Provisional

17 July 2013

Original: English

Economic and Social Council

Substantive session of 2013

High-level segment

Provisional summary record of the 16th meeting

Held at the Palais des Nations, Geneva, on Tuesday, 2 July 2013, at 10 a.m.

President: Mr. Osorio..(Colombia)

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High-level policy dialogue with the international financial and trade institutions

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The meeting was called to order at 10.10 a.m.

High-level policy dialogue with the international financial and trade institutions (E/2013/50 and E/2013/70)

The President said that medium-term risks to the fragile global economic recovery had emerged because of unconventional monetary measures that had been adopted by some developed countries. The feeble pace of recovery was having an adverse effect on efforts to reduce poverty and to secure the investment needed to achieve the Millennium Development Goals. Regulations needed to be tightened up and made consistent at the national and international levels. In particular, fiscal policy needed to be more equitable and anti-cyclical and directed towards job creation. A global system of economic governance with greater accountability would serve to reinforce worldwide development.

Mr. Fernández (Dominican Republic), former President of the Dominican Republic, said that the financial crisis that had begun in 2008 had taken an unprecedented toll on the world economy. It had cost the United States of America alone an estimated US$ 22 trillion. According to some reports, 20 million jobs had been lost around the world since 2008. Youth unemployment rates exceeded 30 per cent in Greece, Italy, Portugal and Spain and were higher than 15 per cent in two thirds of advanced economies. The crisis had also had a heavy impact on developing countries. At least one billion people around the world were undernourished and, although targets in three of the Millennium Development Goals had been met, the crisis had slowed down progress on the remaining targets.

The crisis had disrupted the process of innovation, led developed countries to invest less in research and development and caused a drop in the number of patent applications. Falling consumer demand, investor uncertainty and the application of austerity measures to rein in surging public debt had all compounded the difficulties. The credit crunch had furthermore curbed investment in innovative business projects.

Deregulation in the world economy and financial markets since the 1970s had led to a “winners-take-all” effect in markets and a surge in inequalities around the world. The development of tools such as collateralized mortgage obligations and credit default swaps in a deregulated global market meant that financial products had themselves become a source of profit. Since the 1990s, the financial sector had come to account for more than one third of corporate profits in the United States. The emergence of new trading techniques with the advent of digital technology had accelerated the process. Thus, paradoxically, unregulated finance had grown thanks to innovation and then subsequently damaged innovative structures and destroyed human capital. A United Nations task force on the post-2015 development agenda had reported that an unregulated financial system posed a threat to development policies.

Finance was supposed to be a means of allocating resources to the real economy and to serve as an intermediary at the service of innovation and development. The financial sector should be used to fund innovations in the areas of health, energy and education. A culture of innovation should be inculcated in pupils at school and efforts focused on education in science, technology, engineering and mathematics and the development of online learning systems. Smart devices should be produced to facilitate the sharing of ideas in and outside the classroom. In order to achieve such goals, global financial regulation was required. National initiatives alone would prove insufficient and recent scandals underlined the opacity of activities in financial markets and the need for effective reform and complete transparency.

High-income countries produced 20 times more patents than middle-income countries. While patents were required to protect investment in research and development, more needed to be done to close the innovation gap between developed and developing

countries. Current intellectual property rules should be reviewed to provide encouragement for innovation, technology transfer and the sharing of knowledge.

The President invited the Under-Secretary-General for Economic and Social Affairs to act as moderator.

Mr. Wu Hongbo (Moderator) said that world economic growth remained sluggish and that risks of further contraction, especially in the euro area and some developing countries, remained. A mild improvement was expected in 2014. Strengthening growth and job creation should be at the heart of global economic policy. He would like to know how the panellists viewed the varying approaches taken in developed countries to the problem of high public debt levels and weak demand: austerity in Europe, spending cuts in the United States, and fiscal stimulus in China. How could developing countries be shielded from the adverse effects of continued quantitative easing by central banks in developed countries? What steps could be taken by Governments and the international community to hasten progress towards the Millennium Development Goals by 2015, especially in view of the steady fall in funding for overseas development aid since 2011, and to meet other challenges such as climate change?

Mr. Lamy (Director-General of the World Trade Organization (WTO)) said that weak global economic growth in 2012–2013 had inevitably dampened international trade. The volume of international trade was heavily influenced by poor inter-European trade figures. Only growth could reduce unemployment and poverty, and the most effective way to stimulate world economic growth was to encourage free international trade. Efforts to combat protectionism must be maintained. Free trade should not be confused with deregulation.

Quantifiable targets were needed to enforce monitoring of actions by States to achieve the Millennium Development Goals. The very establishment of the Millennium Development Goals had had a positive impact, in terms of making States more accountable. Pressure must be maintained in the context of development policy after 2015. More weight needed to be given to aid for trade, as overseas development aid waned. Investment in the productive capacity of developing countries was a priority for the future.

Mr. Panitchpakdi (Secretary-General of the United Nations Conference on Trade and Development (UNCTAD)) warned that there was general complacency about the current state of the global economy, whereas in reality the crisis was far from being resolved. It was important to resist the temptation to believe that slight improvements in the economy were indicative of a general upward trend. A set of clearly defined indicators should be developed to gauge the effectiveness of the remedial monetary policies applied to date, as recovery was still weak and uneven. Indicators such as employment rates were misleading; the real reasons behind the rising and falling rates were not apparent.

Macroeconomic ills were being misdiagnosed and therefore remained unresolved. There had been large-scale quantitative easing and injections of capital, but the problem did not lie in a lack of liquidity, but rather in a lack of understanding as to how to handle capital. Conflicting advice and inconclusive discussions about how to tackle the drop in global demand was complicating matters further. While certain economists recommended that interest rates should be lowered to stimulate spending, others warned that low interest rates could encourage rampant borrowing. Governments were furthermore torn between deflationary measures and fiscal retrenchment, on the one hand, and job creation and stimulation of spending, on the other.

Public discontent was on the rise worldwide, and greater attention must be paid to the underlying causes, one of which was certainly an increase in inequality. Tackling mass unemployment, especially among youth, was of the utmost priority. Rising joblessness rates threatened to exacerbate inequality and undermine countries' economic structure. At the

same time, rapid growth in the informal sector needed to be monitored and social protection measures examined.

Mr. Zhu Min (Deputy Managing Director, International Monetary Fund (IMF)) drew attention to the global slowdown in economic growth. He said that the three-speed recovery pattern still held, with Europe experiencing the weakest growth, the United States in the process of repair, and emerging markets and low-income countries seeing the strongest economic growth.

Booming commodity exports, terms-of-trade improvements, low interest rates and capital inflows had enabled low-income countries — particularly in sub-Saharan Africa — to become champions of growth over the past five years. However, economic growth in low-income countries was now starting to lose momentum. As foreign demand began to wane, commodity exports were falling and terms-of-trade improvements were weakening. There was also a drop in the level of foreign investment in local infrastructure, as interest rates began to climb and capital flows were being "rewired" in an increasingly volatile market. With limited fiscal capacity, low-income countries would have to work hard to stimulate their economies in the face of those new challenges. They would need to build or rebuild a fiscal buffer, adopt conservative policies and stimulate domestic demand.

The global economic structure would soon undergo dramatic changes. Advanced economies would be increasing the share of investment in their gross domestic product (GDP), as current dependence on consumption-driven growth was not sustainable. The knock-on effect for low-income countries would be a drop in demand for exports. Those countries would therefore need to shift their focus away from investment-driven growth, develop supply-side policies, and stimulate domestic demand. In that context, low-income countries would need to encourage innovation and invest in research and development to boost competition and competitiveness.

Mr. Mohieldin (Special Envoy for the President, World Bank), accompanying his statement with a digitalized slide presentation, said that the global economy seemed to be making the transition towards a more stable period. Financial conditions in high-income countries had improved and downside risks were less pronounced, although growth remained subdued. Activity remained depressed in Europe, owing to economic restructuring, while political and social turmoil was slowing down growth in the Middle East and North Africa. Most developing countries had recovered from the crisis and were still experiencing growth, on aggregate, although questions about inclusiveness and sustainability remained. Quantitative easing had benefited developing countries by stimulating GDP growth in high-income countries, lowering borrowing costs and preventing a meltdown in the financial sector. Its imminent withdrawal in certain countries could negatively affect developing countries by driving up interest rates, which in turn would raise debt-servicing and capital costs and cause infrastructure investments to drop.

The macroenvironment had supported development in general and 4 of the 21 targets under the Millennium Development Goals had been met well ahead of schedule: the proportion of the population living on less than US$ 1.25 per day had been halved (target 1); elements of gender disparity in primary and secondary education had been eliminated (target 3); the proportion of people without sustainable access to safe drinking water had been halved; and the lives of at least 100 million slum dwellers had significantly improved (target 7). While global statistics were impressive, analyses of country-level achievements painted a less positive picture. For example, although it was expected that overall progress on the goal of promoting gender equality would be attained, only half the countries monitored were expected to actually meet the goal. It was possible that other goals, such as the reduction of infant mortality, would not even be met globally.

World Bank analyses showed that a number of countries were close to meeting various targets in the Millennium Development Goals and could still do so before the official deadline of 2015, if the rate of progress were to be accelerated. Over the coming two years, a combination of sustained growth and progressive social policies would be needed to achieve the Millennium Development Goals. Structural reforms for strong and sustained growth, together with a series of social programmes, would be required to attain the goals adopted by the World Bank of ending extreme poverty by 2030 and promoting shared prosperity in developing countries.

He said that no meaningful development funding, either national or international, could be made available without quality economic data. Much remained to be done, especially from a regulatory perspective, to improve data collection. Although countries should continue to give 0.7 per cent of their GDP in official development assistance post-2015, other aspects needed to be considered if targets were to be met, namely, national resource mobilization, equitable allocation of resources and efficient public spending. The role of the international community would be to support new development partners, engage the private sector and provide quota-free market access. The challenge of the post-2015 agenda lay in establishing partnerships to find creative solutions for the problem of achieving prosperity, equality and sustainability.

Mr. Wu Hongbo (Moderator) said that a special event dedicated to the Millennium Development Goals would be held during the forthcoming session of the General Assembly, when the Secretary-General would deliver a progress report. The post-2015 agenda should be based on sustainability and the eradication of poverty, while Millennium Development Goals that had not been reached would ideally carry over into the new framework. The Open Working Group on Sustainable Development Goals was still taking stock, but was making good progress and should produce a set of sustainable development goals by September 2014. Pursuant to the adoption of the Rio+20 outcome document, a committee of finance experts had been set up to define a sustainable development financing strategy.

Mr. Prasad Ghimire (Nepal) said that multiple crises, declining revenues and the adverse effects of climate change required a change in thinking and modus operandi regarding development financing. A genuine global partnership should be established, with strong operational linkages between the Economic and Social Council and all international financial and trade institutions. Least developed countries should receive their fair share of official development assistance, have a greater role in international economic and financial decision-making and be granted duty- and quota-free market access. Efforts should be made to: actively promote private investment in least developed countries; find innovative sources of funding to bridge the development financing gap; create financing packages to meet the specific needs of countries emerging from conflict; and support transport infrastructure in landlocked least developed countries.

Mr. Lamy (Director-General of the World Trade Organization (WTO)) said that, since the launch of the "Aid for Trade" initiative in 2005, the volume of funds had significantly increased, not least the share allotted to least developed countries. All but one member of the Organisation for Economic Co-operation and Development (OECD) had already granted least developed countries duty- and quota-free market access, and a number of non-member States were also moving in that direction. Considerable work needed to be done with the United States of America to define the terms for such access before the next WTO Ministerial Conference.

Ms. Dashti (Kuwait) said that economic development alone was insufficient; there needed to be a focus on inclusive growth, good governance, transparency and institutional excellence. Moreover, financial resources should be allocated to job-creating sectors.

Mr. Singh Puri (India) said that efforts should be made to ensure a decent quality of life for all and to eradicate poverty. The post-2015 agenda should take account of the policymaking role of least developed countries and international governance reform.

Mr. Osman (Sudan) drew attention to the dangers of unilateral economic sanctions, and said that any reforms undertaken to correct disparities laid bare by the economic crisis should take into account the Monterrey Consensus, the Rio+20 outcome document and the approaches taken by the Bretton Woods institutions. His delegation greatly valued the role of the private sector in developing economies and believed that the sector should contribute more to infrastructure, technology transfers, youth employment and food security. The development of the post-2015 agenda should be based on partnership and cooperation.

Ms. Soemarno (Indonesia) said that the United Nations system and international financial institutions should promote coherence between fiscal and monetary targets, on the one hand, and social and environmental policies on the other. In that connection, her delegation encouraged the Economic and Social Council to interact more with global financial institutions with a view to the mainstreaming of trade into development strategies.

Mr. Piantini Munnigh (Dominican Republic) said that, given that businesses had excess liquidity and central banks were issuing additional currency, the International Monetary Fund and the World Bank should find ways of capturing those resources and channelling them to countries with growth potential so as to boost global demand.

Mr. Zhu Min (Deputy Managing Director, International Monetary Fund (IMF)), replying to points made by the representatives of Kuwait and India, said that much could be done by, for example, promoting the employment of women so as to make labour markets more inclusive. Since least developed countries and emerging markets were poised, for the first time, to account for more than half of global GDP at purchasing power parity, reforms were being instituted at the International Monetary Fund to reflect the true world economic picture more accurately.

Mr. Mohieldin (Special Envoy for the President, World Bank) said that, although official development assistance was invaluable to fragile States, it should not be considered a substitute for other sources of development funding. The World Bank had proposed "shared prosperity" as a target for the post-2015 agenda as a way to address gender, sectoral and regional discrepancies. Replying to the point made by the representative of the Dominican Republic, he said that if the considerable funds managed by businesses such as insurance companies and by pension schemes were to be tapped, investors had to be convinced, through incentive schemes and regulations, to switch from short- to long-term maturities. In response to the representative of the Sudan, he said that involving the private sector in agriculture and infrastructure projects could only be achieved through a combination of incentives and good governance.

The President said that the high-level policy dialogue had demonstrated the capacity of the Council to engage in fruitful, substantive discussion and analysis and to produce recommendations. He wished to highlight the contribution that Mr. Panitchpakdi and Mr. Lamy had long made in that regard.

The meeting rose at 12.50 p.m.