Informal Summary

2012 Economic and Social Council
High-Level Segment

Tuesday, 03 July 2012
Morning Session
10 a.m. – 12:45 p.m.

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

Chair: **H.E. Ambassador Miloš Koterec,** President of ECOSOC

Moderator: **Mr. ShaZukang,**Under-Secretary-General, UNDESA.

Panellists:
Mr. Supachai Panitchpakdi, Secretary-General, United Nations Conference on Trade and Development
Mr. Min Zhu, Deputy Managing Director, International Monetary Fund
Ms. Valentine Rugwabiza, Deputy Director-General, World Trade Organization
Mr. Hans Timmer, Director of the Development Prospects Group, World Bank

Mr. Sha Zukang opened the High-Level Policy Dialogue stating that the world's economic prospects remain somber and challenging and that the recovery of global employment remains a most important challenge. He stressed that future growth patterns must be socially inclusive and environmentally sound and that such sustainable development, for which there was no other option, would require large amounts of both public and private investments. Finding those resources, however, would be challenging in the midst of difficult financial times. He warned that the cooperative response that had emerged in the wake of the 2008-2009 crisis might fade quickly, stressing that the world cannot afford for this to happen.

In response to the current global economic situation, he suggested four policy options:

- A just fiscal policy to provide a stronger stimulus in a coordinated manner;
- A redesign of national and international fiscal policies to be more environmentally sound;
- Efforts to tackle the root causes of financial instability; and
- An increase in financial flows to developing countries.

Mr. Supachai warned that there was presently a secular decline in the growth rates of the world economy. There had been an uncoordinated exit from the global crisis, with no settled indices on measuring progress. In the meantime, measures for fiscal discipline were not working. In various economies that had prematurely adopted austerity measures, the crisis had deepened. Similarly, the "unwinding" period resulting from the crisis was taking much longer than expected, with high levels of unemployment around the world. The dual track of economic recovery, in which developing economies grew faster than developed countries, was also not working.

Despite these challenges, he stressed that the European debt process represented the paramount global threat. There was also an alarming trend of trade restrictive measures, and new trade disputes had arisen. In addition, the Chinese economy was currently perceived to be losing steam, as since the recession its growth rate had fallen below 10 per cent and could slip even further. Despite the decline, he stressed that there was more overall balance in China's economy, with a reduction in its current account surplus, a slowdown of its manufacturing sector and more dependence on consumption.

Regarding the jobs crisis, many long-term unemployed persons had become disenchanted and had left the labour force, yet it was an "unhealthy signal" that the level of unemployment had not fallen. There was an alarming level of youth unemployment, with nearly half of young people suffering from joblessness in several parts of the world. Wage levels were also declining. Another worrying trend was the resurgence of harmful practices, such as excessive bonuses and the manipulation of interest rates in the world's major banks.

Turning to the future, he stressed that it was of paramount importance to address the grave deficiencies in global economic governance and that multilateral commitments to the Millennium Development Goals must be met.

Mr. Zhu focused on the global economic situation, the impact of the downturn on low-income countries and policy options to address the issue. He said that the global economy was in a synchronized slowdown, noting that the European Union was in recession and the United States' economy was dragging. Further, emerging economies, such as China, India and Brazil, were slowing as well. Those trends were continuing despite a host of stimulus packages and monetary easing in many parts of the world.

The fundamental problem was de-leveraging. Debt levels were very high. To reduce debt levels, households must save more and spend less, which was bad for economic growth. He said some low-income countries enjoyed strong economic growth, including in sub-Sahara Africa. Despite that, many factors combined to create serious concerns for low-income countries.

There were some recommended measures that could help address those issues. He said that some countries still had room for policy options. Structural reform was particularly important. Social protection for the most vulnerable people was also important, and growth must be accompanied with job creation. It was also vital for donor countries to keep their commitments and continue supporting low-income countries. Lastly, he said that it was important to carefully monitor the economic situation through various available instruments.

Ms. Rugwabiza underscored the previous speakers' message of difficult economic times. The world economy had not recovered from the 2008 global economic crisis and growth remained tepid with severe downside risks emanating from the euro-zone. She stated that hard-won developmental achievements of the past decade were in danger of unravelling. National economic concerns inevitably gained visibility in times of recession and economic uncertainty, and the political will to open markets to foreign goods and services waned amidst rising fears about job losses and the viability of domestic industries. In such times, the temptation to resort to protectionist measures often grew stronger.

She stressed that the rules and norms of the World Trade Organization were the strongest insurance against protectionist measures. It was essential to not only safeguard those rules but also to redouble efforts in trade-opening measures. Amid a serious economic situation in which trade was often a target for abuse, it was imperative to strengthen multilateral cooperation and find global solutions. To stimulate growth, States must continue to open trade through small steps where possible. An agreement on trade facilitation was a possible outcome of the Doha Round of World Trade Organization negotiations. Reduced transit and transaction costs also would benefit small- and medium-sized enterprises in landlocked countries, particularly in Africa. As 60 per cent of global trade was in intermediate goods, trade facilitation procedures were essential to the competitiveness of all small, medium and large companies trading across borders. Other deliverables would be to support the integration of least developed countries into the global economy by providing them with duty-free, quota-free market access and easing their accession to the World Trade Organization.

Turning to the United Nations Conference on Sustainable Development (Rio+20), she said the outcome had made clear that a universal, rules-based, open, non-discriminatory and equitable multilateral trading system was an indispensable part of the sustainable development framework. There had been concern during the Rio+20 preparations that the green economy could be used to undermine the export competitiveness of developing countries. But the Rio+20 outcome document rejected such behaviour by affirming that policies must not be used to discriminate or restrict trade. World Trade Organization rules sought to balance support for Members' right to take measures that advanced goals, such as environmental protection, and also ensure that such measures were not arbitrarily applied.

She stated that Rio+20 had also identified two areas where progress would be important: trade distorting subsidies and trade in environmental goods and services. Both had been part of the World Trade Organization's Doha Development Agenda since 2001. In sum, substantive development results could be delivered by taking realistic steps, she said, pressing the Council to use its mandate and legitimacy to ensure that G20 members resisted protectionism, and to galvanize the necessary energy to keep trade open.

Mr. Timmer stated that it was surprising how much consensus there was about the gloomy current economic situation. While he agreed with that assessment, he outlined two possible future scenarios in Europe, one of which raised much more hope than the other. The first scenario was the baseline view, meaning another few years of very low growth; the second was a slide into another major global financial crisis and the dismantling of the Euro Zone. He stated that the first scenario was much more likely because the countries of Europe were too small to be successful in the global economy on their own. He stressed that there was no alternative to strengthening the European economy as a whole.

For developing countries, the more positive scenario meant that structural growth would continue. He noted that developing countries had emerged from the 2008-2009 crisis with a 7 per cent growth rate on average, and asserted that those high rates would continue. Recalling the recent crisis, he said that the most important transition mechanisms had been contagion, uncertainty and a confidence crisis. A similar process, in which trouble in developed countries spread to developing countries, would be likely were another global crisis to strike. He stated that developing countries would have to prepare for fundamental changes over the next two decades, adding that even the policies of successful developing countries were likely not well adapted for the coming period. In his view, it was possible to overemphasize the importance of short-term policies at the moment.

<u>Questions and Discussion</u>

Following the presentations, speakers took the floor in an interactive discussion, issuing a number of questions for the panellists. Those focused largely on issues of unemployment and sustainability, with delegates calling for global economic governance measures to ensure people were healthy, educated and employed. Others asked whether it was best to emphasize austerity measures or stimulus packages, both options which had been discussed in the panellists' statements.

Still others, agreeing that the global economic situation was indeed gloomy, wondered how the panellists felt the world could best confront insufficiencies in its economy, while asking which particular structural policies would best bring about a stronger and faster global recovery. A representative of a least developed country wondered whether the panellists saw ways to ensure delivery on the commitments agreed by development partners. For his country and others, there was no option for implementing an economic stimulus package, leaving them completely vulnerable to the cascading impact of present and future global economic crises.

Concerns were also raised about the proposed Green Climate Fund, which one representative called a "fund without funds", and about the feasibility of the proposed carbon tax. Similarly, one representative pointed to the Rio+20 outcome document, recalling that international financial institutions were invited to play a role in implementing a green economy. How was that outcome received by those financial institutions, he wondered, and how did the panellists expect that those bodies would respond to the challenge?

Responding to the question on successful policies and global governance, **Mr. Timmer** said developing countries should have a larger say in the international policy debate. He stated that one could argue that G20 initiatives were one step in that direction. For their part, developing countries should help devise global solutions, and high-income countries should follow-up on global commitments.

As for whether the World Bank had the strength to assist the least developing countries, he said the answer was "no". After the crisis, the Bank had tripled its lending and helped many countries absorb shocks. That lending was mainly for middle-income countries, as the World Bank borrowed from international markets to finance lending. But that was not a solution for the poorest countries, he said, which received aid flows coordinated by the World Bank. Those flows could not be tripled because they depended on donor money. He stated that the World Bank was not as successful for the poorest countries as for the middle-income countries, which was why it was important for donors to follow up on their commitments. The fact that that ODA funding had not increased, as promised, was a serious problem.

Ms. Rugwabiza, responding to a question about implementing Rio+20, said that last December, big changes had taken place in terms of market access for developing countries. China had decided to offer 97 per cent duty-free, quota-free access for all least developed country exports. India had done the same for 90 per cent of those exports. Also last December, a decision had been made to facilitate least developed country World Trade Organization accession. WTO members had since been working intensively, and last Friday reached a deal regarding access, which was not yet public. She said it was important to make progress on the Doha Development negotiations.

Mr. Zhu stated that some economic issues were not yet fully understood, such as how technology impacted labour market conditions. There was room in the macroeconomic framework to promote job creation. The IMF was working with the International Labour Organization (ILO) on job and labour market issues, as well as with programme countries, including Zambia, Bulgaria and the Dominican Republic, on creating a social protection floor.

As for whether green growth could be incorporated into macroeconomic policy, he said that it could and added that there also was much room to carry out subsidy reforms without causing poor people to suffer. Many subsidies went to rich people, who consumed more energy, for example, and thus, received more subsidies on a per capita basis. Fiscal policies could also be used to create change, and he stated that the IMF favoured more cooperation.

In response to a question about balancing austerity and growth, he said both were needed, stating that a credible fiscal policy in the medium-term was required, along with promoting growth in the short term. Smart social expenditure was needed, as well.

Mr. Supachai challenged the meeting by posing the question whether everyone was really satisfied with the way global economic governance is being practiced at the moment. He noted that this issue was the big elephant in the room. He asserted that there was no leadership, no coordination, no inclusion or sharing of authority in determining the agenda of the future. States must be mindful that the global economy is floating and drifting with no clear global agenda. He asked whether the world could rely solely on G20 deliberations taking place twice a year for a day or two, as a way to steer the future.

He insisted that this was not sufficient. The answer to all questions about special drawing rights, commitments, supplementary funds for the International Monetary Fund, and support for least developed country graduation was that commitment was lacking. There was no mechanism to enforce commitments, only pledges that could take decades to be realized. He stated that short-term action is needed now. He emphasized that there was no global leadership or global governance.

Completing the dialogue, **Mr. Sha** said the outcome from Rio+20 was the best that could be achieved and invited everyone to read "The Future We Want" carefully.

Introduction of the Reports of the Secretary-General
(2012 Annual Ministerial Review and the Thematic Discussion)

Mr. Sha Zukang, Under-Secretary-General for Economic and Social Affairs, introduced the reports of the Secretary-General for the 2012 Annual Ministerial Review and Thematic Discussion. These reports focused on the topics of productive capacity, employment and decent work. He stated that in both developing and developed countries, the global economic and financial crisis has exacerbated challenges to full and productive employment. Since the onset of the crisis nearly four years ago, the groups that are traditionally marginalized in labour markets have become even more excluded. In many cases, even workers accustomed to job security are now exposed to new vulnerabilities. Since 2007, global unemployment has increased from 170 million to almost 200 million. Throughout the world, labour force participation rates have fallen.

In the developing world, underemployment and informal and casual work remain a major concern. Even while we celebrate progress in global efforts to reduce extreme poverty, the number of working poor is actually increasing in some regions. Overall, one in every three workers in the world is living with their families below the $2 per day poverty line. As working families confront hardship, they cut spending for goods and services, further depressing economic activity and business confidence. Some groups are particularly impacted, such as young people, in both developed and developing countries.

The 2012 Annual Ministerial Review Report (E/2012/63) of the Secretary General identified obstacles to the achievement of more inclusive, sustained and equitable economic growth, and reviews the implementation of the 2009 Global Jobs Pact by the UN system. It argues for elevating employment in the development agenda and addressing the multi-dimensional challenges of those without work. At the Rio+20 conference, Member States accorded top priority to employment issues and called for job creation by investing in and developing sound economic and social infrastructure and productive capacities for sustained, inclusive and equitable economic growth. They also called for a forward-looking macroeconomic policy.

The 2012 thematic report (E/2012/74) of the Secretary General, which was also before the Council, focuses on macroeconomic policy and its impact on employment. The report stressed that macroeconomic policymaking should address the urgent need for employment creation. Full employment should be a central macroeconomic policy goal, and fiscal policies should be supportive of government investments in job creation. Recent experience further shows that monetary policies must ensure financial sector stability and support productive sectors, especially agriculture, and employment-intensive small and medium enterprises. The report also highlights the importance of international cooperation, particularly through the inter-linkages of trade, technology transfer, foreign direct investment and industrial policies.

In closing, Mr. Sha stressed that the right to decent work is fundamental to sustainable development.The world needs quality jobs and productive capacity to generate momentum for sustained, inclusive and equitable growth, and to strengthen social wellbeing of families and communities.

Introduction of the Report of the Committee for Development Policy

Ms. Frances Stewart, Chair of the Committee for Development Policy (CDP), introduced the report of the Committee for Development Policy, 14th session (E/2012/33), which was held in New York from 12 to 16 March 2012. The Committee had examined the promotion of productive capacity and employment.

She noted that many countries were still grappling with high unemployment brought about by the global financial crisis, and new threats to employment were arising from problems in Europe. The world economy continued to suffer from insufficient capacity to generate employment opportunities. At the end of 2011, nearly 200 million people were in open unemployment around the world.

Some groups in society had found it harder than others to tap opportunities in the labour markets. Young people, aged between 15 and 24 years old, had been suffering the most. Gender imbalances were found in every sector in most regions. Moreover, even when employed, both women and men in developing countries were often self-employed in the informal sector, engaged in low productive activities with limited growth potential. Working poverty, defined by a poverty line below $2 a day, affected 900 million people in 2011. An estimated 456 million lived in extreme poverty, with less than $1.25 a day.

The Committee called for Governments to implement counter-cyclical policies, prudent regulation of their financial systems and capital flows, as well as financial reforms. **Ms. Stewart** noted that these were required to reduce the volatility of financial flows, offset adverse impacts on global demand and reduce macroeconomic volatility. A stable and growing global economic environment was essential for sustained employment generation.

Policy makers should also take a proactive strategy in support of dynamic structural diversification of the economy. Structural diversification in today’s world, however, also must take climate change into account. Thus technological change and innovations leading to structural transformation needed to rely on clean energy, supporting adaption of the economy to the anticipated consequences of climate change.

The CDP stressed the central role small- and medium-sized enterprises (SMEs) and the agriculture sector played for job creation, and emphasized the need to strengthen investment in research in food production and infrastructure in rural areas. Public employment schemes could also play an important role in employment creation in the short-term, while contributing to the development and maintenance of infrastructure.