Statement by Rubens Ricupero
Secretary-General
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Mr. Chairman,

There can no longer be any doubt that the world economy is facing an exceptionally serious downturn. Still, the fact that so few pundits or policy makers were, until very recently, willing to contemplate this possibility stands as a testament to the need for fresh thinking on the workings of the global economy and its future direction.

UNCTAD has consistently offered a perspective that looks closely at systemic dangers arising from serious imbalances and biases in the global economy. That perspective reflects our concern that many developing countries have not been enjoying the promised benefits from an increasingly open global economy at the same time as they have become ever more vulnerable to shocks and crises originating from abroad. In the run-up to the WTO Ministerial meeting in Doha, developing countries have been taking a very hard look at the international trading system. They should also pay attention to the international financial system. Indeed, in today’s interdependent world, developing-country policy makers need to address trade and financial matters together.

Since the Asian crisis the discussion of reforming the international financial system has been ad hoc and governed, to a very large extent, by attempts to discipline debtors. How to bring greater balance and coherence to that discussion will be one of the main challenges to be faced at the forthcoming UN Conference on Financing for Development in Monterrey.

Mr. Chairman,

The global economic turnaround has been dramatic. In 2000 the world economy attained its highest growth rate for more than a decade. The United States continued to lead, entering its 9th year of expansion. Europe was also showing signs of stronger growth amidst expectations that it would, at last, begin to pull its weight in the global economy. Japan also seemed poised to tackle the structural obstacles that had held back growth for much of the 1990s. In the developing world, recovery continued apace in the crisis-hit Asian countries with growth figures in some cases back in familiar territory. Latin America also posted one of its strongest performances since the debt crisis of the early 1980s, despite the continued decline of the Argentine economy, while growth optimism infused China and India. A
marked improvement in the Russian economy also helped the transition economies register their highest growth since the collapse of the Berlin Wall. Only Africa continued to disappoint.

We now know that the unravelling of the technology-led boom in the United States was already well under way by the third quarter of 2000. Investment in machinery and business construction collapsed and manufacturing activity slackened. Labour markets remained firm, however, and consumption stayed buoyant into the first quarter of this year, holding out the hope of a soft landing. This has not happened: with a marked deterioration in consumer confidence over the summer the economy was edging towards outright recession, even prior to the events of 11 September.

The extent to which a strong global economic performance has depended on the expansion in the United States is now becoming apparent. The Eurozone, led by Germany, has been hit much harder than expected both by slowing export demand and by sharply lower sales from their US-based affiliates. With unemployment again rising from the second quarter of 2001, any lingering hopes that spending by European consumers could compensate for falling investment have been dashed. Japan has also been unable to replace declining exports with demand from other sources and with unemployment exceeding 5 per cent, confidence in both the household and business is again flagging.

The three leading industrial economies (the US, Japan and Germany) are now heading for recession simultaneously. Overall growth for the developed countries is likely to be as little as 0.5 to 1 per cent this year. The hope of a quick recovery rests on a strong turnaround in the United States in the second half of next year, driven by the determined efforts of policy makers to use monetary and fiscal policy to stimulate domestic demand and by a revival of investment in the new economy. However, while there can be no doubting the commitment of policy makers in the United States, it would be wrong to underestimate the gravity of the situation they are facing. Private savings have dropped to historic lows and debt levels are at unprecedented levels for many households. Corporate debt is also very high and balance-sheet restructuring after the bursting of the technology bubble is by no means complete. At the same time sharp declines in consumer confidence are having a significant impact on
spending. UNCTAD’s assessment made at the beginning of this year was that a prolonged period of sluggish growth seemed the most likely scenario. Recent events have not changed that assessment.

At that time, we also expressed our hope that economic policy makers would adopt a bolder stance and begin to test the limits of Europe’s potential growth. Circumstances were favourable: risk premia in financial markets were low, consumers were not unduly exposed to volatile stock prices, and the external balance was in a healthy shape. However, the threat of contagion from the slowdown in the United States has been underestimated in Europe. Perhaps more troubling still, the policy response since 11 September (notwithstanding an immediate gesture of co-ordinated solidarity with the US Federal Reserve which saw the European Central Bank cut interest rates by 50 basis points) has been one of caution. Despite an improving inflation outlook and the likelihood that growth in Continental Europe will drop well below 2 per cent this year, with prospects little brighter for next year, monetary policy has remained fixated on inflationary risks, and the fiscal stance is determined by strict deficit targets irrespective of cyclical conditions. While we welcome the recent cut in interest rates, much more expansionary macroeconomic policies may be needed to combat deflationary threats and to contribute to a revival of the global economy.

Mr. Chairman,

Developing countries are looking at recent events “through a glass darkly”. Many were already anticipating a heavy economic toll in the form of declining export earnings and reduced capital inflows from the downturn in the United States, and their anxieties have been mounting since the events of 11 September. The slowdown in international trade has been particularly sharp this year; and its growth is expected to be no more than 2 per cent, down from the 13 per cent reached last year. The collapse in United States demand has already hurt East and South East Asia where a sharp drop in exports from the electronics sector has led to declining growth rates and a deterioration in current account positions. The recession in Japan has further compounded their problems. Economies such as Taiwan, Singapore and Malaysia have already entered recession. Mexico, with an even higher concentration of its exports in United States markets, is also experiencing stagnant growth and declining employment.
Commodity exporters are also bracing for the worst. Prices which last year had shown some tentative signs of recovering from a prolonged period of decline have begun to drop again. Demand for agricultural raw materials and minerals, ores and metals have all been hit by declines in global industrial production. The declines have been strongly felt across Latin America where fiscal revenues as well as export receipts are sensitive to movements in such prices. Oil prices have also dropped by a third since 11 September.

Private capital flows are also expected to fall sharply this year, dashing any lingering hopes in some emerging markets that they might see an easing of their debt burden with falls in US interest rates. Declining flows have already been especially severe for Argentina and Turkey. Foreign investors facing increased uncertainty in emerging markets have chosen to accept lower rates of return rather than run the risk of increasing or maintaining their exposure, while domestic investors are moving funds to safer havens abroad. Foreign direct investment to developing countries, which had remained stable in the aftermath of the Asian financial crisis, is also expected to fall this year.

Mr. Chairman,

There can be little doubt that since the events of 11 September, the downside risks for all developing countries have increased considerably. The dependence of many on a quick recovery in industrial countries serves to further heighten those risks. This is a situation all too familiar to policy makers in Africa. Many African economies remain dependent on the export of a few basic commodities. Over the past two decades, their export earnings have been severely damaged by secular price declines. Indeed, had the terms of trade of Sub-Saharan Africa (SSA) stayed at the level of 1980, its share in world exports would now be almost twice as high and its income per capita 50 per cent above the current level. And further damage has been inflicted by price volatility for these commodities that further complicates macroeconomic management and discourages investment.

Financial markets have not been any kinder to African growth performance. In per capita terms, real capital inflows to SSA have declined by about two-thirds since their peak in
1981. Moreover, declining private capital flows have been accompanied by declining official flows: in per capita terms, real official flows at the end of the 1990s were less than half the figure of the early 1980s.

The toll has been a heavy one for Africa. UNCTAD has estimated that for each dollar of net capital inflow to SSA some 25 cents went out as interest payments and profit remittances, 30 cents leaked into capital outflows and reserve build-up, while 51 cents made up for terms of trade losses. On these calculations, SSA has actually been transferring resources to the rest of the world over the past two decades.

Mr. Chairman,

Africa`s predicament highlights the challenges likely to face many developing countries over the coming years. With liberal trading regimes in place throughout much of the developing world, growth has been sucking in a greater volume of imports than in the past. Hot money helped fill the gap in some countries in the 1990s. But with slower growth prospects in the North, more cautious investor sentiment towards developing countries, declining commodity prices, and uncertain prospects for many labour-intensive manufactured exports, the external constraint on development is tightening.

Since austerity and import retrenchment now constitute a threat to growth in the developing world, provision of liquidity to these countries could constitute a major source of global expansion and stability. This would require mobilization of the full resources of the Bretton Woods institutions, including the facilities established at the IMF for emergency and contingency financing. Consideration could also be given to the use of reversible SDR allocation as and when needed. In addition, other measures needed to handle the consequences for developing countries of the disruptions of international markets could include write-offs as well as deferral payments on official debt. Private creditors could also be encouraged to provide some breathing space for debtors experiencing serious payments difficulties.
From this perspective, the upcoming Conference on Financing Development in Monterrey is particularly important in two respects. In the first place, and coming as it does at a time of global downturn, the Conference will provide an opportunity to rethink how the international financial system can be better organised to address the problem arising from the tendency of private capital flows to decline precisely when they are most needed. But systemic issues must also be addressed if reforms by developing countries at home are to hold out any hope of success. Making headway on both fronts will require a judicious mixture of boldness and compromise.