Statement to the Second Committee
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Chairperson,

I would like to congratulate you and other members of the Bureau on assuming the stewardship of the Second Committee during the current session. The Committee is in very capable hands to take up the challenges ahead. May I also take this opportunity to thank your predecessor, Ambassador Iftekhar Ahmed Chowdhry, who so ably led the work of the Committee during last General Assembly.

Let me start with a sense of where the world economy stands at this juncture. After strong growth in the second half of 2003 and early 2004, the global expansion slowed down during the second quarter of this year. While some of this weakness may extend further into the rest of the year, the profile of the global economic outlook for 2004 and 2005, as reported earlier in this year's World Economic and Social Survey, remains fundamentally valid.

The Survey had warned that the strength in the world economy remained largely cyclical and that the accelerating phase of the global expansion would end gradually in the second half of 2004. It now seems that the world economy softened earlier and, in some economies, to a larger degree than expected. The United States and China have continued to provide the major impetus to global growth. Both of these engines have now shifted to lower gears. The crucial question is whether the recent slowdown is just a temporary blip, or it portends more troubles to come.

A number of factors have contributed to the recent lull in the global economy: higher oil prices; weak and unstable recovery of employment in a large number of economies; a reversal of recovery in the global information and telecommunication technology sector (ICT), and the effects of policy tightening measures adopted in some economies to curb overheating.

Among these factors, the surge in oil prices has been the most salient. The major driving force behind the persistent rise in oil prices has been global oil demand. This has been growing by an average of more than 2 million barrels per day, the fastest rate in recent history. The situation was also exacerbated by the geopolitical developments in the Middle East, uncertainty in some of the oil producing countries in other parts of the world, the weakness of the United States dollar vis-à-vis other major currencies, and the herd behavior of speculative investors in the oil-futures market.

The future trend of oil prices remains the leading uncertainty for the world economic outlook. The recent upward pressure on prices is unlikely to dissipate soon. Therefore, the negative income effects from the high oil prices will continue to curb global growth in the short run. The high energy prices would also have serious implications for the oil importing developing countries, particularly the LDCs. High expenditure on oil imports may lead to diversion of resources devoted to development goals. But we do not anticipate that it will develop into another global oil crisis because there is no major disruption in oil supplies to trigger a sharp, worldwide erosion of consumer and business confidence.

Other factors behind the lull in the global economy include the weak and unstable recovery of employment in a large number of economies and the effects of policy tightening measures adopted in some economies, particularly in China, to curb overheating.

Notwithstanding the recent slowdown, there remain some resilient signs in the world economy: business investment continues to strengthen in the majority of economies, international trade is still growing solidly, global inflation remains low and the international economic environment, including external financing conditions, remains favourable for most developing countries. Indeed, despite the moderate increase in interest rates in the United States, monetary policies in the industrial economies continue to be broadly supportive of economic growth.

The momentum in international trade has played an increasingly important role in supporting the upswing of the business cycle, requiring more and faster progress in multilateral trade negotiations. An encouraging sign, after a long period of stalemate, has been the decision by the General Council of the WTO on how to proceed with the Doha Work Programme by setting forth a framework for future negotiations on trade liberalization. A major step forward was the agreement on modalities on agriculture. Despite the progress, many difficult issues remain and more swift action needs to be taken to fulfill the goals set out in the Doha Development Agenda and to promote growth in developing countries.

The most recent indicators show that some economies are rebounding from their second quarter lapse. On the other hand, several downside risks and uncertainties persist, including the twin deficits in the United States, the possibility of a further rise in oil prices, and a prolonged weakness in the labour market. In short, risks for a continued deterioration in the world economic growth in the rest of 2004 are not high, but the accelerating phase for the global recovery may be over. Economic growth in 2005 would be a quarter or perhaps even a half percentage point lower than the 3.5 per cent predicted earlier this year.

What impact will this slowdown have on the development goals? On the basis of the current outlook, one can make the following observations. First, the negative impact of higher energy prices is significant: an increase in world oil prices of $10 per barrel is thought to depress global real GDP by ½ to 1 percent within one to two years. Second, the slower pace of the global expansion implies fewer resources available for financing development, whether in the form of investment or aid. Third, the eventual correction of the large US external payments deficit will require one of a combination of the following factors: (i) a substantial further depreciation of the US dollar against major other currencies, (ii) a slowing of domestic demand growth in the United States below output growth, and (iii) a rise of output growth relative to domestic demand growth in the rest of the world. The first two of these adjustments would have a depressive effect on global growth, unless they take place gradually and are offset by the third.

With 2005 marking the start of the 10 year countdown to 2015 –the target date for the Millennium Development Goals–, prospects of slower economic growth are not encouraging. And yet, policies that can lead to significant advances in the development agenda have been identified – and have been repeatedly committed to, at the Millennium Summit and Monterrey, among others. Sustaining stable and strong growth in the global economy must be a priority. It requires the orderly resolution of fiscal and external imbalances, especially the large U.S. external current account deficit.

A successful and timely outcome to the Doha Round will promote development in poor countries. The elimination of agricultural export subsidies and the reduction of production subsidies, particularly those that are trade-distorting, remains a priority item in the agenda. There is an urgent need to reduce tariff peaks and tariff escalation in industrial countries and to agree in a mechanism to reduce tariffs in manufactures that does not affect developing countries disproportionately. Unfortunately, as tariff barriers have come down, developed countries have increasingly resorted to non-tariff barriers; these need to be curtailed. Priority should also be given to the international provision of services that use unskilled labour, particularly through the facilitation of the temporary movement of workers.

Moreover, aid flows need to rise well above current levels, and the commitments made in Monterrey must be quickly translated into action. There is also substantial scope for increasing the effectiveness of aid, by better aligning it with national development strategies and priorities, and harmonizing donor policies and practices with the recipient country's own systems. These actions must be part of a coherent overall approach in support of development.

Despite recent improvements in debt indicators, there is an emerging consensus on the need for significant enhancements in current debt relief policies. While implementation of the Heavily Indebted Poor Countries Initiative continues to progress slowly, too many countries, especially in Africa, are still being forced to choose between servicing their debts and making the investments in health, education and infrastructure that would allow them to achieve the MDGs. Recent proposals to increase multilateral debt relief to 100 per cent of a country's obligations and offer debt relief to other-than-HIPC countries deserve broad support, but can only succeed if matched by additional resources. A satisfactory solution for heavily indebted middle-income countries that are not eligible for relief under the HIPC initiative should also be found. All these actions must be part of a coherent overall approach in support of development.

Finally, conflict is one of the biggest obstacles to attainment of the MDGs. Fifteen of the 20 poorest countries in the world have had a major conflict in the past 15 years. Conflicts have spilled across borders, affecting neighboring states. Nearly every low-income country is adjacent to a country that has experienced breakdown and war. Conflict has impoverished countries in every major region, in many cases wiping out the achievements of decades of economic and social development. The destruction of physical assets, disruption in trade links, and loss of human capital are devastating but are only part of the problem. Violent conflict also leaves a legacy of militarized and divided societies, widespread displacement, and decimated institutional capacity. There is a growing realization that a more comprehensive approach needs to be promoted to conflict prevention, resolution and post-conflict development. Such an approach would greatly contribute to the realization of the MDGs.

Distinguished delegates,

Turning to the agenda you have been mandated to undertake, I wish to add my voice to that of the outgoing bureau of the Committee, and emphasize that if the General Assembly is to reassert its role in guiding global cooperation in economic, social and environmental matters, further efforts are needed to make the outcome of its work more visible and more relevant. This would also strengthen the overall impact of the United Nations in advancing the implementation of internationally agreed development goals, particularly the MDGs.

This session offers important opportunities. Among the central issues before you is the follow-up process for the International Conference on Financing for Development. Further reflection is needed on how to strengthen it and keep it focused on achieving results in all areas of the Monterrey Consensus. In this context, you will also consider Innovative Sources of Financing. This broad subject has been enriched by many recent initiatives and detailed conceptual studies such as the Joint Brazilian-French-Chilean-Spanish initiative; the UK proposal for an International Finance Facility and the WIDER report requested by the GA. All these will need to be carefully examined and decisions must be taken on what issues should be pursued in depth.

The Joint Brazilian-French-Chilean-Spanish initiative has also highlighted the importance of curtailing tax evasion as a mechanism to finance development. This underscores the relevance of the current discussion on strengthening international cooperation in tax matters within ECOSOC. A successful conclusion would represent progress toward implementing the policy agenda of the Consensus.

An important decision will have to be taken by the General Assembly regarding the 2005 High Level Dialogue on Financing for Development and how to synchronize its timing with the 2005 Event to review the progress made in implementing the Millennium Declaration. The outgoing president of the General Assembly made some efforts to find areas of consensus in this regard and hopefully the Assembly will be able to build on them.

The Committee will also deliberate on the 2004 Triennial Comprehensive Policy Review (TCPR). ECOSOC last July recognized that the United Nations system has made significant progress in implementing reforms. It also highlighted some of the issues and challenges that need to be addressed in the upcoming discussions. More demand driven support, guided by well-rooted, broadly owned national development strategies, remains a fundamental challenge for the UN system. Facing this challenge will require better aligning and integrating UN system programming with national development processes and a broader and rationalized participation of the UN system at large on the basis of country needs and priorities.

The issues of capacity, both of recipient countries and of the UN system, the issue of funding and that of the governance of the UN system at the field level, emerged as critical to ensuring further progress in the achievement of the international development goals. As the international community reaches a turning point next year in the global effort to achieve the MDGs, the upcoming debate on the TCPR will need to address whether the UN system is well equipped to play an effective role in this major undertaking and how best the vast knowledge and expertise of the entire system can be tapped to promote development goals at the country level.

Chairperson,

World leaders recently reminded us that the persistence of extreme poverty and hunger is economically irrational and politically unacceptable given the state of technological progress and agricultural production worldwide. We must heed their call to action. It is clear that technology, money, and geography are not the obstacles. What is lacking is willpower. Propelled by a shared sense of urgency and the certainty that what we can achieve together is far greater than what we can achieve alone, we must act now.

Next year's first comprehensive review of the Millennium Declaration will be a major test of our resolve. It is also an opportunity to bring development back to center stage. Preparations have started for the 2005 event and your engagement in the process is essential, both for the mobilization of the broadest range of actors and the public at large, and for an effective follow-up.

I look forward to working with you, Chairperson, the bureau and all members of the Committee to address the challenges ahead of us in the pursuit of our shared development agenda.