Statement by

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World economic situation and prospects

The recent global financial turmoil has heightened the downside prospects of the world economy. We are maintaining our projection for global growth in 2007 at 3.4 per cent, as presented earlier this year in the UN’s World Economic Situation and Prospects 2007 (http://www.un.org/esa/policy/wess/wesp.html). To a large extent, this projection foresaw the serious spillovers from the US housing sector meltdown to the world economy. Meanwhile, we have downgraded our growth projection for 2008 from 3.6 per cent to 3.0 per cent.

As we warned in January, a bursting of the housing bubble in the United States could cascade during 2007, with a collapse of the sub-prime mortgage loans eventually leading to a full-scale credit crisis in major developed markets in the summer.

The impact of the recent financial turbulence on most developing countries has been relatively small so far. Because of ample credit availability in the last half-decade, growth has been relatively strong among developing countries and this has underpinned their improved macroeconomic fundamentals. Some Asian and oil-exporting developing countries have built up substantial foreign exchange reserves. Yet, growth in developing countries remains highly dependent on demand from developed countries and on the prices of primary commodities. A U.S. slowdown will likely undermine the external conditions for the growth of most developing economies.

The major downside risks for the growth and stability of the world economy in the short to medium run include: further deterioration of housing loan assets in the United States; a precipitous fall of the US dollar, triggering a disorderly adjustment in the global imbalances; and a continued surge in oil prices driven by supply-side shocks. Any one of these or, worse, any combination of these could slow global growth and seriously jeopardize developing country prospects for achieving the Millennium Development Goals.

To address the deeper roots of the current financial turmoil, policy makers worldwide would need to reassess systemic risks and enhance multilaterally agreed financial regulations to keep pace with financial innovations and maintain systemic stability.
Legitimacy, relevance, voice and participation in the Bretton Woods institutions

Concerted policy action and strengthened multilateral surveillance require credible international mechanisms to guide such processes. Yet, the legitimacy and relevance of global financial institutions, which should serve as fora for discussions on critical global issues and as vehicles for multilateral action, have sharply declined. Net financial flows from the Bretton Woods institutions have tended to be negative in the last ten years, in some years, significantly so. The recent build-up in international reserves by developing countries, ostensibly for “self-insurance”, and their sharply reduced use of World Bank resources, particularly by middle income countries, cannot be dissociated from questions about how well the Bretton Woods institutions sufficiently meet the needs and concerns of the majority of developing countries. At this point in time, significant reforms in the voice and representation in these institutions should be viewed as a matter of utmost urgency for both agencies.

The September 2006 meetings’ reforms claimed to address the imbalances in representation in the International Monetary Fund by increasing the voting shares of four dynamic emerging economies and promising to double the total share of the basic vote, thus enhancing voice and representation of low-income countries. However, in the most recent IMF staff paper on quota and voice reform, proposals could lead to an increase in the voting power of advanced countries, rather than developing countries. Restructuring IMF voting allocations is a political decision of the world community which should result in genuinely significant reforms in the distribution of voting power in the IMF to achieve effective global governance.

Meeting aid and ‘Aid for Trade’ commitments

Both current and projected levels of ODA for the period 2006-2010 are still falling well short of targets. Since 2005, there has been a marked slowdown in official development flows. The increase in ODA during 2005 was mainly due to debt relief and humanitarian assistance following the 26 December 2004 tsunami, leading development aid from OECD countries to fall in 2006 by 5.1 percent in constant dollars.

There continues to be an urgent need to increase the volume, quality, and reliability of aid flows to meet the internationally agreed development goals, including the MDGs. Donor countries should meet both their ODA targets and debt relief commitments. In the spirit of Monterrey, the new Development Cooperation Forum of the UN Economic and Social Council should provide the appropriate venue for donors and recipients to further conceptual and operational work on what kind of flows should really be counted as “aid,” which at present is only defined by donors.

Efforts are also needed to design new mechanisms to ensure predictable and stable aid flows aligned with the recipient country’s long-term development strategy. The third High Level Forum on Aid Effectiveness at Accra in 2008 should not only review progress in implementation, but also look at concrete actions to accelerate and deepen effectiveness, focusing on such cross-cutting dimensions as ownership, accountability and capacity building.

Concrete actions in mobilizing resources in support of the ‘Aid for Trade’ initiative should be truly additional and development-oriented and not wait for the conclusion of the Doha round of trade negotiations. Conceptually, Aid for Trade is supposed to be supplementary and independent of market access and other agreements that could emerge from the Doha negotiations. However, the Aid for Trade initiative is, almost by definition, a backdoor for new conditionality while substituting for increased market access and serving as a bargaining chip in trade negotiations. Instead, it should
genuinely strengthen the trading and production capacities of poor countries, mitigating the costs of further trade opening (to compensate for the loss of productive capacities and trade reversals) and putting them in a better position to reap the benefits of increased international trade.

**Addressing climate change**

The international community is increasingly recognizing both the power and the limits of voluntary efforts to address climate change and is establishing effective multilateral processes and commitments that recognize the common but differentiated responsibilities and respective capabilities of different countries. While a step in the right direction, the Kyoto protocol is proving to be a limited mitigation response, given the enormity and urgency of the challenge. Carbon trading is not proving sufficient or effective and the Clean Development Mechanism can be used by some developed countries as a way to avoid deeper changes. The UN Climate Change conference to be convened in Bali in December 2007 provides the opportunity to renew and broaden efforts involving both strengthened mitigation and adaptation measures.

Efforts to address climate change should give greater attention to two longstanding issues in multilateral approaches to international development -- technological cooperation and financial investment. A strengthened partnership between developing and developed countries will require significant long-term commitment to climate change mitigation and adaptation by all parties.

A global “big push” in technological innovation to “de-carbonize” production processes and living standards is urgently needed. To that end, substantially increased research and development investments will be needed in new energy technologies. Developing countries, still needing to increase their investment and growth, require international cooperation to ensure their investments significantly reduce carbon dependence. Because these technologies are, themselves, not in prevalent use in the developed countries, increased international cooperation to identify, develop, transfer and adapt these technologies to the needs of poorer countries is necessary. Recognizing that climate change is a shared and urgent global concern, we must also address the problems of intellectual property rights arrangements that limit the adaptation of more climate-friendly technology in developing countries. Rapid technological change requires much higher rates of climate friendly investments.

Existing estimates of the amount of financial resources needed for mitigation of and adaptation to climate change fall within the wide range of 1 to 3 percent of global output. These estimates, including those from the United Nations Framework Convention on Climate Change (UNFCCC), suggest that the resources needed for investment in developing countries alone are much higher than current levels of total ODA from DAC countries. There is an urgent need for multilaterally coordinated efforts to generate new sources of financing for climate change mitigation and adaptation, including carbon taxation.

**Financing for Development: Monterrey follow-up conference in Doha in 2008**

The current financial turmoil is a manifestation of deeply rooted economic interdependence among economies and points up the importance of multilateral approaches in dealing with critical economic matters.

The Monterrey Consensus produced a global partnership for development in which developing countries would adopt policies to improve the mobilization of domestic resources while developed countries pledged to provide additional financing and improved access to their markets to
ensure that these policies had the potential to produce the desired results, in terms of growth, macroeconomic stability and poverty reduction.

Since then, developing countries have introduced macroeconomic policies to achieve price stabilization and orderly government finances, along with microeconomic reforms to increase economic efficiency and various measures to improve governance and the rule of law. However, more prudent macroeconomic policies and adjustments have not always yielded the growth, job creation and increased efficiency in social spending that are needed to make adequate progress towards poverty reduction.

As noted above, official assistance has not only fallen short of requirements, but has actually declined in terms of the real transfer of resources. Direct contributions to national budgets of developing countries -- generally recognised as a surer means of making aid more effective -- have declined. And political interests continue to influence the flow of aid more than interest in achieving the internationally agreed development goals, including the MDGs. The Monterrey follow-up process thus has to provide more clear-cut commitments from advanced countries, as well as more effective mechanisms for monitoring and channelling financial and trade support to developing countries.

The UN General Assembly has called for an international conference on financing for development to be convened in Doha in the latter half of 2008 as a follow-up to Monterrey to “reaffirm goals and commitments, share best practices and lessons learned, and identify obstacles and constraints encountered, actions and initiatives to overcome them and important measures for further implementation, as well as new challenges and emerging issues.” We urge the active participation of all stakeholders in the preparatory process for this conference, which begins next week with the Assembly’s two-day High-level Dialogue on Financing for Development. We must seize this opportunity to strengthen implementation of the Monterrey Consensus and its contribution to development.

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