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Special high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development

Provisional summary record of the 5th meeting

Held at Headquarters, New York, on Monday, 12 March 2012, at 3 p.m.

President: Mr. Koterec. . . . . (Slovakia)

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The meeting was called to order at 3.05 p.m.

Coherence, coordination and cooperation in the context of financing for development (*continued*) (E/2012/7)

Address by the Secretary-General of the United Nations

1. **Mr. Ban** Ki-moon (Secretary-General of the United Nations) said that the world had changed dramatically since the 2011 high-level meeting with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development. The Arab Awakening, which had shown the power of people to write history, had had young people and women at its forefront. They had taken to the streets, risking their lives, and too many of them had died for freedom and democracy. Their yearning for rights and dignity had reverberated around the world.

2. The special meeting should address global stability in the broadest sense as poverty, discrimination and violence fed on each other. The Council had chosen to focus on two critical themes capable of helping to break that vicious circle. Concerning Theme 1, “Promoting sustained, inclusive and equitable economic growth, job creation, productive investment and trade”, there was an urgent need for policies to generate decent jobs with pay sufficient for people to both survive and thrive. In addition to protecting families from hunger and suffering, decent and productive jobs created a generation of consumers with purchasing power that could drive up demand. Job creation policies should support the small and medium-sized companies that generated the most employment and income opportunities. Official development assistance (ODA) remained vital, and greater attention should be paid to the principles of responsible borrowing and lending.

3. With regard to Theme 2, “Financing of sustainable development”, it was time for decisive action. Twenty years had passed since the United Nations Conference on Environment and Development, held in Rio de Janeiro in June 1992 (the Earth Summit), and 100 days were left until the June 2012 United Nations Conference on Sustainable Development (Rio+20), which offered a once-in-a-generation opportunity to agree on sustainable solutions in the areas of the environment, the economy and equity that could build the future the participants wanted.

4. The participants in the special meeting should become engaged with the Rio+20 process in order to ensure its success. Sustainable development encompassed nutrition for poor children, safe drinking water and health care and demanded policies that could boost economic growth without degrading the environment. Progress could be made on all of those issues by using innovative methods to promote green technologies and providing access and assistance so that the recipients could make the best use of them.

5. His “Sustainable Energy for All” initiative had set three clear targets for 2030: ensuring universal access to modern energy services; doubling the rate of improvement in energy efficiency; and doubling the share of renewable energy in the global energy mix. Such efforts could help to turn the tide on climate change, but success also depended on reaching the agreed target of $100 billion per year in public and private funds for mitigation and adaptation.

6. It was a time of global uncertainty. Declining prospects for economic growth, particularly in developed countries, were threatening the fragile recovery from the world financial and economic crisis; there had been little improvement in global labour markets; and youth unemployment remained exceptionally high around the world. Investment in people and clean technologies would create jobs and finance sustainable development. For those reasons, he would follow closely the discussions of the special meeting and hoped that the participants would carry those discussions forward to Rio+20 and beyond.

Thematic debate of the whole on Theme 1: “Promoting sustained, inclusive and equitable economic growth, job creation, productive investment and trade”

(a) *Presentation on the* World Development Report 2013: Jobs *by Mr. Martin Rama, Director and lead author*, World Development Report 2013, *World Bank*

7. **Mr. Rama** (Director and lead author, *World Development Report 2013*, World Bank), accompanying his briefing with a digital slide presentation, said that the *World Development Report 2013*, the most recent in a series stretching back 33 years, would be issued in October 2012. It was the second of those reports to focus specifically on jobs;

the *World Development Report 1995* had carried the theme "Workers in an integrating world". While the 1995 Report had been devoted to the possible impact on jobs of the conclusion of the Uruguay Round of multilateral trade negotiations and of accelerating globalization, the 2013 Report would reflect the current economic and political circumstances and the fact that globalization was no longer in its early stages, but far advanced. He would focus not on the content of the Report, but on the approach taken in its preparation.

8. While many might wonder at the choice of focus of the 2013 *Report*, given the single precedent in three decades, it could be explained by the urgency of recent interconnected economic and political events, from the global crisis to the Arab uprising. However, the authors of the *Report* had wished to view jobs not only in the short-term context of that urgency, but also in the longer-term context of development. The recent world events had demonstrated that jobs were at the centre of development and had an impact on living standards, productivity and social cohesion. Rethinking development policies with jobs in mind led to a different view of poverty reduction, growth and governance.

9. The *Report* took an approach that could be compared to Schumpeter's economic theory that job creation, destruction and reallocation were the engine of growth; it viewed jobs as the key means of escaping from poverty. The productivity gains achieved in many developing countries had resulted from a relocation of workers from low-productivity jobs to those with higher productivity, often accompanied by a relocation from rural to urban areas. Jobs did not simply provide earnings; whether an individual had a job and the nature of that job affected not just that individual's income, but his or her self-perception and interaction with others.

10. The analytical basis of the 2013 *Report* was the idea that some jobs were better for development than others. A number of themes from previous *World Development Reports* provided a useful illustration of that theory. For example, the 2012 *Report* had focused on gender equality and development; when women acquired jobs and altered the level of earnings in their households, social transformation occurred. The allocation of the household's resources changed, more money was spent on the children and domestic violence diminished. The theme of the 2009 *Report* was economic geography; urbanization and the consequent concentration of population led to social interaction and exchanges of ideas which, while not themselves provoked by market forces, resulted in greater productivity. The focus of the 2011 *Report* was conflict, security and development; idle young men often became enmeshed in criminal or political violence at a high cost to society, but jobs could keep them away from that temptation. Those three examples showed the effect of interaction between job holders and other members of their societies at the household, social, municipal and political levels.

11. Where jobs were concerned, the interests of the individual and those of society usually coincided, as seen from the development of agriculture in Viet Nam. Improving the quality of farming jobs by awarding formerly collective land to individuals and households, substituting individual entrepreneurship for State trading enterprises and bringing agricultural prices closer to those of world markets, combined with agricultural extension, had fuelled development and helped the country to move out of poverty with remarkable rapidity.

12. However, not all jobs that were beneficial to the individual were beneficial to society. Jobs with privileges and benefits that were supported by monopolies on power and cronyism fuelled development far less efficiently. The *Report* sought to identify the jobs most conducive to development in various situations and to explain why there were not more such jobs; it was tempting to blame inflexible labour markets, but the causes might lie elsewhere, for example, in a lack of job opportunities for women, young men or city dwellers.

13. The 2013 *Report* drew on a number of sources, including consultation with States and international organizations, primarily the International Labour Organization (ILO), and the International Trade Union Confederation (ITUC). Since a focus on the jobs most conducive to development could not succeed unless the jobs were also suited to local opportunities, resources and governance, the *Report* also relied on case studies conducted by local researchers from policy institutes, Governments and academic institutions and mentored by international research organizations. The aim was to produce a typology of job situations in order to develop the best profile of assistance for each of them.

14. Countries affected by conflict; countries at an early stage of building formal institutions; countries with agrarian or resource-rich economies, high youth unemployment rates or ageing populations; and small island developing States faced different problems. In resource-rich countries, for example, investments might account for a substantial portion of gross domestic product (GDP) but create only a few hundred jobs directly and a few thousand indirectly while causing the cost of living to rise.

15. Lastly, input would be drawn from an advisory panel composed of government, academic and other experts and leading economists specializing in each of the three key job-related factors: living standards, productivity and social cohesion.

16. The first expected outcome of the 2013 *Report* was a general framework for discussion of the relationship between jobs and development which did not assume that everyone was a wage earner. The existing analytical tools for matching supply of and demand for labour were not suited to the environment of developing countries, in which more than half of the workforce was self-employed or engaged in farming and therefore did not operate as part of a labour market.

17. The second expected outcome — a practical typology of job-related challenges around the world — would help practitioners to identify priorities after determining which jobs were the most conducive to development in a given situation and how those jobs affected living standards, productivity and social cohesion. The results of the case studies produced by independent research teams would be incorporated into a companion volume to the *Report*.

18. The third expected outcome was a body of strong data. Monitoring progress was vital to the evaluation of aid effectiveness, but the existing information on job-related matters was inadequate and not consistently relevant. For example, unemployment rates alone did not provide a comprehensive picture; under-employment, idleness and other ways in which individuals failed to reach their full productivity potential were often more significant. As a result, the World Bank was standardizing hundreds of household and other surveys in order to generate a consistent database.

19. The final expected outcome was a policy agenda for discussion with many stakeholders, including heads of government, ministers of labour and finance, social activists and business leaders, based on what the authors had termed “eight difficult questions”. The aim was to move beyond the conventional wisdom for each question. The first of the eight questions was how focusing on jobs would affect the design of a country’s growth or poverty reduction strategy. The second question was whether the investment climate should target the areas, activities or firms with the best potential for generating jobs best suited to development (for example, by focusing on cities or on small and medium-sized enterprises) or whether all areas, activities or firms should be treated equally; the advantages and risks should be evaluated in each case.

20. The third question was whether to build skills to match the needs of the economy as it developed on the basis of a short-term mismatch between supply and demand, or of a longer-term view. The example of Viet Nam was once again instructive: the skills acquired by its farmers had come not from the education system, but from the agricultural extension facilities put in place. The fourth question was how and whether to foster entrepreneurship, given the importance of self-employment in developing countries. Some believed that everyone was a potential entrepreneur provided that existing obstacles to such activity were removed, while others believed that small entrepreneurs were merely subsisting and that the focus should be on major businesses.

21. The fifth question was how to facilitate the reallocation of workers from areas, activities and firms with low productivity to those with greater potential. In order to explore beyond the traditional response — identification and elimination of barriers to labour mobility — the *Report* compared the situations of China and India. The sixth question was whether some jobs contributed more to social cohesion than others and what the answer implied for addressing youth unemployment. The seventh question was whether, and in what circumstances, it was justifiable to protect not merely workers, but jobs. The eighth question at what point the pursuit of job creation became the creation of global competition for jobs, in other words, whether jobs generated in one place came at the expense of jobs elsewhere; there might be situations, such as those involving issues such as human rights or gender, in which that should not be a concern.

(b) Presentation on "Sustained and inclusive growth, job creation and development" by Mr. Heiner Flassbeck, Director, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development

22. **Mr. Flassbeck** (Director, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development), accompanying his briefing with a digital slide presentation, said that from the point of view of the market and of many economists, the current climate of high unemployment and pressure on wages was an obstacle to inclusion and participation. During every cycle of deterioration and recovery over the past 20 or 30 years, the question of when workers would begin to see the benefits of increased productivity and growth had arisen. That question continued to be posed because no change had taken place in either the developed or the developing countries.

23. The Arab Spring had illustrated frustration brought not just by a lack of jobs, but by wages that had not kept pace with economic growth. In order to understand that situation, it would be useful to examine the issue of wages more closely. Traditional labour market thinking could not explain the paradox that the rise in unemployment in 2008 had not resulted from a rise in wages, as traditional economic theory had held. The *Trade and Development Report 2010* had dwelt on that paradox and reached conclusions that departed from the accepted reasoning.

24. Examining expectations of family incomes in a number of economies, primarily those of developed countries owing to the lack of reliable data on developing economies, had revealed a brief recovery in 2009 followed by renewed deterioration. Pessimistic income expectations and high unemployment resulted in lower domestic demand and poorer chances of recovery, as seen from the current trend of sharp wage cuts, particularly in Greece and other European countries.

25. Lower wages could increase a country's export competitiveness if its neighbours did not retaliate, for example by devaluing their own currencies (a practice that was impossible in the euro area). However, that was possible only where the lower-wage economy was open (as in the case of Ireland) rather than inward-focused (as in the case of Italy, Greece and Spain, whose domestic markets were larger than their export markets) and where the absence of retaliation lasted five or ten years.

26. There was a correlation between employment growth and gross fixed capital formation in developed countries; since companies tended to invest and disinvest in capital and labour simultaneously during economic booms and crises, cheaper labour did not result in greater capital investment. That phenomenon called into question the theory of an independent labour market governed by supply and demand alone and meant that the remedies advocated by many traditional thinkers, including international organizations, would not work. Traditional thinking was that high unemployment should be addressed by making the labour market more flexible and that in periods of excessive supply and inadequate demand, reducing wages improved the situation, but an analysis of current trends suggested that on the contrary, cutting wages made matters worse. A reversal of policy thinking was necessary; the movement of real wages in relation to productivity had been exclusively downward in the past 20 to 30 years and in light of the fragile recovery from the economic and financial crisis, the world risked entering a new phase of rising unemployment.

27. Despite the developing countries' high rates of self-employment, their investment and disinvestment patterns were similar to those of developed countries and the link between low wages and low demand remained. Both emerging and developed economies were also affected by another close correlation: between unit labour costs — defined as the difference between nominal wages and productivity — and prices. That introduced a third consideration: falling wages led not only to falling demand but to falling prices, making it even less likely that employment rates would recover.

28. Those cause-and-effect relationships called into question the traditional reasoning behind policymaking: that monetary policy determined inflation while wage flexibility determined employment levels. The advisable policy response appeared to be quite the reverse: nominal wages could be used to determine inflation targets, while monetary policy could be used to stimulate investment. Many developing countries, and particularly the least developed among them, had prohibitively high interest rates; central banks focused exclusively on inflation and real wages remained unchanged over decades

rather than following the pace of productivity. By failing to attract investment, they also failed to increase growth and employment rates.

29. While little had been done to address the mismatch between the situation on the ground and the policies traditionally advocated, the time had come to contemplate reversing the traditional assumptions. Pursuing pro-growth investment policies conducive to financing for investment and development while simultaneously pursuing a level of nominal wages conducive to controlling inflation rates did not preclude a level of real wages that was participatory. In fact, the reverse was true: a policy in which nominal wages followed productivity increases would both target inflation and ensure that overall growth was stimulated by domestic demand; as demand increased, monetary policy would be free to generate investment that stimulated growth.

Interactive dialogue

30. **The President** recalled that chapter I of the note by the Secretary-General on coherence, coordination and cooperation in the context of financing for development (E/2012/7) proposed several questions for discussion: What type of coordinated policy actions were needed to sustain the fragile global economic recovery and promote job creation? What policy interventions and regulatory frameworks could support public and private investment in job creation? What were effective ways to facilitate the flow of long-term foreign investment to developing countries? What were the possibilities for putting in place a system of industrial relations that served to promote investment and productivity while also ensuring decent working conditions? What policy measures could strengthen the availability of finance, especially to small and medium-sized enterprises, promote investment in infrastructure and foster entrepreneurship? How could the international community enhance the role of transnational corporations and global value chains in job creation and stability? What global technology policies could enhance the trade and employment nexus through transfer and capacity-building? What steps were needed to reform the development architecture and strengthen international financial cooperation to better meet development challenges? How could the international community enhance policy coherence and coordination among institutional stakeholders? What measures could be taken to enhance the nexus between debt and growth at the national and international levels and keep debt sustainable? How could the international community promote a fair burden-sharing in resolving debt crises and debt sustainability? What policy measures were critical at the systemic level to promote growth and employment? What should be the short-term and long-term priorities? How could the international community ensure complementarity of efforts among the United Nations, the Bretton Woods institutions, the Group of Twenty and other multilateral stakeholders?

31. **Mr Benmehidi** (Observer for Algeria), speaking on behalf of the Group of 77 and China, said that sustained poverty reduction required inclusive growth that generated economic and social progress to which all could contribute and from which all could benefit.

32. Developing countries must diversify their economies by moving from agriculture and commodities to manufacturing and services in order to generate continued self-sustained growth in output and productivity. Many developing countries remained trapped in the cycle of commodity and raw-material exports with little or no added value and therefore failed to generate the income and savings needed to invest in diversification.

33. In order to contribute to poverty reduction and productive employment, growth must be not only sustainable but inclusive and equitable and must provide equal opportunity for all. Growth was not an end in itself, but a prerequisite for development in all its aspects, including poverty alleviation and investment in social and physical infrastructure. Policy measures at the global, regional and national levels should ensure that its benefits were enjoyed by all sections of society, particularly the poorest and most vulnerable; experts had indicated a strong correlation between wide inequality and limited progress towards the Millennium Development Goals (MDGs).

34. Developing economies' ability to achieve sustainable growth was heavily dependent on the state of the global economy, which had rarely been less conducive to growth and development. The ongoing economic and financial crisis was now coupled with a serious debt crisis in some developed countries, the global consequences of which could worsen poverty, jeopardize the developing countries' chances of building on the modest gains made in the decade before the crisis and undermine efforts to achieve the

MDGs by 2015. The global economy faced systemic problems that must be addressed, particularly through reform of the global financial system. The developed countries' drastic counter-crisis measures affected the developing countries: fiscal restraint had led a number of industrialized countries to consider reducing ODA, yet such assistance was an investment that ultimately benefited the entire international community.

35. The main prerequisite for sustainable growth in developing countries, many of which had insufficient domestic resources to cover even basic human needs and were thus entirely dependent on external assistance, was a reliable mechanism for financing productive investment. Foreign direct investment (FDI) was a vital complement to national development efforts; it helped to finance long-term economic growth and acted as a vehicle for technology and knowledge transfer. However, FDI required more than a change in domestic policies; even in developing countries that had worked to create favourable conditions for investment, FDI had not followed, largely because of a lack of local economic opportunities.

36. International trade could act as an engine for development and sustained economic growth, but the global crisis had caused a loss of export revenue, restricted access to trade finance and reduced investment in economic diversification and export promotion in developing countries. The Doha Round of multilateral trade negotiations must be concluded rapidly with full respect for development mandate and must take account of developing countries' priorities and needs. A successful outcome would help to increase global trade, prevent protectionist measures — particularly in developed countries — and create new market access opportunities for developing countries.

37. Development partners should implement effective trade-related technical assistance and capacity-building through mechanisms such as the Enhanced Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries. Such an approach would help to address supply-side and trade-related infrastructure and productive capacity constraints, thereby helping developing countries to increase their exports and generate sustained growth and employment in order to lift more people out of poverty.

38. Turning to the presentations by the panellists, he said that the Group would welcome more discussion of the phenomenon of migration, obstacles to the mobility of labour job and destruction in developing and middle-income countries, which had generated far less international debate than job creation in the context of globalization. In light of the Rio+20 process, and recalling the emphasis on the jobs best suited to development and sustainable employment, he also hoped that the panellists would comment further on the concept of green jobs and explain whether in fact such jobs existed and, if so, how they related to the concept of green growth.

39. **Mr. Rahman** (Bangladesh) asked whether the panellists had considered technology choices and demographic patterns in low-income and other developing countries. Those countries generally adopted technology from the developed world that reduced the demand for labour, while their large and increasing labour forces made the demand for jobs greater. Perhaps training policies could be suggested since those that he had found focused on specific, rather than generic, skills and thus did not help to cope with cyclical changes in demand and products. The key was enabling trainees to adapt to new circumstances.

40. Turning to the matter of correlation between investment and employment and to the prospect of challenging the traditional thinking about the relationship between the two, he wondered how to reconcile the proposed new view with investors' belief that wages and interest rates should remain low. Lastly, a study on education economics had found high unemployment among those educated at secular schools in Bangladesh, but lower unemployment among those educated at religious schools. However, the study had defined employment not as productive employment but as paid employment of any kind, even if it produced nothing that could be consumed or used for investment; the validity of that definition warranted discussion.

41. **Ms. Al-Hadid** (Observer for Jordan) said that the already negative impact of the global economic downturn had been accentuated by the capacity of Governments to manage and offset its consequences. Greater effort to coordinate the macroeconomic policies of the world's economies was needed in order to bring about stability and growth. Action and strategies for the reduction of poverty through decent work for all should be supported by better international, regional and national policy coherence and adequate investment in infrastructure, social protection and the development of human capital.

42. The international community must deliver on the commitments regarding development assistance and national ownership of development strategies made at the International Conference on Financing for Development, held in Monterrey in 2002, and the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus, held in Doha in 2008. Emphasis should be placed on the use of innovative financing mechanisms to supplement traditional sources of financing.

43. In an interdependent world, diversity and inclusiveness could be mutually supporting, provided that a careful mixture of market forces, policy intervention and international support tailored to local conditions could be established. The Council played a vital role as the focal point and forum for the coordination and coherence of finance, trade and development policies and related fields. Coordination with multilateral financial, trade and development institutions must also be strengthened in order to sustain the coordination of macroeconomic development policy and improve the response to international developments.

44. **Mr. Pérez-Verdía** (Executive Director for Costa Rico, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, the Bolivarian Republic of Venezuela and Spain, International Monetary Fund), recalling the focus of the International Monetary Fund (IMF) on resolving the crisis and breaking the vicious circle of lack of growth, deteriorating public and private sector balance sheets and weak financial industries, said that, as the panellists had pointed out, the issue of growth was closely associated with that of labour.

45. From the standpoint of the IMF mandate, financial and economic stability was essential to generating growth. The IMF Independent Evaluation Office report entitled “IMF Performance in the Run-Up to the Financial and Economic Crisis: IMF Surveillance in 2004-07” had led to much introspection and a wide-ranging review of existing practices in order to ensure that lessons were learned.

46. With regard to the theme of the current debate, IMF was examining and questioning its traditional thinking about the volatility and vulnerability of capital flows, discussing domestic and external resource mobilization and debt sustainability and using the Group of Twenty Mutual Assessment Process to support its members’ efforts to seek strong, sustainable and balanced growth, a goal that required external rebalancing and the substitution of public demand for private demand. Recalling the crucial role of labour, stressed by the panellists, he said that IMF advice and assessment had concentrated on structural reforms targeting market inefficiencies.

47. **Ms. García Jáuregui** (Executive Director for Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Spain and Venezuela, World Bank) said that the issue of jobs was the most pressing not just for developing countries, but for some developed countries as well. The framework for discussion of the relationship between jobs and development in the context of the *World Development Report 2013* should take care not to omit the informal sector, which played a key role in many economies.

48. As the 2013 *Report* was still under preparation, it was still possible to ensure that it considered the question of jobs from the point of view of gender, green growth and the role of the private sector in generating employment. Although the *World Development Reports* were customarily analytical, the proposed policy agenda explained during the presentation of the 2013 *Report* presented an important opportunity to consider two questions: which sectors promoted job creation, and which were most vulnerable to job destruction in times of crisis.

49. With regard to macroeconomic policy, in examining the relationship between wages, demand and prices, it would be useful to take into account the obstacle facing many countries: while they were aware that lowering wages would reduce domestic demand, they also knew that lenders would make such action a condition for granting loans.

50. **Mr. Busuttil** (Observer for the European Union) said that the European Union agreed that reforming labour markets in order to improve their functioning was the top priority; greater labour mobility and wage flexibility, training and education were key to returning people to work and increasing productivity.

51. In some countries, young people were disproportionately vulnerable to underemployment, informal employment and becoming part of the working poor. Without fundamental changes in the labour market and job prospects for youth, many reform efforts would fail. Experience had shown that

the greatest impact was achieved when private sector businesses became part of the process.

52. The European Union had lent solid support to the Group of Twenty in the area of job creation and welcomed the idea of a task force for youth employment. The issue of social protection floors, one of the Group's summit priorities, should continue to be discussed in international forums.

53. The potential effect of greater protectionism on growth and the fact that in order for a country to secure private sector financing, it must have transparency, predictability and stability should be kept in mind. In addition, the transformation of existing growth models into green growth models would depend heavily on the involvement of the private sector; it could not be financed by Governments alone.

54. International organizations must do more to further human development by helping to ensure that individuals were healthy, educated and able to find decent jobs. However, effort was needed from other stakeholders as well. The European Union was committed to devoting a minimum of 30 per cent of its development funding to health and education and to leading by example through implementation of its Gender Action Plan. It was also firmly committed to implementation of the Programme of Action for the Least Developed Countries for the Decade 2001-2010, particularly in connection with productive capacities.

55. The European Union would increase its support through bilateral and regional cooperation with least developed countries while fully respecting the principle of those countries' ownership and leadership of their development. All partners should focus on maximizing results in achievement of the MDGs, including through better aid coordination and development policy coherence. The Fourth High Level Forum on Aid Effectiveness, held in Busan in 2011, had marked a conceptual shift with a clear emphasis on results and on the role of new partners, such as civil society and the private sector.

56. The European Union already provided considerable trade-related development assistance. In a February 2012 Communication entitled "Trade, Growth and Development", the European Commission had declared its intention to reform existing preferential trade arrangements through a greater focus on the poorest countries, developing country exporters, improvements to developing countries' domestic business environments, and support for those countries' efforts to meet international labour and environmental standards and to profit from open and integrated markets.

57. Concerning the *World Development Report 2013*, he requested more detail on the distinction among different types of job according to their impact on development.

58. **Ms. Adaba** (NGO Committee on Financing for Development, accredited through Jubilee Campaign) said that the first stage of the economic and financial crisis — from 2008 to 2009 — had seen poorly coordinated monetary stimulus focused on banks, whereas developing countries had received less attention. The following phase — from 2010 to 2012 — had been marked by austerity measures, and GDP growth had weakened. Global unemployment was high, particularly for youth, and the Arab Spring and the Occupy movements had been disappointing in their outcomes.

59. Action should be taken to address the mismatch between the financial sector and the productive economy by regulating casino-type financial activities, capturing the funds lost through tax evasion and putting them to productive use. A new round of stimulus funding was needed in order to strengthen the real economy through public works programmes. Incentives for entrepreneurial activities and the creation of decent private sector jobs should be in place and people-centred, gender-sensitive human-rights-based measures should be taken in order to involve communities in social development and uphold the right to freedom of association and collective bargaining.

60. **Mr. Buckley** (BNY Mellon, accredited through Business Council for the United Nations) said that BNY Mellon financial services company had provided over 10 million meals for the poor and helped thousands of people with little or no income, particularly the ethnically diverse, persons with disabilities and returning soldiers, to gain new skills. Around a third of its positions were now based outside the traditional financial centres. It supported meaningful, balanced reform that addressed weaknesses in local and global financial systems without hampering the ability of financial services companies to lend and compete globally. Careful crafting of regulation and execution of oversight could

reduce systemic risk while avoiding excessive restrictions on the workings of the financial system. He asked the panellists to comment on the importance of general education, as opposed to skills.

61. **Mr. Šimonović** (Assistant Secretary-General for Human Rights) said that compliance with minimum human rights standards could encourage better decision-making and promote sustainable, inclusive and equitable growth, investment and trade; for example, States could prioritize spending on accessible and affordable minimum services. The fact that women in developing countries still walked an average of six kilometres to fetch clean water meant that their human rights had not been acknowledged. A number of institutions had taken important steps to promote human rights policy coherence and support the efforts of national authorities by shaping business practices, including corporate law, insurance, trade and labour. Businesses and investors were now better aware of the risks and costs, both reputational and financial, of ignoring human rights issues. Human rights could also be good for business: investment in water and sanitation, for example, could yield a sizeable return.

62. Calls to respect human rights were growing in cities around the world, including Cairo, Tunis, New York and Madrid. The greatest burden could no longer be allowed to fall on the poorest and most marginalized communities. Economic and development policy should be assessed using the legally binding ethical and human rights standards that Governments themselves had adopted. He would welcome the panellists' comments on that dimension of the issues at hand.

63. **Mr. Acharya** (Observer for Nepal), speaking on behalf of the Group of Least Developed Countries, said that the Fourth United Nations Conference on the Least Developed Countries had focused on building productive capacity for a structural transformation of the least developed countries, whose growth had slowed even as their populations and unemployment rates continued to grow. The World Bank and the global development debate should examine the structural difficulties of those countries and find ways to promote rapid, intensive growth of the rural infrastructure, investment in productive activities and development of the private sector. It was important to explore ways to enhance vocational education and practical training while mobilizing substantial public and private investment in employment. Ultimately, there was a need for enhanced resources and a more inclusive trade model that would facilitate market access for the least developed countries by stimulating investment and jobs.

64. **Mr. de Almeida Carneiro Enge** (Brazil) said that the international community must show clear resolve and find effective solutions that combined economic growth, job creation and social protection while maintaining macroeconomic stability. To that end, coordination among the United Nations, the Group of Twenty, the Bretton Woods institutions and the World Trade Organization (WTO) should be intensified. The sovereign debt crisis and the recession in major European countries required particular attention; developed countries needed a mixture of short-term stimulus and long-term fiscal consolidation measures.

65. At the same time, however, trade flows should not be distorted and exchange rates should not be misaligned or manipulated. Countries with a high current account surplus should stimulate their domestic markets by expanding employment and increasing public and private investment, particularly in infrastructure. In order to avoid a vicious cycle of defensive reactions, fiscal and monetary policies should be subject to mutual review and protectionist measures resisted, and developing countries should be able to use their policy space to enhance their dynamic comparative advantages.

66. The international community should renew its efforts to ensure a timely, ambitious and development-oriented outcome to the Doha Round of trade negotiations. Developed countries could help the developing world most by eliminating agricultural subsidies and giving developing countries greater market access. A solid, effective financial regulatory framework would prevent financial markets from being a source of instability and redirect them to their primary function of financing trade and development. Lastly, it was vital to reform the multilateral financial institutions and increase the participation of developing countries.

67. **Mr. Grishin** (Executive Director for the Russian Federation, World Bank) said that the global financial crisis had underscored the critical role of employment in development and poverty eradication. The credit crunch had caused a sudden rise in unemployment. In the short term, Governments had responded with fiscal

stimuli, monetary expansion and enhanced public-sector employment. However, the initial potential of such measures had largely been exhausted, and there was a need for long-term structural policies.

68. First, while it was generally accepted that small and medium-sized enterprises should be promoted, direct assistance to individual businesses was seldom a realistic option as most Governments lacked the necessary institutional capacity. It would be preferable to overhaul the regulatory framework by lowering the barriers to opening and maintaining a business.

69. Second, despite the complexities to which the presentation on macroeconomic policies had drawn attention, wage employment at medium-sized and large enterprises was the main driver of industrialization, development, stability and predictability. A sound strategy for the development of modern, labour-intensive sectors might therefore help to reduce unemployment in developing countries. The most spectacular economic successes of the past fifty years had been in developing countries that had embraced export-led industrial development, creating hundreds of millions of new jobs to absorb the labour force no longer employed in subsistence agriculture. In order to promote job creation, Governments and donors, particularly development banks, should tackle excessive regulation and improve the energy and transport infrastructure.

70. **Mr. Wang** Qun (China) said that the recovery of the global economy remained uncertain. Developing countries' difficulties in realizing the MDGs had been compounded by the downturn of major economies, the sovereign debt problems of some countries, continuing financial turbulence, uncertain food and energy security and natural disasters. His delegation believed that States should further strengthen their coordination of macroeconomic policies; adopt effective fiscal and monetary policies; ensure the unimpeded flow of funds to the real economy; expand production and employment; oppose all forms of protectionism; and press for a balanced multilateral trading regime for the benefit of all stakeholders.

71. Small and medium-sized enterprises had the potential to create vast numbers of jobs. However, the financial crisis had created unprecedented difficulties, notably with regard to borrowing. He asked what specific policy recommendations the panellists could make in order to alleviate those difficulties.

72. **Mr. Sergeev** (Belarus) said that his delegation supported the views of the World Bank's Executive Director for the Russian Federation on the role of Governments in promoting employment through more effective national strategies. He asked the panellists how much importance they attached, in the current circumstances, to tailoring national education systems to labour market requirements, both current and long term. He also wondered whether the correlation between education systems and labour markets would be reflected in the *World Development Report 2013*.

73. **Mr. Almofadhi** (Dean and Executive Director for Saudi Arabia, World Bank) said that the panellists' statements highlighted several areas for investigation. First, because there was no "one size fits all" solution to the problems at hand, it was important to consider whether and how job creation strategies could be tailored to different countries. Second, the informal sector accounted for a huge share of business, but there was as yet no detailed data to gauge its size. Third, he was not convinced that the equitable nature of jobs should be a priority at a time when jobs were in short supply. Fourth, while there was widespread agreement that protectionism should be avoided, it remained to be seen how poorer countries could benefit from their comparative advantage in the area of agriculture at a time when developed countries were subsidizing their farmers. Fifth, if the reports of the World Bank did not include the issue of trade and protectionism, the resulting analysis and remedies would be flawed.

74. **Ms. Muchhala** (Third World Network) said that the least developed countries faced a structural crisis; their economic output lacked added value and a large majority of their workers were in vulnerable areas of employment. Efforts to promote structural transformation should focus on creating a more friendly macroeconomic framework, including by improving access to loans; reforming fiscal policy by cancelling debt and increasing ODA; adopting legislation on minimum wages and trade union rights; enacting labour policies to encourage the transition to a formal economy; promoting micro-industries and small and medium-sized enterprises; and gradually introducing social transfers, particularly a basic social protection floor and a global minimum wage.

75. **Mr. Sénéchal** (International Chamber of Commerce) said that the International Chamber of Commerce (ICC) and the Council faced the same challenges and the Council could not solve them alone;

the terms of their partnership should be defined in the near future.

76. The prevailing view was that an open market with access to capital and trade financing could generate predictable, positive consequences for the economy at large. Over the past five years, the entire supply chain, and eventually small and medium-sized enterprises, had been affected in developing countries and economic prosperity was uncertain. For example, during the 2008-2009 financial crisis, the global supply of trade credit in Asia had fallen by some 20 per cent with a resulting 20 per cent drop in Asian trade volumes and a 10 percentage-point drop in GDP growth. The impact on developing countries had been immediate; in China, 670,000 small and medium-sized enterprises had shut down and 6.7 million people had lost their jobs. In India, during the same period, nearly 1.2 million export-related jobs had been lost.

77. Trade finance should be on the Council's agenda for several reasons. First, there was a strong positive relationship between its availability and a well-functioning private sector; it had proved critical in supporting trade-led policies in both developed and developing countries. Some 80 per cent of global trade flows required financing and risk mitigation in the form of, inter alia, pre-export finance, inventory financing, traditional trade finance (letters of credit), invoice discounting and factoring at some point in the chain between the seller (often located in the developing world) and the buyer. Letters of credit alone accounted for 15 to 20 per cent of global trade — $2 trillion per year — and sellers in many African and Asian countries demanded letters of credit in order to mitigate risk. It was crucial to ensure that trade finance was available to developing countries at the right price, particularly in light of the current market conditions.

78. Second, the multilateral development banks' trade facilitation programmes, implemented in partnership with commercial banks, should not be discontinued; by mitigating the risks of trade transactions, they provided valuable assistance to small and medium-sized enterprises in developing countries. They had been greatly needed during the crisis and were still necessary in order to ringfence trade markets. They reduced funding and regulatory compliance costs, improved liquidity in banks, lowered the costs of finance, decreased collateral requirements and supported relations between financial institutions. The World Bank's International Finance Corporation linked over 400 banks into a global network of trade partnerships.

79. Third, the economics of regulation had become quite complex, and policymakers should be alert to the possibility of unintended consequences. While it was important to improve the resilience of the financial system, Governments should also take measures to make trade finance more accessible and affordable and should avoid drafting regulations that could penalize trade. At present, the implementation of complex sanctions regimes and anti-money-laundering regulations was leading many global banks to reconsider doing business in developing countries, particularly in Africa, because the risks and costs of compliance were perceived as too high.

80. In addition, implementation of the new Basel III framework for bank capital and liquidity regulation was placing added pressure on the cost of funds and the availability of credit. Close to three-quarters of the respondents in the 2012 International Chamber of Commerce-International Monetary Fund (ICC-IMF) Market Snapshot had reported feeling impacted to some or to a large extent by Basel III, which might cause banks to abandon the provision of trade finance to developing countries for more profitable sectors; significantly increase the cost of capital and pricing to the detriment of small and medium-sized enterprises in developing countries; and lead trade assets to gravitate towards non-regulated sectors, defeating the purpose of Basel III.

81. The policymaking and business communities should study the economics of regulation in order to understand how the new global regulations could affect the financing-for-development agenda and should consider whether new regulations were really needed in order to "fix" a trade finance system that was not broken; it had not created the 2008 crisis but, on the contrary, had proved to be a reliable and safe development financing mechanism. In a study entitled "Global Risks — Trade Finance 2011", ICC had analysed 11.4 million transactions worldwide over a five-year period and had noted only 3,000 defaults.

82. He encouraged the participants in the special meeting to adopt a trade finance agenda in the near future and to study the impact of new regulations on trade in the developing countries.

83. **Ms. Dyrud** (Observer for Norway) said that no country could afford to lose half of its workforce at a

time of recession and crisis; she therefore welcomed the initiative of the World Bank to highlight female workforce participation in the *World Development Report 2012* and requested further information on the Bank's findings thus far.

84. Norway had adopted a rights-based approach to decent work. The Decent Work Agenda, which included gender as a cross-cutting objective, provided a tool to ensure sustained, inclusive and equitable growth. She asked how the United Nations, ILO and the Bretton Woods institutions could better coordinate their valuable work in that area.

85. **Mr. Koppers** (Germany) said that there was a need to identify the growth policies that had the most positive effect on development. He wondered whether it would be advisable, after 2015, to adopt a new MDG on jobs; however, it had been suggested that such goals would not be measurable.

86. The presentation on macroeconomic policies had made a number of important points concerning employment and wages. There was, however, reason to believe that the issue of wages would become less prominent in the coming decades; several participants had called for a multisectoral approach that took into account such elements as demographic change.

87. The Executive Director of the World Bank for the Russian Federation had stressed the need to overhaul the regulation of small and medium-sized enterprises. While that point was valid, such enterprises in Africa often cited access to financial services as a more pressing concern.

88. Two representatives of civil society had raised the issue of labour market policies, an area in which his Government had played an active and successful role. In addressing the problem of youth unemployment, it had found that three dimensions were indispensable: policies should foster labour supply by promoting training and health, without neglecting action to create jobs; the Government should seek to create a conducive economic environment by looking beyond the employment sector proper; and active labour market policies and instruments should be developed in order to focus on the challenges of new entrants to the labour market.

89. **Mr. Islam** (Alternate Executive Director for Bangladesh and Sri Lanka, World Bank) said that the Arab Spring and the Occupy movement had underscored the importance of an inclusive and participatory approach. Labour market analysis fell short of explaining the situation on the ground; that market was essentially demand-driven, and most studies focused on the level of growth rather than on its distribution. Even the phenomenal growth in wealth generation of the previous decades could be sustainable only if it was distributed more equitably. The development of the private sector was indeed important but in developing countries, where income generation was most needed, shortcomings in the infrastructure needed to be addressed by Governments.

90. Lastly, job creation depended on economic activity, which in turn was conditioned not only by the internal framework, but by such external factors as tariffs and access to foreign markets. Thus, the international dimension of development could not be ignored.

91. **Mr. Flassbeck** (Director, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development) said that it was crucial to establish the right macroeconomic prices, such as wages and interest and exchange rates. Wages must grow in line with productivity in order to boost domestic demand, which was a more sustainable driver of long-term growth than trade.

92. Responding to the comments made by the observer for Algeria, he said that while efforts to promote green growth were commendable, there was, once again, a need to ensure that macroeconomic prices were appropriate. For instance, in order to curb the use of fossil fuels, Governments needed to ensure that the private sector had adequate incentives.

93. Responding to the questions raised by the representative of Bangladesh, he said that once interest rates, exchange rates and wages were on track, other initiatives, such as training programmes, could also be deployed. At that stage, the destruction of certain jobs was inevitable; the challenge was to ensure that growth and job creation outpaced those losses. While FDI could provide an opportunity to jump-start productivity, it did not have the same positive effects as investment and productivity increases that originated within the domestic economy; moreover, it often excluded local workers. Although wage cuts were a frequent response to economic crisis, the example of Greece showed that they also tended to affect the confidence of financial markets and ratings agencies

and had a negative effect on domestic demand, whereas currency devaluation at least had the advantage of promoting exports.

94. Replying to the representative of China, he said that small and medium-sized enterprises needed a good overall policy framework, economic growth and an educated workforce. In many developing countries, entrepreneurial spirit was not lacking; it remained for Governments to create the opportunities.

95. **Mr. Rama** (Director and lead author, *World Development Report 2013*, World Bank), responding to the representative of Bangladesh, said that the statistical definition of employment was based on the use of time. There were, however, many grey areas. For instance, it was not clear at what point occasional household chores could be defined as work, and the seeds of future success could be developing among youths who were not ostensibly employed or in training. The human rights dimension was essential: jobs that violated human rights, for example because they involved forced labour or coercion, should not be included in the definition of work.

96. Concerning the representative of Germany's question on ways to measure job creation, he said that the World Bank was currently conducting extensive household surveys that would expand the available data. At the same time, if a new MDG concerning jobs were to be envisaged, it must be borne in mind that jobs were not always an end in themselves; in a prosperous economy, workers might prefer to work shorter hours and have more leisure time. The option to work fewer hours could also be a part of development. The real objective was to ensure that there were enough jobs for those who wanted to work.

97. Technology did not have an impact on jobs in the medium term, although tensions did arise in the short term. The question was how to handle the trade-off; for example, in agrarian countries, whether to support large-scale farming or smallholders. Growth involved both job creation and job destruction. Ideally, as had been the case in China, new jobs should be created before the old ones were eliminated. The presence of a new industry could also promote labour supply by encouraging girls to gain an education and pursue a career.

98. It was difficult to quantify the role of small and medium-sized enterprises in the developing world since there was little data on the smallest enterprises. Such enterprises were drivers of job creation, but also of job destruction, and they tended to open and close rapidly. The obstacles faced by small and medium-sized enterprises were more readily identified and included access to electricity and financing, managerial capacity and productivity levels.

99. Concerning the development of skills, a range of discrete issues were at stake. Some skills could be taught while others could not. In East Asia, job creation had allowed the workforce to successfully acquire non-cognitive skills, such as punctuality and social skills, through practice.

100. The question of green jobs underscored the fact that some jobs were more beneficial to development than others. However, caution was needed since green jobs could be defined in several ways, some of which were narrow while others included a decent-work component, and some types of green growth could have a negative effect on the job market in the short term. The income generated by jobs often masked their full impact. Jobs needed to be attractive to women and youths and their benefits were often not limited to earnings alone; for instance, they could empower women to have a greater influence in the home and in society.

101. Turning to the agenda for the future, he said that it was essential to improve the available data; accept that there was no one-size-fits-all solution; and develop a more detailed set of priorities; ensure a cross-sectoral approach to job creation; and bolster international coordination in order to ensure that job growth in one region did not entail job destruction in another.

The meeting rose at 6.05 p.m.