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"Responding to Global Crises: New Development Paths"

Presentation

Rethinking Global Economic Governance: Towards Trade and Financial Reforms to Support Development
Plenary II, 10 May 2010

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Rethinking global economic governance

Towards Trade and Financial Reforms to Support Development

UNCTAD Public Symposium

Responding to Global Crises: New Development Paths

Geneva, Palais des Nations, Room XVIII

10 May 2010

Trade Liberalization



International terms of trade have moved against developing countries

1. Primary commodities vs. manufactures
2. Tropical vs. temperate agriculture
3. South vs North manufactured Xs

Generic manufactures vs monopolistic manufactures protected by IPRs?

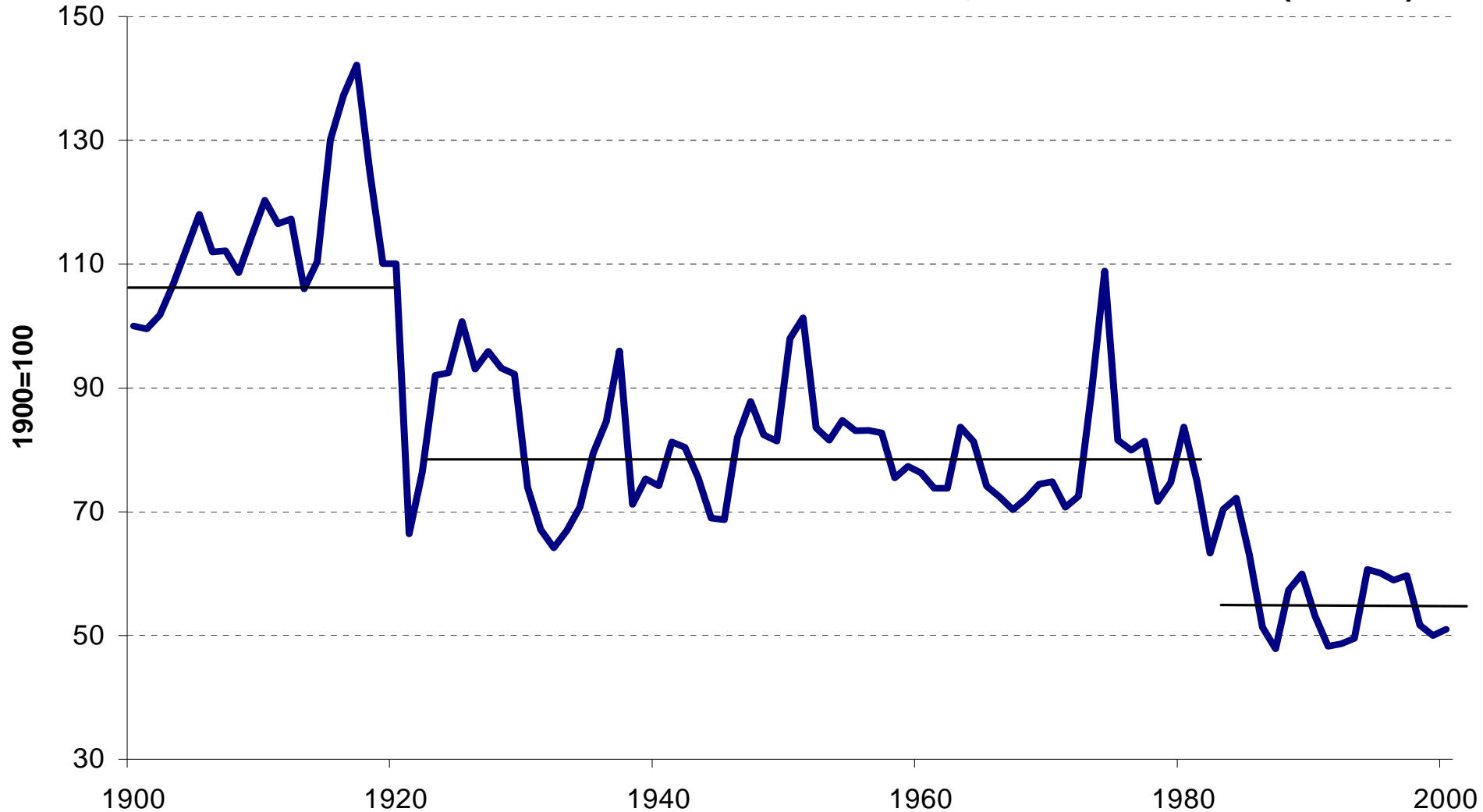
→ Immiserizing growth?

Commodity Price Index, 20C



Figure 1

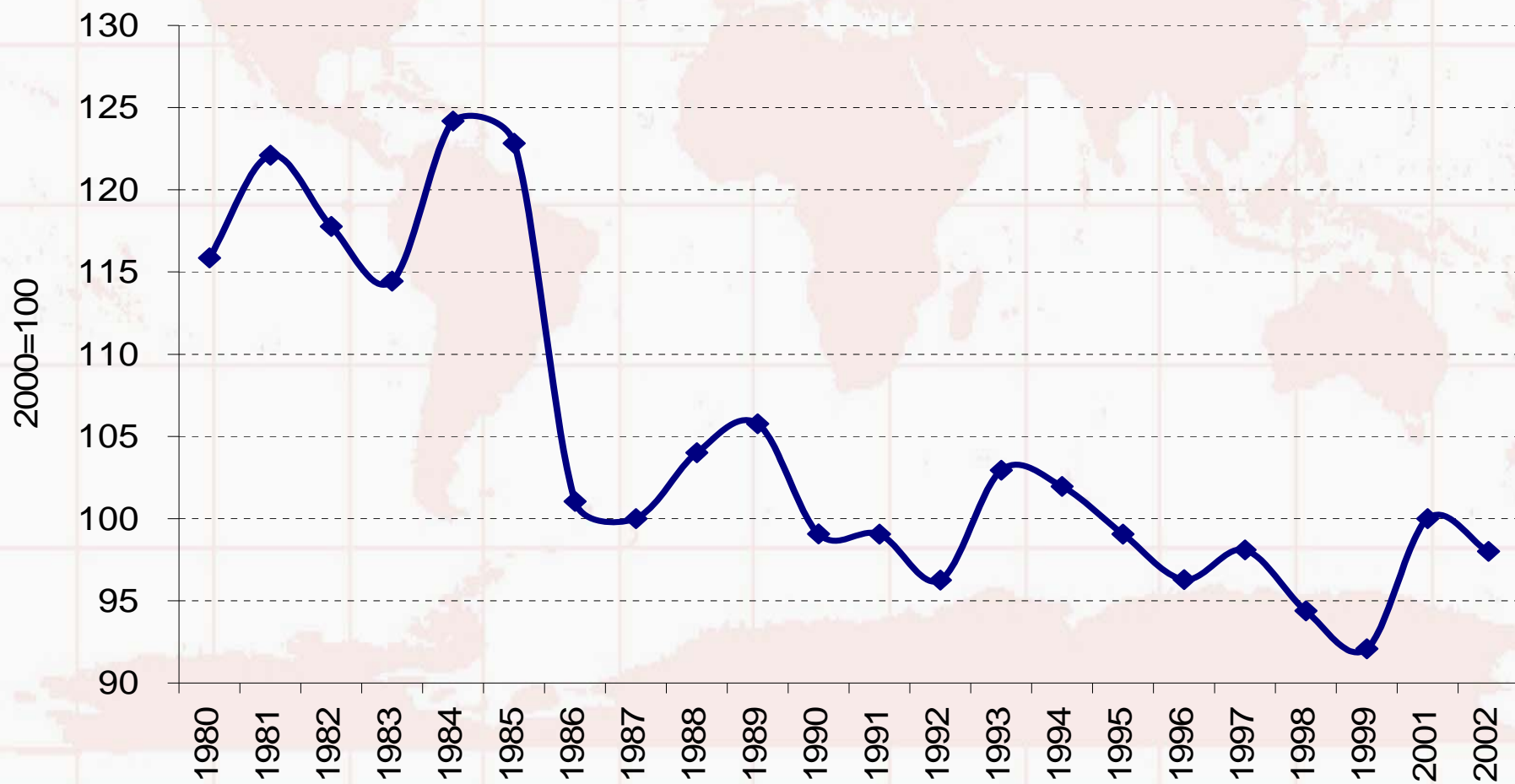
AGGREGATE REAL COMMODITY PRICE INDEX, EXCLUDING OIL (GYCPI)



South vs North Manufactured Exports' Terms of Trade



Unit value of manufactures exported by developing countries relative to manufactures exported by developed countries



'Aid for Trade' rationale



Compensation for loss of
tariff revenue

production + export capacities

Cost of building *new* internationally
competitive productive + export
capacities + capabilities

*[Above obscured by comparative
statics of international trade theory,
CGE models]*

International financial liberalization



Converse of advocates' claims:

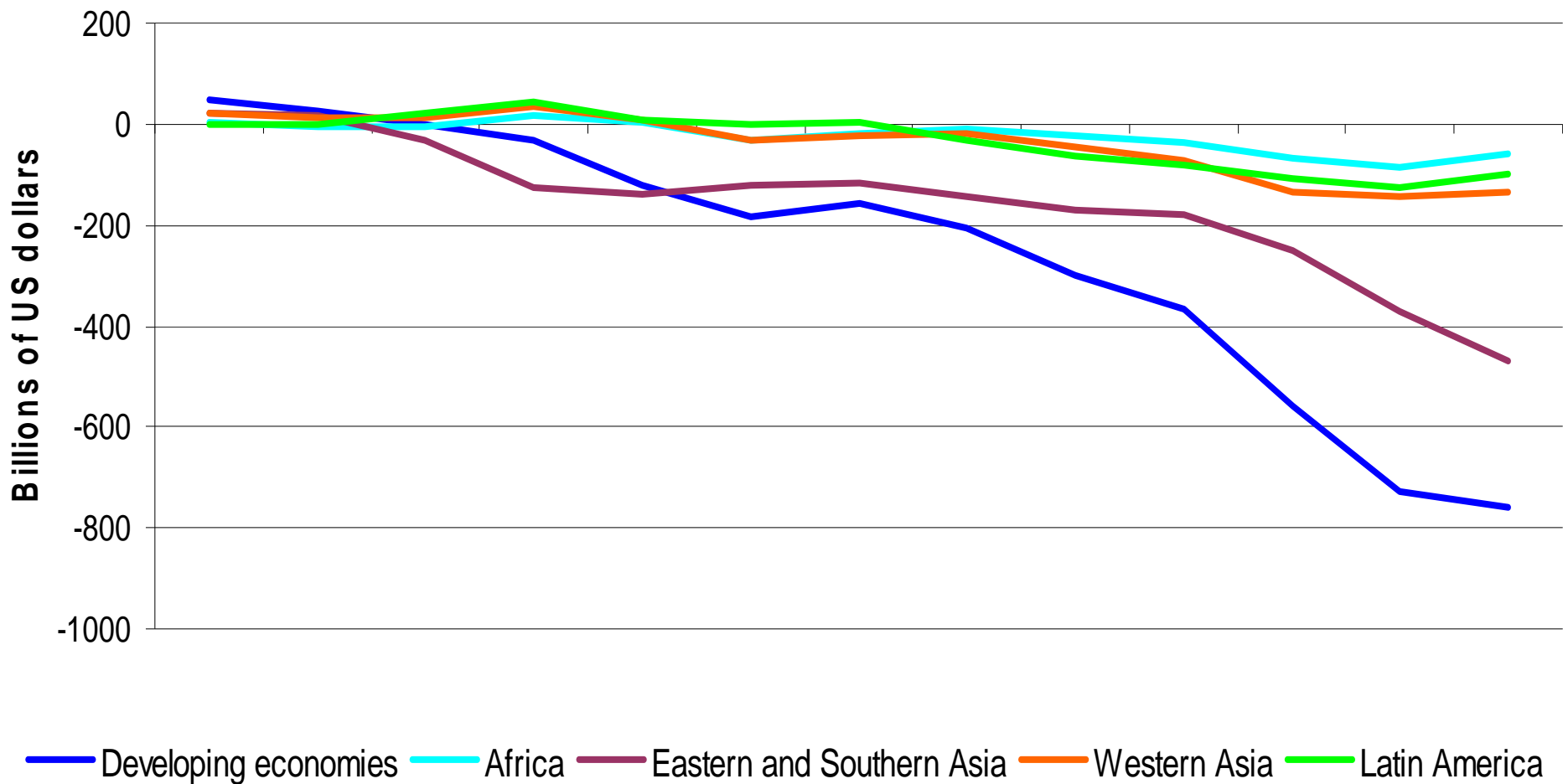
1. **K flows** *not* from K rich to K poor

Except E Asia early + mid-1990s

2. **Costs of funds** *not* lower

3. Some old **sources of volatility + instability** reduced, but **new sources** introduced

Net transfer of financial resources from South to North



Effects of liberalized capital flows



- Exchange rate appreciation →
high sterilization costs
negate supposed benefits

Also:

- **asset price bubbles**
- **consumer binges**
- **over-investment**

Old Warnings Ignored

- Keynes: **beauty contests** → **casino capitalism**
- Tobin: **sand in wheels** of finance
- Drucker: changed world economy
1985: 89% **X-border flows** not related to real economy → **1996: >97%**
- McKinnon: **Sequencing** economic liberalization
- K account liberalization should be **last**

Asian crisis mistakes



- IMF: opposed AMF → no productivity growth, currency crisis theories, cronyism
- Krugman 'Plan B'
- Bhagwati/Johnson **Wall St-US Treasury-IMF**
- Fischer: Controls on inflows [not outflows]
- IMF 2003: 'Financial globalization' flawed
- Koehler, IMF Article 6: sovereign right
- Rajan, *et al.*: no direct growth contribution

Lost Bretton Woods moment?



Bretton Woods, 1944: **United Nations conference** on monetary + financial affairs

- 15 years after 1929 Depression
- Middle of WW2
- US initiative vs UK Treasury stance
- 44 countries (28 developing countries; 19 LA)
- UN system: IMF, IBRD, ITO
- New international economic governance:
Clear emphasis on **sustaining growth, job creation, post-war reconstruction, post-colonial development, *not just financial stability***

Crisis → reform?



- Lack of reserve currency system → unsustainable global *imbalances*
- International financial *architecture*:
non-system since 1971 end of BW
- Financial **deregulation**
 - deregulation, self-regulation
 - **inadequate + inappropriate** regulation
- Capital account liberalization

Broader reform agenda



- Ensure *macro-financial stability* with *counter-cyclical* macroeconomic policies + *prudential risk management*, including *capital controls*
- *Finance* growth (output, employment) with *developmental* financial system
- Ensure *inclusive* financial system
- Monterrey *policy coherence*: Align IMF, WB with UN development agenda, IADGs
- UN: universal, legitimate → not allowed to *lead comprehensive, systemic* reform process?

Stiglitz Commission New institutions



Global Economic Coordination Council

democratically representative G-20/L27

include UN system chief executives and
Heads of Government

coordinate international adjustment of
imbalances

Global Financial Authority

New Financing Facility

International Expert Panel (model: IPCC)

New International Reserve Currency

Other proposed institutions



- *International Debt Restructuring Tribunal*
 - Independent of IMF (unlike DRM proposal)
 - Replace World Bank's ICSID
- *Foreign Debt Commission*
- *Intergovernmental Commission on Tax Cooperation* (for resource mobilization)
 - Multilateral Regulations
 - International Tax Compact
- *New Policy Surveillance Mechanism*
 - Independent of IMF
 - Support national capital account management

Proposed UN foci



Debt sustainability framework

International tax cooperation

Global Economic Coordination
Council

Macroeconomic advisory
capacity (MAC)

Global Green New Deal

Thank you



Please visit UN Economic and Social Affairs (ESA) website

- Research papers
- Policy briefs
- Other documents

Acknowledgements: UN-DESA