The World Economy and the Millennium Development Goals (MDGs)

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Overview

1 Accelerating High-level policy dialogue with the international financial and trade institutions on current developments in the world economy

The world economy recovery is fragile, slow and uneven across countries, with a higher rate of recovery in the developing world and an important job crisis in advanced countries. The largest structural change that has taken place in recent years in the global economy has been the move towards developing countries being the engines of growth.

UN Photo, Rick Bajornas

Developed countries have been greatly affected by the crisis and the World Bank projects a slow- to medium-term recovery, at best. In terms of developing countries, there has been a switchover of locomotives in the global economy, although developing nations still lag behind in the technology arena. The growth in South-South trade and other links, the expansion of the middle class and the role of ICT in facilitating technology transfer suggest an increase in domestic consumption and a lower dependence on that of developed countries.

Policy challenges

Governments must (*a*) focus on supporting employment, structural change and productivity growth; (*b*) be cautious not to embark prematurely on fiscal austerity policies; (*c*) understand that efforts will only have effect with international policy coordination; and (*d*) ensure availability of resources to developing countries, while recognizing that many of these are taking austerity measures. China recognizes that one of the main challenges in the global economic agenda continues to be North-South imbalances, paucity of development financing and the absence of a coordinated policy response.

Sustainable development

The global economic situation is being defined by ecological change, social and political developments, which make it all the more important to institutionalize efforts towards sustainable development, as "the world cannot afford inaction". At the Rio+20 Summit in June 2012, in Rio de Janeiro, it will be necessary to make progress towards putting the global economy back on the path of sustainable development, which requires technological and social transformations, as well as large investment in developing countries, to ensure environmental sustainability and mitigate and adapt to climate change.

Trade

Trade has rebounded strongly from the economic crisis but the recovery is uneven. The World Trade Organization (WTO) has the role of addressing challenges, namely: monitoring of worldwide trade on an ongoing basis; adjusting trade rules to address current concerns, particularly attempting to reap early benefits for LDCs from the stalled Doha Development Round; and addressing the disconnect between benefits of trade opening for developing countries and their capacity to use it, in which the "Aid for Trade" initiative is of particular importance. The "Aid for Trade" programme, with a focus on women, youth and marginalized communities, is intended to build linkages with global value chains. On the APEC agenda, a high priority has been given to trade and investment, particularly addressing the next generation of innovation and global supply chain initiatives, reducing subsidies for fossil fuels and increasing regulatory cooperation.

Risks

There are several risk factors, such as openness of the global economy, protectionism and high commodity prices, which threaten the livelihood of the poor and deepening poverty. It is important to make sure that growth is socially sustainable without hindering incentives for higher production. The most imminent risks, especially for poor countries, include inflation, protectionism, high food and energy prices, and the perception among developed countries that their dire job situation is connected to the higher growth in developing countries, which creates political turbulences and uncertainty. There is a need for a cautious monitoring of inflation trends and avoiding risks of excessive monetary tightening.

Key messages

Economic recovery is slow but unevenly distributed, with a more positive outlook for developing countries than for the developed ones. Some of the most imminent risks that developing countries face are inflation, protectionism and the negative effects of rising food prices. There has been a shift in the global economic scenario, with emerging economies, particularly in Asia, driving trade and economic growth and more intense South-South linkages. ECOSOC should play a more visible role in global economic governance and explore ways to change its current interaction with the G20. International transfers will play a key role, given the limited capacity of developing countries to mobilize long-term financing.

Recommendations

In the long run, ECOSOC must be transformed into a more relevant, operational, visible and prominent forum for debating global policy and promoting coordination, coherence and accountability. In the short run, having its discussions focus on results rather than on projects and aspirations that all members share can increase the political visibility of ECOSOC.

Incorporating the G20 into ECOSOC in a “Global Green Room” format could help to address shared issues and multilateralize economic governance. However, ECOSOC should drive its own agenda instead of limiting itself to a responsive role to that of the G20. ECOSOC should also focus on issues, such as the impact of natural disasters on economic recovery. The G20 and ECOSOC should focus on improving coherence among ministries, as differences at the national level are reflected in dealings with international organizations.

The comparative advantages of the United Nations and the G20 are that the G20 has the advantage of leadership and efficiency, while the United Nations has legitimacy. ECOSOC should be a forum where members of the international system and the G20 report their progress based on an established agenda and their respective mission statements. ECOSOC should consider hosting a meeting with the G20 and should include a permanent item on its agenda on issues being dealt with by the G20, and the G20 should do likewise regarding the social and economic issues of ECOSOC.

Education represents the best strategy for development and social achievements and should be a priority for organizations. Efforts should be made to convince finance ministers to avoid cuts in education.

Developing countries should not become complacent and should use the opportunity that this global economic shift offers to improve governance and social inclusion systems, particularly gender equality, because it is “smart economics”. In reference to SMEs, microfinance, gender, education and marketing/business linkages are key areas needing support.

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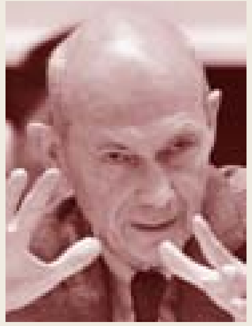

2 Promoting sustained, inclusive and equitable growth for accelerating poverty eradication and achieving the MDGs

UN Photo, Evan Schneider

The link between economic growth and poverty reduction is irrefutable. There has been significant success in recent decades in reducing poverty. In 1980, for example, 1.5 billion people were living below $1 per day; by 2005, the number had been cut to 850 million. Advances in real income, moreover, may be underestimated in consumption surveys, as access to many items, such as electronic goods, has increased much more quickly among the poor than poverty statistics suggest.

UN Photo, Martine Perret

However, there is still much work that needs to be done and issues, such as rising income inequality, worsening environmental conditions, poor job creation and weakening social stability must be addressed quickly. Economic growth and equality are not mutually exclusive.

Market diversification

Global macroeconomic indicators, such as inflation, deficits and strong growth rates, looked far healthier than before in developing countries. While members of BRIC and other developing countries have experienced tremendous growth, the growth has been largely export led. The trade sector of economies have become large, more attention now needs to be given to the non-tradable sector, especially with regard to employment and labour skills. With economic dependence on foreign consumers by export-driven countries, economic policies must now turn inward to address their national markets and capacities but refrain from protectionism.

Education diversification

The traditional mission of schools being viewed as preparing the best students for higher education needs to be reformed to teach a larger number of students basic skills that will enhance their global capacity and employability. To deliver better, innovative education, quality teachers must be employed. India uses incentives to attract and promote quality teachers and education in the Punjab State. The rate of youth unemployment identifies the mismatch between graduates and employers, as well as the structural problem related to globalization, where job demand is becoming globalized but the job supply is still localized. Emphasis must be placed on the importance of education and human capital accumulation to economic growth and development. By expanding opportunity for children from different socio-economic backgrounds, education can play a vital role in making growth sustained, inclusive and equitable.

Policy for growth

To assist countries to improve upon the negative employment trends resulting from increased globalization and make growth more equitable and inclusive, the international community must now focus on “smart policies” engaging in building human capital and human capacity through education, health and job training. Income inequality is a major global challenge, one demanding more attention from policymakers. Concentration is needed on the quality of growth and helping the world’s poor will require more pragmatism. The role of policymakers is to promote an enabling environment conducive to growth and to ensure that the benefits of growth are widely shared. Trade-driven policies have had success in the past within the context of Asia in assisting many countries to recover from the financial crisis of 1997 and largely finance itself out of the 2007 crisis. The benefits of foreign trade and investment can be considerable but must also be cushioned by adequate social programmes. It is, therefore, important to pursue policies that are pro-growth, pro-jobs and pro-poor. Export-led growth policies that were promoted heavily have now resulted in questionable infrastructural integrity and unfair distribution. Along with the technical capacities to identify and implement the desired policies, strong leadership is necessary to enact those policies. Ultimately, economic growth must be balanced and politically sustainable because, in the eyes of the public, the current global growth patterns look increasingly illegitimate.

Key recommendations

Connectivity is crucial, especially in terms of linking LDCs and small landlocked countries with more prosperous areas and regions. Governments will need to close the infrastructure gap, set up adequate regional structures for development financing and attempt a more open form of regionalism by directing stimulus to ICT, rail, port and other communication links. For many low-income countries, it would be more feasible to emphasize raising revenue instead of promoting higher growth, as well as to channel financial flows into the productive sectors. In countries that are growing, it is recommended that they leave the tax bracket unchanged but focus more on collecting taxes better and more comprehensively.

There are concerns that rising income inequality will lead to a rise in crime and conflict. The MDGs need to include an explicit objective addressing inequality. In order to address inequality, the international community must promote a high-tax, high-expenditure economic model, with generous anti-poverty cash transfers, high minimum wages, anti-discrimination legislation and cohesive affirmative action. Balance needs to be struck between markets and government, private and public sectors. However, accountability must be maintained to monitor and enforce corporate social responsibility.

As a result of the crises in developing countries, there has been an emergence of independent intellectual capacity in developing countries. This, combined with the recent crises in developed countries, has produced a major shift that has discredited the notion that the North knows best. This result could be very positive, allowing all to sit together as equals to contribute solutions to global problems that require collective thinking.

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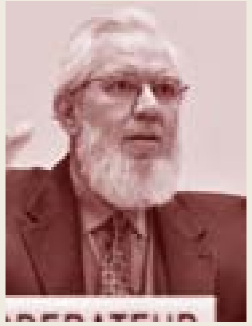

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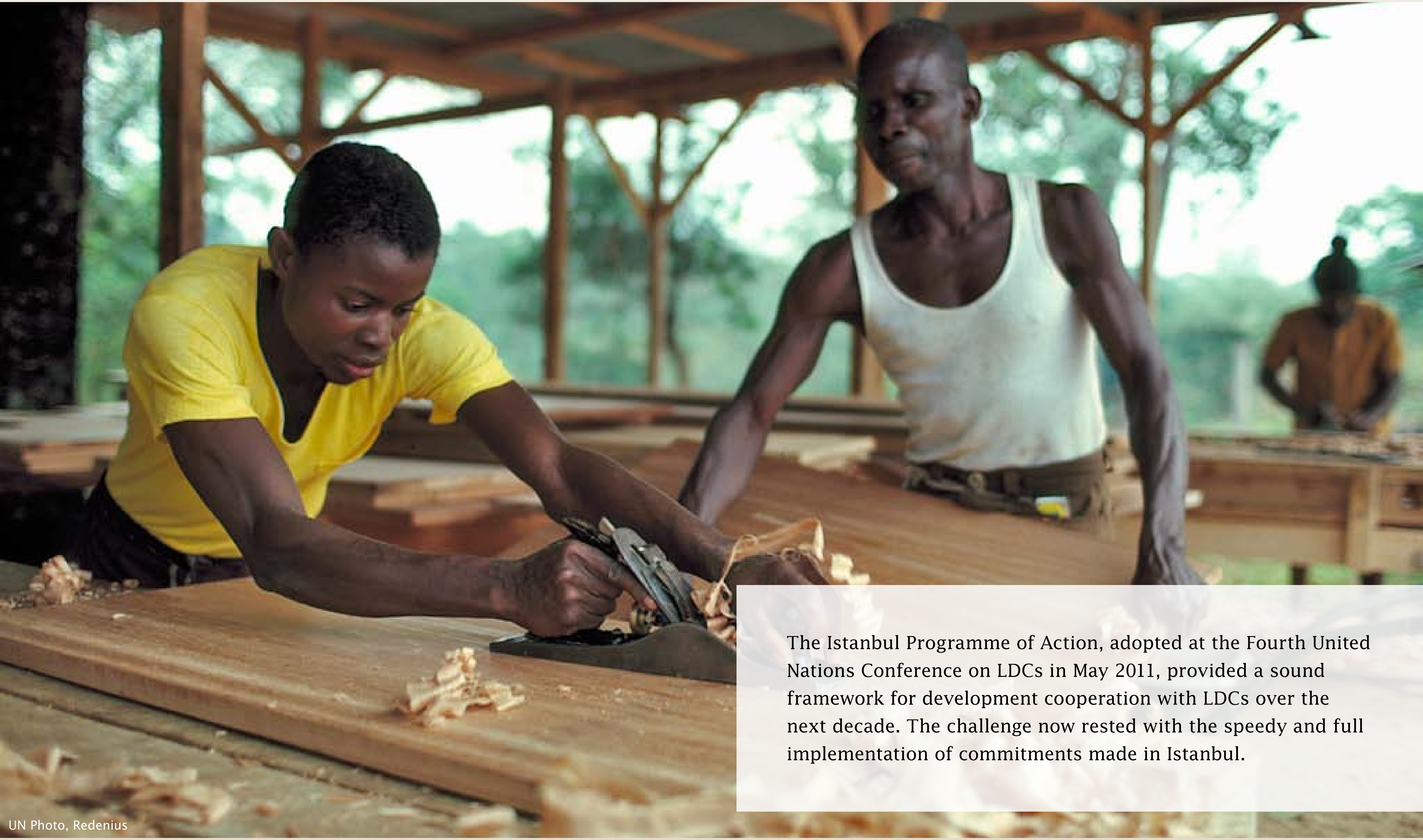
3 Building on Istanbul: financial support for the development efforts of LDCs, including through South-South and triangular cooperation



UN Photo, Redenius

The Istanbul Programme of Action, adopted at the Fourth United Nations Conference on LDCs in May 2011, provided a sound framework for development cooperation with LDCs over the next decade. The challenge now rested with the speedy and full implementation of commitments made in Istanbul.

Through increased partnerships, clearly defined prerogatives and effective and efficient delivery and evaluation mechanisms, financial support has the potential to drastically and sustainably boost LDCs from their current status and assist them in achieving the Millennium Development Goals.

Challenges

Besides the magnitude of the needed resources, the effectiveness of resources was equally important. A challenge faced by LDCs is to ensure that growing trade and financial linkages led to structural change and growth in those countries. LDCs are particularly vulnerable to climate change. In addition to direct economic stimulation, climate change adaptation and mitigation would require significant financing. Climate change financing is gaining traction but only a small part of it is dedicated to LDCs. Contrasting the need for more resources, aid flows continue to fall short of international commitments.

There exist major structural impediments faced by LDCs which need to be addressed, such as limited productive capacities, infrastructure gaps, and lack of human and social development and prevalence of conflict or post-conflict situations in some LDCs.

Overseas development assistance (ODA)

It is crucial to fully implement ODA commitments and to ensure debt sustainability of LDCs. Innovative sources of financing held a great potential for growth and development in LDCs but needed to be additional to ODA. While ODA will continue to play an important role for LDCs, it should be increasingly directed towards the productive sector and more in line with LDC priorities. Its disbursement needs to be more counter-cyclical. Directing ODA to productive capacities and establishing counter-cyclical assistance facilities are vital. It is challenging for LDCs to mobilize resources in a post-crisis environment and considerable additional resources for LDCs is necessary to close the resource gap and to overcome structural impediments to economic growth and development. This involves ODA but also other private flows, such as trade-related sources, debt relief, foreign direct investment and remittances.

Aid for trade

Aid for trade is important to help LDCs build supply-side capacities and trade-related infrastructure. Aid for trade is effective, provided innovative solutions for sharing the benefits of growth and contributed to the general consistency of development policies. In particular, aid for trade supports businesses and trade support institutions, such as chambers of commerce. It might also improve dialogue with the private sector. After the Istanbul Conference, it is important to consolidate aid for trade, to make procedures more effective and to strengthen the level of aid for trade for LDCs.

Key recommendations

The common view is that the international community needs to take a more holistic, targeted and integrated approach in their efforts to support LDCs. Particularly, international support mechanisms should focus on developing productive capacities, mobilizing domestic resources and concluding the Doha Round of multilateral trade negotiations. Extensive national effort and strengthened international partnerships are necessary to help more LDCs graduate to middle-income status. South-South cooperation is an important complementary means to mobilize resources for LDCs. The mobilization of domestic and external financial resources and their effective use is crucial. Integration and facilitation remain key for inclusive growth and poverty reduction in LDCs. Therefore, continuing vigilance towards protectionism is needed.

The World Bank's IDA facility remains the main vehicle of the Bank's assistance to LDCs, supporting 47 out of 48 LDCs. IDA has also established a new crisis response window designed to mitigate the impact of the economic crisis and protect the poor. Heavily indebted poor countries' (HIPCs) initiative was largely implemented, with 32 out of 40 eligible countries receiving full debt relief after reaching their completion points. In the context of debt relief, it was also important not to limit debt relief to official debt but to also address private commercial debt of LDCs.

At the multilateral level, it is important to address the management of potentially destabilizing capital flows and the establishment of a mechanism for sovereign debt restructuring.

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