CREATIVE DESIGN AND BOLD LEADERSHIP NEEDED TO REBOOT GLOBAL ECONOMIC GOVERNANCE IN THE TWENTY-FIRST CENTURY

UNCTAD 14 represents a chance to breathe new life into multilateral cooperation to shape prosperity for all and reignite the engines of sustainable development.

Geneva, Switzerland, 1 July 2016 – A strong and vibrant international enabling environment and the biggest coordinated investment push in history will be essential if the new, ambitious, universal and multidimensional 2030 Agenda for Sustainable Development is to be achieved.

The fourteenth session of the United Nations Conference on Trade and Development – UNCTAD 14 – has unique global convening power to bring together Heads of State and Government, ministers from 194 countries, executives from the private sector and thought leaders from academia and civil society to find actionable solutions for a world economy that is in poor health, with mediocre growth, stagnant international trade and financial instability.

The current outlook and past experience shows that a revival of multilateralism will be key. Creative design and bold leadership will be required, and there is no shortage of ideas – from the countercyclical provision of international liquidity to orderly restructuring of sovereign debts, to a global “economic security council”.

But moving from the drawing board requires the political will to redefine the possible, manage the resulting trade-offs and embrace the new.

The immediate problem lies with the failure to achieve a robust recovery from the financial meltdown of 2008/09. Advanced economies face the prospect of a low-growth trajectory, punctuated by episodic bouts of policy-induced expansion and contraction. While developing countries initially weathered the global downturn, many are now seeing a sharp correction in their growth rates and convergence prospects have also weakened. This adds up to a fragile global economy facing serious downside risks.

International trade has been a prominent casualty of this slowdown, posting the weakest period of growth in the modern era – in the range of 2 to 2.5 per cent each year for the last four years. Commodity prices have declined considerably from their post-crisis highs. Capital flows have become increasingly volatile and levels of indebtedness (public and private) – up by around $60 trillion since the crisis – are rising everywhere.

A growing sense of economic uncertainty abroad is beginning to generate political insecurity at home. The danger is that one country’s economic policy response becomes another country’s economic headache; and if beggar-my-neighbour becomes the default option for policy de-
sign, then a global deflationary spiral or race to the bottom could follow.

Multilateral institutions emerged from an earlier episode of global market disorder in the 1930s, with the aim not just to prevent its recurrence, but also to find collective responses to common international challenges. Their record in response to today’s global economic challenges has been mixed. Policy coordination did prevent a repeat of the Great Depression, and the protectionist excesses of the 1930s have been avoided, but financial stability has not returned. Debt problems have been kicked down the road, multilateral trade talks are stuck and the movement of people has been a disorderly process.

The successes of post-war multilateralism were built around a delicate balance between policy space, collective action and strong leadership, with voice and representation shared among a relatively small group of similar countries, and the mix between private and public sectors a matter of policy choice. The balance became more difficult from the 1960s, as more countries became active participants in the international community, bringing their own distinct set of challenges to the negotiating table. The report of the UNCTAD Secretary-General to UNCTAD 14 makes clear that, while progress has been made in some areas, it has fallen short (or even backwards) in others, and the need for “collective action to tackle cross-border challenges is at an all-time high”.

Strong leadership is needed to advance multilateral solutions, in particular with regard to the international monetary and financial system, and to breathe fresh air on the development side of international trade.

But past experience also shows that regional arrangements can complement multilateral efforts to boost resilience and promote growth, trade and development. In recent years, as multilateral options have faltered, creative thinking and action has moved to this level, particularly among developing countries. Regional trade agreements among developing countries have looked to increase integration while respecting policy space; regional payment systems have been established to promote intraregional trade.

Such regional financial buffers that have been used to enhance macroeconomic stability include:

- Currency swap arrangements such as the Chiang Mai Initiative Multilateralization;
- A common fund for foreign reserves of the type used by some smaller Latin American economies (the Latin American Reserve Fund);
- The recently established reserve fund of the BRICS – Brazil, the Russian Federation, India, China and South Africa – countries.

Southern-led multilateral development banks, such as the New Development Bank and the Asian Infrastructure Investment Bank, have been established to provide access to long-term capital for financing infrastructure in developing and transition economies on a more timely and reliable basis.

More generally, regional cooperation can provide impetus to trade facilitation, competition policy, regulatory convergence, infrastructure provision and trade and industrial strategies.

Scaling up such arrangements can help to fill gaps as the international community seeks ways to rebuild the architecture of global economic governance. Still, stronger regional and multilateral arrangements are complements – not substitutes – in building the future we want.

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