



ESTONIA

**ADDRESS BY
H.E. MR. URMAS PAET
FOREIGN MINISTER OF THE REPUBLIC OF ESTONIA
TO THE UNITED NATIONS
CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC
CRISIS AND ITS IMPACT ON DEVELOPMENT**

United Nations Headquarters
New York, 25 June 2009

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Address by the Foreign Minister of Estonia Mr. Urmas Paet

**United Nations Conference on the World Financial and Economic Crisis and Its
Impact on Development**

24.-26. June 2009, UN Headquarters, New York

Ladies and Gentlemen

I would first like to align myself with the statement made by the Czech Republic on behalf of the European Union.

The world is coping with difficult times. We are witnessing the greatest economic recession since World War II. No continent, region or country is left untouched by this crisis. The World Bank just on last Sunday published the new Global Development Finance Report for 2009. Global growth is expected to be negative in 2009, with an estimated 2.9% contraction of global GDP.

Most of the attention around the unfolding global financial crisis is focusing on its causes as well as effects in the banking and broader finance sector, particularly among developed and leading emerging economies. However, in a global world economy, the crisis also has serious implications for developing economies, which are increasingly dependent on trade, foreign investment, and remittances to meet their economic growth and social needs.

The global economic and financial crisis follows hard on the heels of the food and fuel price shock, which, according to the estimates of the World Bank, has already had disastrous effects on the poor: 100 million people have been driven into poverty in the last two years as a result of high food and fuel prices. In 2009, the spreading crisis may drive other 53 million people into poverty, thus bringing the total number of those living below the poverty line in developing world to over 1.5 billion.

The impact of crisis has hit developing countries through many channels. Combined effect of falling remittances and export and commodity demand, slumping aid and private capital outflows with dropping net inflows means that a large number of developing countries will

face a serious financing shortfall already this year. Some countries are limiting hard currency exchange for their people, impeding thus travelling as well as export. It has been said that what took Africa a decade to build is rolled back in six months.

We are deeply concerned about the impact of the global economic crisis on the developing world, and the serious setback this is having on efforts to meet the Millennium Development Goals. In an increasingly globalised world, where seemingly distant crises can spread quickly across the globe, the response must be truly global, coordinated, flexible and fast. The United Nations family has an important role in creating this coherent response. The major policy challenges need to be addressed at country level, but it is now more critical than ever that the international community acts in a coordinated and supportive way to make each country's task easier.

The financial crisis has also demonstrated the risks of excessive use of leverage and disclosed weaknesses and gaps in the regulation and supervision of the financial sector. We must respond to this crisis by remaking our international institutions for the challenges we face today. The development finance institutions, backed by the assets of industrialised countries, should play a strong countercyclical role by providing credit in areas from which commercial players have retreated, thus helping to finance social safety nets as well as long-term investments in agriculture, infrastructure, and sustainable energy.

Economies are receding in countries with both closed and open economies, in exporting and importing countries. Global disruptions and the economic crisis are affecting also my country, Estonia. As a small and very open economy, Estonia felt changes especially quickly and sharply. The most serious problems were created by the sharp contraction in global trade at the end of the last and at the beginning of this year. Despite the first positive signs of a halt in recession, risks to economic growth have not notably mitigated. The main preconditions for a rapid recovery of steady economic growth are to enhance economic growth and export, and in my country's case the clear perspective of joining the European Union Euro area in the near future and restoring fiscal balance and surpluses in the years ahead.

Estonia has collected considerable reserves over the past few years, which will ensure the sense of security and solvency that we badly need at this moment of crisis, but eating up our

savings as if it were fast food cannot be a rational solution to the situation. Our government and parliament have been fiscally prudent and introduced severe budgetary cuts. The cutting of budget expenses is indeed painful and unpleasant, but still essential. Only in this way can we avoid an excessive increase in government debt, keep some reserves for the future, and maintain the hope of joining the Euro area in 2011.

I would like to stress the importance of trade in fighting the global recession. Estonia has a positive experience with the trade liberalization and we believe that this can be one of the best guarantees for the economic development of all countries. However, in order to be able to reap the benefits of global competition, a gradual approach is necessary allowing countries to adjust to the world market. For this to succeed, liberalization has to be accompanied by serious reforms supporting competitiveness.

Trade policy reform process can be designed in order to contribute to sustainable development. This is a complex issue of sequencing and taking into account both national and regional specificities. I have no doubt that reforms are crucial for creating a conducive environment for sustainable development. From our own experience, we can say that Estonia reformed its economy, including trade policy, in a big radical overhaul, but I wouldn't assume this would work universally; therefore I would stress the transparency as the key word in creating support for further changes, including simplification of rules and procedures. The key challenge here is the political willingness to change. Trade is a part of a solution, not of a problem.

I would also like to touch upon a very important topic of foreign direct investments. Here I will speak as a representative of the country where foreign direct investments have indeed been an engine of growth. We believe that this could be one of the possible models for other countries as well and therefore attracting investments is important. Our experience shows that the liberal investment framework together with other necessary elements like rule of law, good governance, modern infrastructure and general openness of the people create the most attractive environment for the investors, which in turn keeps both international and domestic entrepreneurs interested. A country's investment policy could also include some prioritizing of sectors and areas where the investments are most welcome. Good governance

is needed to guarantee that the benefits of the involvement of foreign capital are extended to widest possible share of population.

It is also important to stress that foreign direct investments often contribute to the transfer of technology and intellectual know-how and therefore are conducive to the economic development.

The road ahead of us is long, but we have to take it. I am convinced that discussions at this conference will bring us at least one step closer to finding suitable reactions to the crisis.

Thank you for your attention!