

7 July 2009, Issue 38

Geneva, Switzerland

Martin Khor, Chief Editor

EDITORIAL COMMITTEE

Aileen Kwa

Xuan Li

Vice Yu

INSIDE THIS ISSUE:

Editorial: The Significance of the UN Conference on the Financial Crisis	1
Remarks on the Outcome Document of the United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development Yilmaz Akyüz	2
Follow Up to Conference: UN Sets Big Agenda for Economic Crisis Action Martin Khor	4
The UN's Role Is Established, Now the Focus Is on the Follow Up	6
South's Leaders Stress the UN's Leading Role In Economic Affairs Bhumika Muchhala	7
Six Key Issues in the UN Conference on Economic Crisis Martin Khor	9
South Centre's Press Conference at the UN	11
UNCTAD and South Centre Call for Avoiding New Debt Crisis	12
Some Key G77 and China Proposals in the UN Conference on Financial Crisis	13

EDITORIAL: The Significance of the UN Conference on the Financial Crisis

The UN Conference on the Financial and Economic Crisis on 24-26 June, 2009 was a watershed event, which some leaders who came described as the most important UN event on the global economy since the Bretton Woods meeting.

Whether this turns out to be true depends on the follow-up to the conference. The setting up of a working group under the General Assembly was perhaps the most important decision of the Conference.

As many commented, the fact that the UN members adopted a consensus document with a lot of significant substance in it, on a range of complex issues relating to the economic crisis and the international financial system, and with many points pointing to the direction and content of actions, was an accomplishment in itself.

Developing countries are being affected more and more severely as the global crisis drags on. As many prominent speakers in roundtables during the conference pointed out, the "green shoots" of recovery are not convincing and the crisis and its effects after an anemic recovery will last several years.

Thus the conference is of central relevance to the future of the South's economies and the global economy.

The South Centre played an active role in the UN conference and it hopes to play a similarly active role in the follow up process.

This Special Issue of the South Bulletin contains many important articles

and documents that we hope will provide our readers with a good idea of what happened at the Conference, and the significance of its outcome.



The first articles provide an analysis of the Conference's outcome document. Other articles are on the Centre's interpretation of the key issues in the conference, and report on the Centre's press conference at the UN headquarters and on the roundtable in which the Centre and UNCTAD highlighted the need to address the new debt crisis and to provide liquidity to developing countries.

The Bulletin also publishes excerpts of the G77 and China's proposed texts for the drafts of the outcome document, which we believe to be a valuable record of the views and positions of the developing countries on the crisis and the actions needed to address it.

Future issues of the Bulletin will also keep our readers informed of the follow-up process arising from the Conference.

Martin Khor is the Executive Director of South Centre. He can be contacted at:
director@southcentre.org

Remarks on the Outcome Document of the United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development

Yilmaz Akyüz, Special Economic Advisor, South Centre

26 June 2009, New York

Insofar as developing countries are concerned the objective of this conference was threefold. First, to reaffirm their need for adequate policy space in order to respond to the fallout from the crisis; second, to discuss and reach an agreement on immediate policy actions to be taken by the international community in support of developing countries; and third, to identify shortcomings in the global financial architecture with a view to addressing them in a follow up process in the UN. Whether or not this agenda was initially shared by the governments from advanced economies, the outcome document, agreed by consensus, addresses all three, albeit with varying degrees of satisfaction.

On policy space, the document unambiguously recognizes the right of developing countries facing severe shortage of foreign reserves because of the fallout from the crisis to use legitimate trade measures in accordance with relevant WTO provisions. This presumably includes not only the right to raise tariffs within WTO bound rates, but also to make recourse to balance-of-payments safeguard provisions. Perhaps more significantly, it recognizes the right to impose temporary restrictions over capital outflows – something that is fully consistent with the IMF Articles of Agreement. Regarding debt servicing the document recommends negotiations with creditors for voluntary standstills. It does not go far enough in this respect; even the IMF Board had recognized in 2000 that “in extreme circumstances, if it is not possible to reach agreement on a voluntary standstill, members may find it necessary, as a last resort, to impose one unilaterally.”

On international support measures, agreement could not be reached on the specific proposals made by the G77, which had sought unconditional and adequate liquidity provision. These included a \$100 billion no-cost special SDR allocation (that is, international money printing) for low-income countries (LICs) and a moratorium on their official debt, including deferral of principal and interest payments with no additional cost. For other developing countries, the G77 had proposed a reversible SDR allocation of \$800 billion, to be repurchased when the crisis is over. These were sensible proposals, based on the most recent estimates of the Bretton Woods Institutions of the likely foreign exchange shortfalls in developing countries. They would constitute “quantitative easing” at the global level, reinforcing similar actions already undertaken by some advanced countries at the national level. For the LICs such an allocation would provide \$70 dollar per head. This compares with the \$8,000 per head that the US has so far spent to deal with the crisis at home. A moratorium on official debt is a part of the existing debt framework, and used in the past, for example during the Asian Tsunami. The SDR allocation to other

developing countries draws some concern possible inflationary impacts. However, this would not be the case now, or in the future, because reversibility means a built-in exit from liquidity expansion – a feature missing in recent intervention packages in the US and the EU.

It is, therefore, quite disappointing that the conference could not reach agreement on these sensible proposals. This is not, however, the end of the issue. Since there is a follow-up process, these matters can be taken up and decided upon in coming months, perhaps as the first item on the agenda of the working group, particularly if it turns out that there are many more yellow weeds than green shoots in the global economy.

On systemic issues the document is quite comprehensive. It recognizes that the international economic system and financial architecture suffer from serious shortcomings. It identifies problems but, rightly, does not attempt to provide blueprints for solutions. This is left to the follow up process.

It recognizes the incoherence of the global economic system and the role of the UN as a coordinating body even though the exact form such coordination could take is a contentious issue that is likely to give rise to heated debate over coming months. It further recognizes that the mandates, policies and governance of international financial institutions, notably the IMF, require an urgent reform. In fact it puts a specific deadline for governance reform – something quite unprecedented. There is also a clear recognition that IMF surveillance needs to be even-handed and effective. However, reference here is to surveillance over “major financial centres, international capital flow, and financial markets”, not to the policies of systemically important countries. This is an area in which IMF has constantly failed. The G20 summit expressed its support for “candid, even-handed, and independent IMF surveillance”, but without making specific recommendations as to how these could be achieved.

The document points to calls for reform of the existing international reserves system and recommends exploring the scope for a greater role for the SDR. Cognisant of the fact that countries enjoying the reserve currency status, notably the US, are unlikely to give it up voluntarily, it calls for consensus over methods and parameters of such an exploration. But it also points to regional arrangements which many developing countries have started to view as an alternative option in the event of failure to reform the global system.

Several references made to debt sustainability of developing countries, including the threat that the current crisis poses in this respect, constitute a recognition that the initiatives pursued since the launching of the HIPC initiative in the mid-1990s have amounted to no more than a muddling through process, unable to find a lasting solution. Although the document talks about seeking solutions “based on existing frame-

Remarks on the Outcome Document of the United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development

work and principles" it is certainly cognisant of the fact that these may need to be significantly reformed to address the debt overhang – through what is called "a more structured framework" which should, presumably, include orderly international debt workout mechanisms. Even though the document shies away from mentioning it explicitly, it has all elements that could open the door for negotiations over such a mechanism in the follow up process.

The document puts much less emphasis on global regulation of financial markets and institutions than is found in the debate in the civil society and academic community. While the need for effective regulation and supervision is clearly recognized and recommended, the document expresses an unambiguous preference for national over international regulations. This is not just a reflection of a strong US aversion to multilateral disciplines in such areas. Many developing countries are concerned that a process designed to broaden the scope of global governance over finance may end up extending the global reach of financial markets, leading to a one-size-fits-all approach and considerable loss of policy autonomy for them,

particularly when governance-related problems that pervade the multilateral system continue unresolved.

Briefly, the document is a strong statement of commitment, by all members of the UN, to actively engage in a common process of finding solutions to these three immediate concerns of developing countries, as well as other related issues. Whether it will lead to a structured negotiation over the international monetary and financial architecture or simply degenerates into the kind of hapless exercise typified by the FFD process remains to be seen. This very much depends on the extent to which developing countries own and lead this process. Perhaps there are reasons for optimism since for the first time after recurrent crises and hardships, developing countries have begun to fashion a common vision of what kind of international monetary and financial architecture they should be seeking in support of development, rather than simply reacting to positions and proposals coming from governments of advanced economies.

The outcome document of the UN Conference on the Financial Crisis can be accessed from the following website address:

http://www.un.org/ga/search/view_doc.asp?symbol=A/CONF.214/3&Lang=E

UNCTAD and South Centre Call for Avoiding New Debt Crisis (Continued from Page 12)

-ment between creditors and the debtor country; there is a write-down on the debt; and new financing is provided to the debtor, so that the country is economically viable again.

This system is being applied in the bankruptcy procedures of Chrysler and General Motors, and if the principles can be applied to companies, then they could also be applied to countries in debt difficulties.

Khor added that developing countries also need policy space for undertaking fiscal stimulus measures, ensuring sufficient foreign exchange reserves, preventing financial instability and speculation. There are currently many barriers that constrain this policy space such as the loan conditionalities of the Bretton Woods Institutions, and provisions in the free trade agreements.

The FTAs were concluded during a time when there was a different policy framework. Some of the provisions are obsolete such as those which oblige the partners to have unregulated capital flows and reductions in tariffs that could lead to loss of government revenues and widen trade deficits, which

worsen the conditions of developing countries facing the crisis.

Khor said that reforms to the international financial system should include governance and policies of the IMF and World Bank, the regulation of financial markets and capital flows, strengthening of surveillance over policies of systemically important countries and the creation of a new reserves system that relies more on the SDR.

Khor stressed the need for coherence at international level in terms of economic governance. For example, gains made in the trade area can be wiped out by gyrating foreign exchange rates and thus there should be a coordinating body addressing the problems of policies pulling in different directions. The UN is the best place for addressing the coherence issue through the creation of an economic working group or council. The follow-up to the UN conference was important and there was need for urgency on some issues such as avoidance of the debt.

Follow Up to Conference: UN Sets Big Agenda for Economic Crisis Action

Martin Khor, Executive Director, South Centre

The path-breaking United Nations conference on the economic crisis has laid the ground for taking action, particularly to assist crisis-hit developing countries and reform the financial system. A new working group will follow up on the conference's decisions.

The United Nations conference on the global financial crisis ended on 26 June with an agreement to further consider translating many key issues into action.

This reflects the disappointing fact that the conference failed to take immediate concrete measures to help developing countries tackle the crisis, but that such actions are on the agenda of a new working group under the General Assembly to follow up on the issues it raised.

The working group is open-ended (comprising all UN member states) and is to report back to the 64th session of the General Assembly (which will begin in September 2010).

Many developing countries were represented at the conference by their Foreign or Finance Ministers, and a few by their Prime Minister or President. Most developed countries however sent low-level representatives.

Perhaps the conference's most important achievement is to make the United Nations an important venue again for all countries to discuss global economic issues. There is the potential for it to become the premier forum, if the new working group is allowed by the big powers to do its work well.

From the time the conference was being planned, some major countries, most notably the United States, tried to limit the scope of the discussion.

And even at the closing session, the US was placing points of concern about the final document that minutes earlier had been adopted by all countries, including itself. The US said it did not interpret the document as endorsing a formal UN role in decisions affecting the Bretton Woods institutions (the International Monetary Fund and the World Bank). In the document, the countries agreed on several aspects of reforming these two institutions.

In the recent meeting in London, the Group of 20 (comprising mainly developed countries) agreed on many concrete actions concerning these organizations, such as boosting the resources of the IMF by US\$500 billion, and that their heads should be chosen by merit and not nationality.

As many conference participants remarked in the corridors and in panel discussions, if a small number of countries grouped in the G8 or G20 can agree on actions regarding the IMF and World Bank, it is unacceptable for leading members of these groups to prevent the United Nations, which is a universal and legitimate body, from similarly proposing actions concerning these institutions.

When the working group starts its work, one of the first issues



The UN General Assembly meets on 24 June to discuss the world economic crisis

Photo Copyright © United Nations 2009

it may have to settle is the legitimate and indeed the leading role of the UN in global economic affairs, and thus the right and indeed the duty of the group to discuss a wide range of actions that should be taken to address the global economic crisis.

One of these actions must be to provide funds to developing countries, since they face a massive shortfall in external financing of one to three trillion US dollars in 2009 alone.

The conference could not agree on concrete measures to provide the substantial liquidity required by the developing countries. Many of them will soon run out of foreign exchange to pay for imports or service their foreign debts.

Developed countries have the means to borrow or create money to fund the bailout of their banks and companies, and the fiscal stimulus to counter the recession. But most developing countries lack the means.

The conference called for "examination of mechanisms to ensure that adequate resources are provided to developing countries." The working group must carry out this examination and set up those mechanisms as soon as possible to mitigate the effects of the crisis.

The developing countries under the G77 and China had proposed that US\$100 billion SDRs (special drawing rights) be allocated by the IMF to low-income countries at no cost to them. Another US\$800 billion should be allocated to middle-income developing countries which can be returned after the crisis is over.

The conference did not endorse these SDR allocations, and thus missed the opportunity to provide the needed liquidity to cash-strapped developing countries. This is a pity because the G20

Follow Up to Conference: UN Sets Big Agenda for Economic Crisis Action

had agreed on allocating US\$250 billion of new SDRs, but since this will be allocated according to quota shares, the overwhelming share of that amount will go to the developed countries.

The developing countries' proposal was that new SDR allocations be on the basis of need rather than quotas, and that the developing countries should be recipients.

Although this was not explicitly agreed to, the conference did recognise "the potential of expanded SDRs to help increase global liquidity in response to the urgent financial shortfalls caused by this crisis" and that "this potential should be further studied." Thus the working group can take up this issue further, and hopefully with concrete results.

An issue that dominated the conference discussion was the need for action to prevent another debt crisis in developing countries. The G77 and China proposed a debt moratorium and a new international bankruptcy court so that countries facing debt payment difficulties could have a standstill in payments and a restructuring of their debts. This was supported during the conference by international organisations like UNCTAD and the South Centre as well as many NGOs.

The conference did not endorse these proposals, but agreed half way to consider them. The document recognised that "the deepening crisis threatens to increase the debt and therefore the debt sustainability of developing countries" and that there must be measures to "avoid a new debt crisis."

It added: "We will also explore enhanced approaches to the restructuring of sovereign debt based on existing frameworks and principles, broad creditors' and debtors' participation and comparable burden-sharing among creditors. We will also explore the need and feasibility of a more structured framework for international cooperation in this area."

This lays the ground for the working group to discuss the debt problem comprehensively and explore actions that include the G77 proposals.

Another prominent issue at the conference was the need for "policy space" for developing countries, of the ability for them to choose between policy options and to make use of measures to counter the crisis. However, they are often constrained to use these measures because of conditions attached to their loans or to trade agreements or simply pressure from the developed countries or the markets.

An important part of the conference document states that is that developing countries facing an acute and severe shortage of foreign reserves "should not be denied the right to use legitimate trade defense measures in accordance with relevant WTO provisions, and, as a last resort, impose temporary capital restrictions and seek to negotiate agreements on temporary debt standstills between debtors and creditors, in order to help mitigate the adverse impacts of the crisis and stabilize macroeconomic developments."

The conference also acknowledged the calls by some states for reform of the current global reserve system to overcome its insufficiencies and acknowledged the calls by many states for further

study of the feasibility and advisability of a more efficient reserve system, including the possible function of SDRs in any such system.

It also acknowledged "the importance of seeking consensus on the parameters of such a study and its implementation". This opens the door to the working group to discuss the reform of the reserves system, which has become a major concern especially for developing countries like China that hold large amounts of US dollars as reserves.

The conference also recognised the need to expand financial regulation and supervision with respect to all major financial centres, instruments and actors, including financial institutions, credit rating agencies, and hedge funds.

There is also a section in the document on the need for reforms to the International Financial Institutions, with details on changes to the governance of the IMF and World Bank so that developing countries have fair and equitable representation, and to "enhance the perspective and voice and participation" of these countries. They should also be better represented in major standard-setting bodies such as the Financial Stability Board and Basel Committee.

The conference also made proposals for strengthening the United Nations and its economic and social council. One proposal is to consider setting up a panel of experts on the world economic and financial crisis to give inputs to international action and political decision-making.

After the document was adopted, the US made a lengthy speech, detailing areas with which it had concerns, and it was supported by Canada.

Several developing countries, including Cuba, Nicaragua and Venezuela, also expressed concerns but these were the opposite to those of the US. They were disappointed that the conference did not go far enough either in action or in more fully asserting the authority of the UN.

The main priority now is for the UN General Assembly to establish the modalities of work of the working group, the issues it will take up, and how to translate them into action measures.

The immediate measures that need addressing are international measures to help developing countries to mitigate the effects of the crisis, especially the provision of liquidity; and the measures required to avoid a new debt crisis in developing countries.

These actions cannot wait for a report to be given to the General Assembly in September 2010. Even the formation of the international debt arbitration system should be put on the fast track.

The more structural issues such as reform of the international financial system and the reform of the reserves system could take longer to resolve, and can be reported on in September 2010.

Contact at: director@southcentre.org

The UN's Role Is Established, Now the Focus Is on the Follow Up

The outcome document of the UN conference on the financial and economic crisis contains many important parts on the causes of the crisis and actions to tackle the crisis. However the most important outcome is the re-establishment of the UN itself as a forum to address not only the current economic crisis but the long-term systemic issues of the global economy.

Hailing the adoption of the document, the President of the General Assembly, Miguel d'Escoto Brockmann said the "G-192" had now been established as the central forum for the discussion of world financial and economic issues. "This in itself is a major achievement".

The Conference asked the General Assembly "to establish an ad hoc open-ended working group of the General Assembly to follow-up on the issues contained in this outcome document, and to submit a report on the progress of its work to the General Assembly before the end of the 64th Session", which is in September 2010.

In speeches at the end of the session, the G77 and China welcomed the document, while some countries (notably the United States, Canada, Cuba and other Latin American countries) noted their concerns about parts of the document.

Sudan, on behalf of the G77 and China stated that for Member States to stand united through the adoption of the outcome document is a remarkable achievement. The Group welcomed the outcome document, saying it is a good basis. It would have liked the outcome to urgently address the issue of mitigation of the crisis, and called for this to be urgently addressed.

The group had three priorities: (1) the establishment of the working group to follow up on the specific decisions and actions adopted by the outcome document; (2) the establishment of an ad hoc panel of experts to provide independent technical expertise on the world crisis, including on issues like global reserve system, SDRs and debt workout mechanism.; and (3) strengthening the capacity and effective leadership of the UN in the coherence and coordination of policies and actions in the global economy and finance, including a speedy review of the implementation of the cooperation agreement between the UN and the Bretton Woods institutions.

The US made a detailed statement on its concerns. It was against the UN taking a role on decisions affecting the international financial institutions (IFIs). It said the working group does not have the expertise or mandate to discuss issues such as reserve systems, IFIs and the international financial architecture. The US also raised concerns on many paragraphs, relating to policy space for developing countries, regional reserve currency arrangements, labour migration, a structured framework for cooperation in the area of debt, the use of SDRs, and regulation of financial markets.

Cuba expressed its discontent on the outcome document as being "far below what is required." It did not contain new and additional resources that are urgently needed by developing countries for the crisis. It did not pay heed to the need for a radical transformation of the international financial architecture.

Venezuela stated that although the outcome document has many deficiencies, it agreed to the mention of reviewing the way in which the UN and the Bretton Woods Institutions coordinate their programmes and to exploring approaches to the restructuring of sovereign debt. Nicaragua emphasized that the follow-up process must

ensure that the working group's recommendations are implemented by the conclusion of the 64th session of the General Assembly.

Bolivia said that with the outcome document, the G-192 had demonstrated that the UN was the appropriate place to discuss a global response. It hoped that the document would provide a foundation to overcome the crisis. It was important that the working group follow up on the shortage of foreign reserves and their negative impact on balance of payments. The weakest part of the document was its lack of criticism of the Bretton Woods institutions.

Jamaica, speaking for the members of Caribbean Community (CARICOM), attached great importance to the convening of this UN conference, and that the conference had given small island states such as those in the Caribbean a chance to speak. Iran welcomed the document's adoption. It sends the positive signal that the UN with its legitimacy is the right place to address the crisis in a holistic manner. However it falls short in concrete measures in the reform of the international financial institutions and architecture and the role of the UN.

Several developing countries, including Cuba and Iran also criticized the document's reference to "human security", a term which had not been agreed to by the UN membership.

The European Union said that the conference had been an important event which produced a very "ambitious" document which provides the basis for the UN to follow-up in three ways: establishment of the working group, strengthening of the collaboration and coordination between the UN and the Bretton Woods Institutions; and the possible establishment of an expert panel on the crisis.

Japan welcomed the adoption of the outcome document by consensus, saying that it is a "milestone in the history of the UN." Japan welcomed the follow-up process to this conference in the UN. On reform of the Bretton Woods Institutions and the issuance of SDRs for meeting the financing shortfalls in developing countries, these matters should be carried out in accordance with the mandates and governance structures of the IMF and World Bank.

Canada, like the US, could not support the formal role of the UN in issues dealing with the financial and economic system. It was not useful for the working group forum to address issues that fell outside the UN' mandate and expertise, such as global reserve system, reform efforts of the Bretton Woods institutions, and frameworks for sovereign debt restructuring.

However, the General Assembly President Mr. Miguel d'Escoto Brockmann stressed that the UN had now been given a role through the working group to follow up on a wide range of issues, including global stimulus measures, SDRs, reserve currency, restructuring of the financial system and architecture including the reform of the IFIs, the role of the UN, external debt, trade, investment, tax, development assistance, South-South cooperation, new forms of financing, and regulation.

"The world has had the opportunity to hear the views of the G192. All members have had the chance to express their views. The UN General Assembly, the G192, has now been established as a central forum for world economic and financial issues. This in itself is a major achievement."

South's Leaders Stress the UN's Leading Role In Economic Affairs

Bhumika Muchhala

Over four days of plenary sessions at the United Nations Conference on the World Economic and Financial Crisis, leaders and diplomats made speeches in the General Assembly hall, offering their country's views on the crisis and the UN's role.

Many developing countries were represented by their Ministers, who stressed their support for the important role of the UN in addressing the crisis as well as the systemic issues of the global economy. However there was low level representation from developed countries, who in their speeches seemed to give a more limited role to the UN.

Ecuador, represented by its President, Rafael Correa, stated that developing countries have come to the G-192 "to demand democracy and to highlight the other possible world." Ecuador stated the crisis is no longer only a financial crisis, as "the whole world has been contaminated," and the South, "which had no responsibility whatsoever in the crisis, has become its main victim."

Ecuador pointed out that for years the U.S. "maintained huge trade and fiscal deficits, with the connivance of the International Monetary Fund. Any other country would have been forced to devalue and 'correct' its unbalances." However, the double standards that characterise the practices of the IMF resulted in the "complicity" of the institution. Ecuador stressed that despite this track record, the G-20 seeks to "recapitalize it just like that, without even moving one chair from its Board of Directors." The reform of the Bretton Woods Institutions (BWIs) is an "insufficient stopgap solution," Ecuador emphasised, in that the BWIs have long marketed the ideology of neoliberalism through the 'Washington Consensus.' In the same way that it would be "absurd and irresponsible" for the speculative markets, that were directly responsible for this global crisis, to be given the role of fixing the crisis, it is also irresponsible to let the solutions be "proposed, programmed and executed" by the same BWIs that caused it.

Ecuador called for the enhancement of "supranational monetary-financial sovereignty," that would be able to reduce the "perverse effects that affect our economies" when linked with the international financial system. The country's role in the creation of the Development Bank for the South was emphasised, as was the development of a "common reserve fund for Latin America," which would "prevent the deposit of more than \$200 billion" from Latin American countries to Northern banks. Ecuador noted that it was a paradox that even in the midst of a crisis, developing countries allow their money to "finance rich countries, in exchange for a few dollars accrued as interest." Ecuador also proposed "consolidating a common monetary system, which may begin as an electronic currency to facilitate regional exchanges." Establishing such a system is a "matter of coordination and political decision," and as such, this goal is already progressing through the Single Payment Compensation System known as SUCRE.

Brazil's Minister of External Relations, Mr. Celso Amorim stated: "This Conference is an historic opportunity for change....The fact that we have been able to agree on a balanced and ambitious outcome document is a testament to the vitality of the UN. It has disproved many of the sceptics." He stressed the importance of the UN, with its inclusive and legitimate structure, to initiate a larger process of engagement, saying that it is "incumbent upon us, UN Members, to ensure that it is the beginning of a process by means of which the whole of mankind, and not just a few, take ownership of their own destiny."

Amorim added that the Bretton Woods institutions must be more open to cooperation with the UN General Assembly and the ECOSOC, as it is "essential to ensure greater transparency and accountability to the global economic policy debate." Amorim also highlighted the personal commitment of Brazilian President Lula to advance the role and power of the UN. In President Lula's statement at the 63rd General Assembly, he advanced proposals for a UN response to the crisis, and since then, he has "consistently raised the issue in a number of meetings, such as the G20 and BRICS summits."

Brazil spoke out against the restrictive and pro-cyclical conditionalities imposed on developing countries by the IFIs, saying that they must be "thoroughly overhauled." Developing countries, including countries not in a position to finance such measures by their own means, are the ones that need countercyclical policies the most. These policies include social protection, cash transfer programmes, health and education, industry bailouts, infrastructure and employment.

China's Minister of Foreign Affairs Mr. Yang Jiechi, stated that China supports a bigger role for the UN in tackling the global crisis and is hoping to explore, through the UN conference, ways to "send out a strong signal that the international community is united as one and is engaging in sincere cooperation.." China suggests that efforts be made in the following four areas in order to "deepen global development partnerships, strengthen developing institutions," and ensure progress towards the Millennium Development Goals.

First, macroeconomic policies in the area of fiscal, monetary, trade and employment policies should be coordinated. Second, open international trade should be promoted and protectionism in trade should be "firmly opposed." Third, development cooperation through implementing the Monterrey Consensus and fulfilling the commitment of using 0.7% of developed country gross national income as development assistance should be put into action.

Fourth, South-South cooperation should be strengthened in order to boost external demand. China has signed with some countries and regions bilateral currency swap agreements worth RMB 650 billion, and has contributed 32% of the \$120 billion reserve pooling arrangement also known as the Chiang

South's Leaders Stress the UN's Leading Role In Economic Affairs

Mai Initiative. China also called for the reform of the IFIs and for stable international financial markets.

India's Minister of State for External Affairs, Preneet Kaur, stated that this UN conference is "a truly historic meeting," in the sense that it is only the "second such gathering held of the United Nations on the financial and economic system and architecture, the first being the Bretton Woods conference in 1944." He added that "the UN provides a unique forum, with unparalleled legitimacy and inclusivity."

India said that the General Assembly must be revitalised along with a real reform of the Security Council. ECOSOC also needs to be more "robust and effective in coordinating global responses to global challenges. The IMF and World Bank need to see their voice and quota reform be accelerated "so as to make these institutions both responsive and effective as well as credible and relevant..". India also highlighted the need for more countercyclical policy responses, an increase in lending by IFIs and multilateral development banks (MDBs), the need to "not permit protectionist tendencies," not just in goods trade but also in the free flow of persons, financial services as well as imposition of non-tariff barriers.

South Africa, represented by Minister of International Relations and Cooperation, Maite Nkoana-Mashabane, said that it is "essential that the UN, as the most inclusive and transparent multilateral international organisation, brings us all together to collectively consider the appropriate means to mitigate the largest global financial crises faced by the international community."

South Africa stressed that the international community must show the same urgent resolve and determination today as it did in the aftermath of World War II. "It was because of the massive concessional resource transfers in the aftermath of World War II that Western Europe recovered and was set on its development path. A similar interventions helped put a number of Asian countries onto their own trajectory....Now, it is time for the same to be offered to developing countries, in particular the LDCs."

South Africa called for an increase in IMF resources and the recapitalisation of the MDBs, in particular the African Development Bank. Given that the resources available for countercyclical responses are most constrained in African countries, South Africa has urged all countries to meet international development goals, especially the G8's Gleneagles commitment to double annual aid budgets to Africa by 2010. It is also urging for infrastructure investment in Africa, where the financing gap is estimated at \$50 billion in 2009.

The Governor of the State Bank of Pakistan stated that the Conference's outcome document provides the "framework, direction and timelines for actions needed to combat the adverse impacts of the global financial and economic crisis." The establishment of the working group to follow up on specific decisions and actions is indeed a welcome development,

as it marks the start of an important process. Pakistan also stated that developing countries right to consider "trade defense measures, temporary capital restrictions and temporary debt standstills" should be recognized in the face of their balance of payment difficulties stemming from the financial crisis. In order to "avoid another debt crisis and to explore enhanced approaches to the restructuring of sovereign debt," Pakistan called for the provision of grants and concessional loans as the preferred financing instruments to developing countries.

The United States, represented by its UN Ambassador, Susan E. Rice, said "the UN's universal membership and its well-institutionalised intergovernmental process gives it a unique advantage in responding to many dimensions of this crisis." The dialogue of the UN Conference should focus on mitigation and to seeing that the "UN performs its crucial development roles with new urgency." The U.S. said it "hopes that this important conference will adopt the pragmatic and practical tone and approach that can help us achieve our shared vision for a better future."

The European Union, represented by the Deputy Minister of Foreign Affairs of the Czech Republic, Helena Bambasova, said that the EU is "in favour of a key role for the United Nations in the efforts to help developing countries tackle a variety of global social, economic, financial and environmental challenges and foster sustainable development in all its dimensions."

The EU is firmly committed to take "comprehensive, timely, targeted and coordinated action to support developing countries, especially the poorest and most vulnerable." The EU also stated its intent to support the achievement of MDGs in developing countries and to take "targeted, countercyclical measures aimed at protecting the most vulnerable countries and groups and at sustaining economic activity and employment, with particular attention to the private sector and productive capacity." The governance, mandate and scope reform of the IFIs, doubling of access for low-income countries for concessional lending from the IMF and the boosting of resources to all the IFIs was supported by the EU.

The CANZ Group of Canada, Australia and New Zealand was represented by John McNee, Permanent Representative of Canada to the United Nations. The CANZ Group said that the UN Conference presents a "valuable and timely opportunity to come together to discuss the risks we all face as a result of the global financial and economic crisis, with a particular focus on development." They welcomed the opportunity to contribute to "coordination and collaboration between all relevant actors." They emphasised the importance of meeting aid commitments, the critical role of the IFIs and the G20 commitments, and the "complementary engagement of all actors, including the UN."

*Bhumika Muchhala is a researcher at the Third World Network
(bhumika.muchhala@gmail.com)*

Six Key Issues in the UN Conference on Economic Crisis

Martin Khor

Editorial Note: The South Centre in its many activities during the UN conference on the global economic crisis put forward proposals on six key issues for the conference to resolve. The following is a brief paper that was used by the Centre's Executive Director Martin Khor, as the basis for the Centre's press conference and for his presentation at the Conference's panel on mitigation of the crisis.

Many around the world look to the UN conference on the global financial and economic crisis with great expectations, as it should be the start of a process that could bring the UN into the forefront of tackling the greatest economic crisis in half a century.

The epi-centre of the crisis is in Wall Street, a few blocks from the UN headquarters. But the developing countries that have no role in causing the crisis have suffered the most severe "collateral damage", with a loss of 6 percentage points of gross national income, as their economic growth is expected to fall from 8.3% in 2007 to 1.6% in 2009 on average. Moreover, this average figure hides the fact that many of them are already in severe recession.

There has been some international action on the crisis, but much of it has been by the G7 developed countries or the G20, which is an exclusive grouping. The UN conference on 24-26 June is thus the first time all the countries have gathered to decide what to do about the crisis. It is especially important for developing countries which have no other forum than the UN to mitigate the effects of the crisis and ensure it does not happen again.

The Conference is discussing two main actions – how to help developing countries cope with the crisis, and reform of the international financial system. The focus should be on taking international initiatives and reforming the global system to meet the needs and interests of developing countries.

There are six key issues for the Conference. **First is the foreign exchange shortfall** facing developing countries, which could range from up to \$1 trillion (World Bank estimate) to \$2 trillion (UNCTAD estimate). Besides falling exports and capital outflows, many countries are also facing increasing difficulties in obtaining fresh credit, all of which affect their foreign reserves position.

The efforts so far to help developing countries are not enough. They need greater amounts of quick-disbursing, unconditional external financing. Furthermore, they should not be burdened with additional debt in order to respond to fallouts from a crisis they cannot be held responsible for. These objectives can best be achieved by a special and sizeable SDR allocation.

The agreement reached in the G20 summit on SDR allocation brings no more than \$20 billion to low-income countries, but they need several times more. Since many of these countries are on the verge of falling into an unsustainable debt trap, this should be provided through a no-cost special SDR allocation.

The additional financing needed by middle-income countries reaches several hundred millions of dollars. This should be provided through a reversible SDR allocation, to be repurchased when the crisis is over. Thus, it will not generate inflationary pres-

ures now or in the future.

Second is the need for developing countries to avoid a new debt crisis. The World Bank and IMF have estimated that close to 40 developing countries are vulnerable to difficulties in having enough foreign exchange to service their loans or to pay for essential imports. The list can be expected to grow.

For countries facing debt servicing difficulties, there should be a moratorium on their official debt, including deferral of principal and interest payments with no additional cost. This is an established practice, used in the past in response to disasters such as the Asian Tsunami of 2004.

Countries experiencing large and sustained capital outflows should have the right to exercise temporary debt standstills and exchange controls, and should be granted statutory protection in the form of stay on litigation.

An international debt court should be established within the UN system in order to settle sovereign debt disputes with private creditors. Under this system of debt arbitration, a country should be able to declare a debt standstill, and be granted immunity from litigation, while the court arranges for debt arbitration and restructuring with the creditors, and the road is open for new credit to the country. This system had been proposed by UNCTAD a decade ago and by the IMF secretariat in the early 2000s. It should now be discussed again.

The international community has been muddling through the official debt of low-income countries for a decade and a half without being able to bring a lasting solution. The current crisis is adding to the debt overhang, making the existing approach even less tenable. The time has come to look for a new strategy. Debt assessment and sustainability analyses should be done independently from the IMF and entrusted to an independent body which is itself not a creditor, with the agreement of both creditors and debtors to implement its recommendations.

Third, developing countries should be given the "policy space" to enable them to take policy measures to address the crisis. For many countries, this space has been blocked by conditions attached to loans from international financial institutions that usually impose pro-cyclical policies (fiscal austerity and tight monetary policy) that worsen the recession; forbid controls over capital outflows and debt standstill; and impose low tariffs (with often devastating effects on local production). Some free trade agreements also have clauses that hinder some required policies.

These policy conditionalities should be quickly reviewed and changed. The right of developing countries to take counter-cyclical macroeconomic policies, and if necessary capital controls and temporary debt standstills to deal with the crisis, should be recognized and barriers to exercising their rights removed.

Fourth are the reforms needed to the global financial and economic systems. Developing countries at the moment have little say over the decision-making process but suffer the ill

Six Key Issues in the UN Conference on Economic Crisis

effects when the systems malfunction. The required changes include:

- The governance, policies and roles of the IMF and World Bank,
- Regulation of financial markets and capital flows,
- Strengthening international surveillance of developed countries' policies,
- Creation of a new international reserves system.

On this last point, the present international reserves system based on national currencies is known to be inherently unstable, susceptible to generating unsustainable payments positions and exchange rate gyrations in countries enjoying reserve-currency status. It is essential to look into possibilities of establishing an international reserves system not based on national currencies, and the role that a redefined and broadened SDR could play in that respect.

Fifth is the need to address the lack of a proper system or mechanism for global economic governance, in which developing countries have a fair representation.

This crisis has shown once again that globalisation has resulted in growing interdependence not only among countries, but also among various issues of concern to the international community including development, trade, investment, employment, money, finance, climate, technology and property rights. At the global level these issues are addressed by specialized institutions established by intergovernmental agreements. This creates systemic incoherence because there can be trade-offs among the objectives pursued by different agencies, and failure in certain areas of global policy has broader implications for the multilateral system as a whole.

Efforts to improve coherence of policies in such diverse but

interrelated areas remain sporadic and ineffectual in large part because they rely on ad hoc cooperation among specialized agencies. There is thus the need to establish a mechanism such as a global economic council to secure policy coherence and coordination. This task falls on the United Nations as the only universal and democratic forum with an explicit mandate and purpose to resolve "international problems of an economic, social, cultural and humanitarian character."

Sixth, there is the need for the Conference to set up a clear follow-up mechanism to take forward the decisions, proposals and issues arising from the Conference and translate them into action.

The issues the conference will discuss are many and complex. There were only less than three months between establishing modalities of the conference to the actual conference, not enough time to come to an understanding of the actions needed. The conference itself would be a success if it defined the issues arising from the crisis and gave directions on the way forward in mitigation its effects and in working out broadly the reforms needed to the system, but it will not be able to make concrete decisions on many points.

The Conference should thus set up a working group under the General Assembly itself, to further elaborate the issues and measures, the discussion on which the Conference started but understandably could not conclude. The working group could then work out in greater detail the actions needed and report back to the General Assembly for the decisions to be taken.

It is imperative that the Conference does not become a one-time event with little effect. For the developing countries that do not have any other international venue for discussion and action on this crisis, this would be a disaster. Whether to have a strong follow-up mechanism is thus perhaps the most important decision that the conference participants will take.

South Centre's Press Conference at the UN (continued from Page 11)

Obama's financial policies, he said there had been many hopes that the new Administration would look at the United Nations and the world differently. The President's Cairo speech had been "path-breaking". He added: "We are all waiting for the action, but the words are good. I am still waiting for an Obama speech on how we are going to help developing countries in the economic area."

Asked about the role of the General Assembly President, he said perhaps the Conference would not have taken place had it not been for him. The document produced by the President contained many useful elements, which had been retained in subsequent drafts. However, many people at the United Nations were not used to "the flowery rhetoric and so on", and that was what had "upset" many people. For example, many diplomats had questioned the reference to "Mother Earth", wondering what that had to do with the economic crisis. However, there had been serious negotiations in the last two weeks and it was to be hoped that the Conference would be given the

best chance to succeed. It was important to look at the substance and added value of the proposals.

Contact at: south@southcentre.org



Photo: Martin Khor, Executive Director of the South Centre, addresses a press conference, UNGA, New York.

South Centre's Press Conference at the UN

Editorial Note: The South Centre held a press conference at the UN headquarters in New York on 22 June, on the eve of the UN conference on the economic crisis. Following this, there were several media reports (including by Reuters, AP, Xinhua, BBC World, CBC of Canada) on the briefing. The following is a report of the press conference, which was issued by the UN's Department of Public Information, which had helped to arrange for the press conference.

The United Nations should be the place that “educates the innocent and the victims” on how to deal with the world economic and financial crisis, Martin Khor, Executive Director of South Centre, said at a UN Headquarters press conference on 22 June.

He said that, having played no role in causing the crisis, the developing countries had suffered the most “collateral damage”, with losses averaging 6 per cent of gross national income as their economic growth was expected to fall from 8.3 per cent in 2007 to 1.6 per cent in 2009.

This week's United Nations Conference on the World Financial and Economic Crisis, however flawed, presented the best chance to start addressing the crisis, he said. Two main issues up for discussion were how to help developing countries cope with the crisis, and reform of the international financial system.

He went on to note that South Centre, a Geneva-based developing-world think tank with 50 members, had recently produced a major paper on the key issues for developing countries to do in response to the crisis.

Much of international action on the crisis so far had been undertaken by such exclusive clubs as the Group of Eight (G8) or Group of Twenty (G20), but this week's meeting would be the first-ever event in which all countries could come together, he pointed out. It was especially important for developing countries, most of which had no other forum but the United Nations in which to discuss the most serious economic downturn since the 1930s. Among the most crucial issues was the need for a follow-up mechanism to continue with the technical work after the Conference determined the main direction of action. The process should not end with the Conference, and the United Nations should play a central role in that regard.

Many substantive issues could not be resolved by the event, since there had been too little time to negotiate the complex issues involved, he said, calling for the establishment of a working group to elaborate on decisions and issues arising from the Conference. It could prepare recommendations for real action. External financing was needed to make up the \$1,000 to \$2,000 billion shortfall in income from reduced developing-country exports and the outflow of capital caused by the crisis. Those funds should come from new special drawing rights that the International Monetary Fund (IMF) could issue to developing countries.

Allocated by quota, the \$250 billion in special drawing rights already approved by the G20 would go mainly to developed

countries, he continued, stressing that any new allocation should be provided on the basis of need. There was also a case to be made for a temporary moratorium on debt repayments for countries facing problems arising from the crisis, as well as the establishment of an international debt court that would allow countries in trouble to declare a “debt standstill” while arranging debt restructuring similar to Chapter 11 of the United States Bankruptcy Code.

Noting that developing countries needed “policy space”, he emphasized the need to address IMF- and World Bank-imposed loan conditions as well as free-trade-agreement provisions that curbed the use of policy measures to promote fiscal stability, pointing out also that developing countries facing balance-of-payments constraints could not apply counter-cyclical policies. The Conference should recognize their right to undertake trade measures within World Trade Organization rules, as well as “debt standstill” and temporary capital controls.

There was a need to examine world economic governance, he said, proposing the establishment of a new global forum to coordinate and ensure the coherence of policies undertaken by various international agencies. That would allow developing countries to participate in crisis-related decision-making and other world economic issues. There was also a need to reform the governance and policies of the IMF and the World Bank, regulate financial markets and capital flows, strengthen surveillance of developed-country policies and create a new reserve system based on special drawing rights. The lack of regulation and reform in those complex areas had contributed to the crisis and should be addressed immediately.

Responding to numerous questions about the Conference and its possible outcome, he said all the ingredients for success were in place and the main issues were reflected in the draft outcome document. However, the next few days would see “an intense battle”. Developing countries were expected to put their faith in the United Nations. “We must make the UN a place again -- if not the place, then a place -- to discuss these fundamental issues, because all of us are here in this home and we have put forward these proposals here.”

He went on to caution that not all issues could be settled during the Conference, but at least some of them could be resolved in principle and passed on to the working group, which could tackle technical details and elaborate concrete recommendations to the General Assembly. While there was no expectation that any specific decisions would be taken, if the Conference pointed in a certain direction, determined certain principles and made some general decisions, it would be a success. However, if the event failed to produce such outcomes and ended with a decision merely to hold another conference “in 10 years' time, when there is another crisis”, it would be a profound failure.

Replying to a question about United States President Barack

(Continued on Page 10)

UNCTAD and South Centre Call for Avoiding New Debt Crisis

Editorial Note: Avoiding a new external debt crisis in developing countries became a high-profile issue at the UN conference on the economic crisis. The Secretary General of UNCTAD and the Director of the South Centre both highlighted this issue when they spoke at the official roundtable on mitigating the crisis at the Conference. The following is a report on their views at the roundtable. This is an excerpt from an article in the South-North Development Monitor (SUNS) of 29 June.

UNCTAD Secretary-General, Mr. Supachai Panitchpakdi and South Centre Executive Director Mr. Martin Khor both warned that a significant number of developing countries would develop difficulties in servicing their debt during the crisis, and called for the short term measure of debt moratorium and a structural measure of establishing an international system of debt arbitration in which countries with debt difficulties can declare a standstill and seek the restructuring of their debt. Both Supachai and Khor also stressed the need for the issuing of special drawing rights (SDRs) on the basis of need, so that developing countries facing revenue shortfalls can have immediate recourse to financing.

They were speaking in one of four roundtables being held at the UN conference on the global financial and economic crisis. The roundtable was on "Coordinated and collaborative actions and appropriate measures to mitigate the impact of the crisis on development" held on 25 June.

The roundtable was co-chaired by Mr. Jean Asselborn, Deputy Prime Minister and Minister for Foreign Affairs and Immigration of Luxembourg and Mr. Tongloun Sisoulit, Deputy Prime Minister and Minister for Foreign Affairs of Laos.

Supachai said that developing countries faced a \$2 trillion shortfall in financial resources through the outflow of capital and from the fall in export revenues. Fiscal revenues will continue declining and even with recovery, there will be a long spell of anaemic growth. There is need for measures to deal with this. There is need to address on how to deal with vulnerable economies. About 90 developing countries may have debts beyond 100% of their GDP. There is need to create more fiscal space so that countries can keep on advocating fiscal stimulus and they should be able to save on foreign exchange earnings, not for servicing debt but for payment of imports.

In calling for a debt moratorium, Supachai said that this has been done before during Hurricane Mitch (in Central America) and the Asian tsunami, and should be allowed during this crisis. He added that in 1998, UNCTAD had come out with a report on a debt-sustainability exercise which can be fair and impartial to regulate debt resolutions. The missing link is a system to deal with so-called sovereign debt insolvency.

Supachai referred to an international system that is needed, like that at the national level in the US, where there is Chapter 11 of the US Bankruptcy Code. This system involves a country obtaining a debt standstill from the court, which arranges a debt restructuring. This proposal, made by UNCTAD, was later

also proposed by the IMF, and this issue should now be discussed again.

Instead of limiting discussions to the IMF and the World Bank, the UN and its agencies should also be involved.

On the pledges of the G20, he said there was need to see what has been done to the US\$1.1 trillion given to the IMF, the World Bank and the regional development banks. There is lack of clarity on how the funds would be allocated from the IMF as there were countries that would prefer not to go to the IMF right away because of the imposition of post-cyclical conditionalities.

On the issue of special drawing rights (SDRs), if one deals with it by normal allocations (through quotas), then the intention of the mobilisation of financial resources would be missed out. Hence, SDRs should be based on the needs of countries.

On the issue of the rising tide of protectionism, Supachai said that the G20 had said that it would not resort to such measures. However, almost all countries have gone back on their commitments, being involved in economic nationalism or protectionism. There has also been renewal of domestic subsidies in some sectors and export assistance that could come close to the violation of WTO rules.

Martin Khor said that the developing countries who have had no role in causing the financial crisis have suffered the most collateral damage. With the \$1 - 2 trillion external financing shortfall in developing countries, a new debt crisis is imminent. These shortfalls in revenues must be met by developed countries. This is not an issue of morality or charity but is an obligation of the developed countries as the debt crisis is not through the fault of developing countries. Khor said that this re-financing should not be non debt creating and should be regarded as compensatory financing from developed countries and international finance.

Given the "grant-fatigue" of developed countries, one proposal is for the creation of new SDRs for developing countries, paid on the basis of need and not quotas. An allocation of \$100 billion of SDRs should be allocated to low income countries at no cost. This is quantitative easing at the international level. For other developing countries, there can be another \$800 billion of SDRs that is allocated on the basis of need on a reversible basis, i.e. after the crisis, the SDRs is given back.

Khor said that the suggested amount of \$100 billion for low-income countries was very low compared to the amount provided for bail outs and fiscal stimulus in developed countries. He estimated that bail out and fiscal stimulus in the US, amounting to about \$3 trillion, comes out to about \$8,000 per person, while the \$100 billion for low income countries would only mean an amount of \$70 per person.

Khor agreed with Supachai that there was an urgent need for a debt moratorium and an international debt arbitration system, which he said was a crucial part of the international financial system reform. There are four components to such a system – a country applies for a debt standstill; a court organises an agree-

(Continued on Page 3)

Some Key G77 and China Proposals in the UN Conference on Financial Crisis

Editorial Note: An important part of the UN Conference on the Global Financial and Economic Crisis was the internal discussions of the G77 and China on the group's proposed texts to add to or amend the Co-Facilitators' draft. These G77/China texts arose from many hours of discussions in the group. They are significant as they represent the collective views and positions of developing countries on the crisis and the actions needed to address it. Below are some excerpts from the proposals of the group. They are found in the UN Secretariat's compilation of proposed texts of the Co-Facilitators and the various groupings and countries, which was a key document used during negotiations. The excerpts below are selected for the significance of the issues, including policy space, the role of SDRs, provision of financing, reform of the Bretton Woods system and the UN's role. Some of these proposals were incorporated in diluted form in the outcome document, but many of the proposals were also not included. They represent a valuable record of the views and positions of the developing countries.



– We reaffirm the purposes of the United Nations, as set forth in its Charter “to achieve international co-operation in solving international problems of an economic, social, cultural, or humanitarian character”, and to be a centre for harmonizing the actions of nations in the attainment of its common ends. The United Nations, on the basis of its legitimacy and by virtue of its universal membership, is in a unique position to contribute to the reform and effective functioning of the international financial and economic system and architecture. The current financial and economic crisis as well as the failures and gaps in the international financial governance have served to underscore the urgent need for the UN to assume a central and pro active role in the international economic issues.

– Developing countries are bearing the brunt of the crisis for which they are not responsible. Its impact is causing serious setbacks to their economic and financial stability and impairing their development efforts, including the achievement of the internationally agreed development goals including the MDGs. A global equitable recovery requires the full participation of developing countries in shaping appropriate policy responses to the crisis. And as most developing countries will require added capacity to implement the necessary measures, it is imperative that developed countries, as part of their responsibility, take concrete and concerted actions to provide new and additional resources in addition and above long standing development commitments.

The Need for Prompt and Decisive Action

We recognize that our collective response to this crisis represents a transformative moment in international cooperation, coordination, and reform. We therefore commit to work, in solidarity on a vigorous coordinated and comprehensive global response to the crisis and undertake, inter alia, actions in the fol-

lowing areas:

1. Provide sufficient financial resources, without conditionalities, to developing countries.
2. Develop a global stimulus plan for growth, recovery and to safeguard hard-won economic and development gains.
3. Ensure policy space to developing countries.
4. Reform of the international financial and economic system and architecture.
5. Urgently address indebtedness of developing countries including through a moratorium on debt payments with a view to preventing a new debt crisis.
6. Revitalize trade and promote investments.
7. Address the human and social impacts of the crisis.
8. Continued and increased support for sustainable development efforts by developing countries.

Making the stimulus work for all

– Developing countries facing a shortage of foreign exchange because of the fallout of the crisis should not be denied the right to use legitimate trade defense measures, temporary capital account restrictions and debt standstills, in order to mitigate the adverse impacts of the crisis on the economy, jobs, incomes and poverty.

– While a number of developed countries have implemented stimulus packages, the vast majority of the world's developing countries lack policy and fiscal space to implement counter-cyclical measures that may be necessary to combat the effects of the crisis and spur recovery. Most also face significant foreign exchange shortages. We therefore consider that substantial new and additional resources, inter alia, short term liquidity and long term development financing and grants will need to be made available to developing countries to be utilized towards regeneration of their economies, recapitalization of national financial institutions, and adequate response to their social priorities, including health and education, in accordance with their national development strategies and priorities. We call for examination of mechanisms to ensure the mobilization of these additional resources, which would contribute to developing countries budget and development financing. We underscore that developing countries should not incur and additional financial burden in response to the crisis, for which they cannot be held responsible.

Contain the effects of the crisis

– We call for additional resources for social protection, food security and human development to be made available through voluntary bilateral contributions to the United Nations initiatives and support the development of a UN mechanism. We equally call for additional resources to be provided to the UN development system, on a predictable basis, to support development activities at the country level so as to allow developing countries to mitigate the impact of the crisis on their

Some Key G77 and China Proposals in the UN Conference on Financial Crisis

development strategies.

– The impact of the crisis on international trade has led to severe adverse results for developing countries. These results have included fall in exports and loss in export revenue, difficulties in access to trade finance, reduction in export-oriented and infrastructure investment, lower fiscal revenues and balance of payments problems. It is imperative that these adverse impacts are addressed meaningfully and urgently. We must also resist all protectionist tendencies, especially in developed countries, including in the movement of persons and goods, financial protectionism and the use of non-tariff barriers, and rectify any trade distorting measures already taken. The crisis has highlighted the importance of the legitimate rights of developing countries to fully utilize their flexibilities and policy space consistent with their WTO commitments. It is important that we monitor, report and address all protectionist measures, in particular those that affect developing countries.

– We must also fully harness the potential of trade as an engine of sustained economic growth and development, particularly for developing countries, in our efforts to overcome this crisis. In this regard, we reaffirm our commitment to a universal, rules-based, open, non-discriminatory and equitable multilateral trading system. We, therefore, reiterate our call for an early, successful and development oriented conclusion of the Doha round of trade negotiations that places the needs of developing countries at its highest priority. We also commit, in line with the agreements reached in the Hong Kong Ministerial Declaration to implement duty-free and quota-free access to LDCs, to make operationally effective the principle of special and differential treatment for developing countries, and to the elimination of agricultural export subsidies, as well as meeting our commitments on other trade distorting agricultural subsidies and aid for trade. We support early implementation, as appropriate, of already multilaterally agreed measures to support LDCs. We also reaffirm the need to expedite progress on the implementation of the WTO work programme on small economies.

– Remittances flows are at risk because of rising immigration controls, forced expulsions and further reductions in job security for migrant workers. We should resist unfair treatment and discrimination against migrant labourers and the imposition of undue restrictions on labour migration. Such workers should be enabled to continue to earn incomes that can fund remittances to help economic recovery in their home countries.

– The deepening crisis threatens to negatively affect the indebtedness of developing countries. This growing indebtedness limits the ability of these States to enact the appropriate fiscal measures to mitigate the impact of the crisis or engage in development financing. We affirm that the appropriate measures must be taken to address the impact of the crisis on the indebtedness of developing states and to avoid a new debt crisis. In that regard, we support increased flexibility of the Debt Sustainability Framework and in eligibility for debt relief; the provision of increased funds for debt rollover; innovative debt swap criteria; increased concessionality, and call on

states to accelerate previous commitments regarding debt relief.

– We also call for a moratorium on debt servicing for developing countries and we call for a mechanism for debt relief for developing countries in need, and for establishing an international mechanism for sovereign debt standstill and restructuring, such as an International Bankruptcy Court.

– We recognize the important role to be played by increased SDR allocations in increasing global liquidity, and the potential for expanded SDRs to contribute to global stability, equity and economic resilience. We commit to undertake further examination of the role of enhanced SDRs in the expansion of liquidity, stabilization of the reserve system, and the promotion of development. We call for the early adoption and implementation by the IMF of a new general SDR allocation of at least \$250 billion and for the urgent ratification of the Fourth Amendment of the Articles of Agreement of the IMF for a special one-time allocation of SDRs, as approved by the IMF Board of Governors in September 1997. We also call for periodic SDR issuance.

– To meet the urgent external financing needs identified by the IMF for developing countries, a special SDR allocation should be made available to those countries most in need, allocated on a needs basis, at no interest cost to the countries concerned. A substantial reversible SDR allocation of US \$ 800 billion should also be made available to other developing countries, to be paid back when the economic recovery is attained. Given that the full recovery may take several years, particularly in developing countries, new general SDR allocations should be made available in the future.

– High levels of exchange rate volatility have been found to negatively affect the economic prospects of developing countries. We commit to a multilateral monetary system that provides for stable and predictable exchange rates. In this area, coordination of policies among countries is necessary. At the regional level we will encourage, as appropriate, the establishment and wider use of regional units of account, currency swap agreements and settlement through clearing unions as possible partial cushion to international currency volatility.

– There are calls for a global reserve system to overcome the systemic problems of the current system. We recommend to study the feasibility of a reserve system with a more prominent and effective role for the SDRs. The global reserve system could be complemented by a stronger role for regional commercial and reserve arrangements, and contingent facilities for balance of payment problems.

– We recognize the existence of regional and sub-regional economic and financial cooperation initiatives to address, inter alia, the liquidity shortfalls and the short term balance of payment difficulties among its members, such as the Chiang Mai Initiative Multilateralization (CMIM) of the ASEAN+3 and the ALBA SUCRE arrangement.

– This crisis has exacerbated the sustainable development challenges that middle-income countries still face. It has further illustrated the vulnerability to these countries to external finan-

Some Key G77 and China Proposals in the UN Conference on Financial Crisis

cial shocks due to, inter alia, their highly indebted and fragile economies. Access to financing should be enhanced and based on multiple factors that better reflect economic sustainability. We therefore call for greater efforts to support middle income countries in their response to the crisis including through expansion of concessionary financing.

– The Low-income Countries (LICs) are particularly vulnerable to the negative consequences of the unfolding global financial crisis. Many have already suffered its serious adverse impacts and others face aggravated risks of debt distress and worsening budgetary positions due to shrinking domestic revenues, rapidly declining foreign trade, FDI and remittance flows as well as reduced ODA flows and exchange rate volatility. All this is happening in the wake of rising social spending pressures to protect the poorest and the most vulnerable populations. Urgent and bold actions are therefore needed by the international community to mitigate the impact of the crisis on LICs by meeting their external financing shortfalls identified at US\$ 165 billion by IMF through special allocation of US\$ 100 billion SDRs at no cost to them, by considering moratorium on debt servicing and through the provision of other additional, concessional and conditionality free lending. Provision of enhanced trade market access to LICs to allow them to maintain their export flows and examination of existing lending facilities and financing frameworks to ensure that the financial assistance met their diverse needs should also be urgently considered.

Improved regulation and monitoring

– We call for effective credible and enforceable regulations at all levels, to ensure much needed transparency and oversight of the financial system and stress the importance of dealing with the toxic financial assets. In this regard it is important that developing countries are granted full policy space for regulating their financial markets, institutions, instruments and capital flows, according to national priorities and circumstances.

– Any proposals to regulate financial markets should address the procyclicality in international bank lending to developing countries in particular in infrastructure lending and the bias against developing countries and procyclicality in ratings by international rating agencies.

– We acknowledge the need to ensure that all jurisdictions and financial centres apply standards of transparency and regulation. We recognize the strong need for truly multilateral, transparent, impartial and inclusive cooperation on international tax matters within the United Nations system, including double taxation agreements which should allow for progressive implementation, to guarantee a level playing field for all. Cooperative frameworks should ensure the involvement and equal treatment of all jurisdictions, in particular those whose economies, development and growth are heavily dependent on financial services. We call for consistent and non-discriminatory implementation of transparency requirements and international standards for exchange of information.

Reform of the international financial and economic system and architecture

– This crisis has further highlighted the urgent need for a substantive and comprehensive reform of the international economic and financial system and architecture, including policies, mandates, scope and governance, to better enable it to respond and prevent financial and economic emergencies, effectively promote development and equitably serve the needs of Member States, particularly developing countries. International Financial Institutions in particular must have a clear development orientation. We call on all Member States to participate in an open, inclusive and transparent dialogue for a new international economic and financial system and architecture.

– Conditionality have required Members States to pursue pro-cyclical policies or adopt monetary and regulatory policies that contribute to fuelling the current crisis. These conditionality contribute to global asymmetries and put developing countries at a disadvantage relatively to developed countries and undermine incentives for developing countries to seek support funding, contributing to global economic weakness. We call on the BWIs not to impose pro-cyclical policies and conditionalities.

– We stress the urgent need for ambitious and expeditious reform of the Bretton Woods Institutions, particularly their governance structures, based on full and fair representation of developing countries, in order to address the democratic deficit in these institutions and improve their legitimacy. These reforms must reflect current realities and ensure full voice and participation of developing countries in the decision making and norm setting of the BWIs.

– We call for an expeditious completion, as soon as possible, of a much more ambitious reform process of the World Bank's governance structure and of an accelerated road map for further reforms on voice and participation of developing countries, decision making and norm setting based on an approach that truly reflects its development mandate and with the involvement of all shareholders in an equitable, transparent, consultative and inclusive process.

– We equally call for the thorough reform of the management of the Bank at all levels including by addressing issues of regional and gender representation, promotion and retention.

– It is imperative that the reformed World Bank would emerge with the requisite technical capacities, credit facilities and financial resources needed to assist and compliment the efforts of developing countries aimed at countering financial crises and achieving their overall development needs. We therefore call for the following:

- (a) An early replenishment of IDA 16 to meet the financial needs of, and commitments made to, the countries served by IDA, and we call for an additional replenishment of the IDA;
- (b) A thorough analysis of IBRD's capital adequacy with a view to provide and enable its early recapitalization, to meet the financial needs of all countries served by IBRD, and;



SOUTH BULLETIN :

Reflections and Foresights

SOUTH CENTRE

CP 228
1211 Geneva 19
Switzerland

Tel: +41 22 791 8050

Fax: + 41 22 798 85 31

Email: south@southcentre.org

www.SouthCentre.org

Blog:

<http://southcentrenet.blogspot.com>

South Centre website:

(in English, French and Spanish)

www.SouthCentre.org

Contact Us

**Editorial Committee of
South Bulletin: Reflections
and Foresights welcome
your views and comments.**

Send them to:

south@southcentre.org

**Watch the
South Centre
Digital TV**

<http://southcentre.blip.tv>

Some Key G77 and China Proposals in the UN Conference on Financial Crisis

(c) Providing adequate financial resources in support of the Global Vulnerability Fund and Framework that is urgently needed to combat the severe impacts of the crisis on developing countries.



– We recognize that it is imperative to undertake, as a matter of priority, a comprehensive and fast-tracked reform of the IMF. We underline that the effectiveness of the IMF and its ability to fulfil its mandate are critically dependant on urgent actions to correct underlying deficiencies with regard to voice, participation and representation of developing countries. We look forward to the accelerated progress towards these objectives in order to enhance its legitimacy and effectiveness.

– We call on the IMF to address the issue of conditionalities as an integral part of the reform process, including through re-examining the current economic parameters on which it bases its economic analysis and policy advice.

– We stress the need for the IMF to implement consistently and even-handedly its core mandates, particularly lending to countries with balance of payments difficulties. The IMF should also better undertake independent macro-economic surveillance that would safeguard efforts towards sustained economic growth and employment. We equally call upon the IMF, as part of the reform agenda, to increase its financing base by using general SDR allocations as an available and accessible source of funding for developing countries, on a stable basis and according to their needs.

– The current crisis has further highlighted that reform efforts should include other standards and norm-setting and code-formulating bodies outside the multilateral system. These efforts should ensure full and fair representation of developing countries in these bodies, such as the FSB and the Basel Committee.

– We agree that the heads and senior leadership of the International Financial Institutions, particularly in the BWIs, must be appointed through, democratic, open, transparent, and merit-based selection processes, with due regard to geographical rotation and representation.

The Way Forward

– Consider the possibility of establishing a new Global Economic Council as part of the United Nations system, which provides coordination and oversight of concerted responses in addressing the broader range of global challenges in the main global economic, financial and trade areas, taking into account the mandated role of ECOSOC in these matters.

– We request the Secretary-General of the United Nations to:

- develop a proposal on the overall response of the United Nations Development System to the crisis, and to present it to the member states for their consideration and approval, (including on the establishment of relevant frameworks based on macro-economic indicators and drawing on the expertise of DESA).

- establish, in consultation with the General Assembly, a monitoring mechanism for the implementation of the international commitments for additional assistance to developing countries to address the crisis and report quarterly to member States on the findings, actions and recommendations.

Contact at: south@southcentre.org