the global economy. Long-term development trends are inextricably linked to the ways economies are investing in certain pathways. For example, UNEP's Sustainable Energy Finance Initiative Investment Outlook 2008 reports 60% growth from $33 billion in 2005 to $150 billion in 2007. Last year, over one fifth of total new power generation in the global electricity system was in the renewable energy sector. This trend is seen in all economies, with higher rates of increase in developing countries, and one-fifth of total world investment last year being made in China, India and Brazil alone.

In responding to the many crises with which we are confronted, Mr. Steiner said it is necessary to look at the opportunities of transformation through the lens of sustainability, requiring a more efficient, effective and intelligent use of the available resource base. In the mitigation field, the transformation in the energy mix and in the energy investment patterns of the next decades can fundamentally address climate change, and also the MDGs and the UN development agenda. The renewable energy sector is a precondition to achieving change in energy and electricity in particular. Mr. Steiner concluded by stating that we have a unique opportunity in the next two years to look at the energy economy, the response to climate change and the development agenda as an integral package. He appealed to governments and international financial institutions to take a more proactive approach to rapidly evolve coherent policy frameworks and incentives that in turn support the lead being taken by investors and financiers in the renewable energy markets.