South-South Mechanisms to Tackle Vulnerabilities and Build Resilience

The innovative use of regional financial and monetary integration

19 July 2016, 16.30-18.00
Room TSAVO 3
Kenyatta International Convention Centre, Nairobi

DESCRIPTION

Developing countries have long recognized the potential benefits of South-South financial and monetary mechanisms to tackle vulnerability and build resilience, and especially so since the economic and financial crisis that started in 2008. This highlighted their vulnerability to external shocks and the role that macroeconomic policy can play in handling these shocks and also in generating the conditions for strong and sustained economic growth. Experience since the crisis has reinforced this message as the need for governments to respond shows no sign of abating, and yet their capacities are increasingly stretched. Huge capital movements have altered exchange rates, interest rates, commodity and asset prices, and their abrupt reversal can create another set of problems. It is difficult to obtain long-term finance for infrastructure and other productive investments, even as the need and ambition for this has perhaps never been greater. Rising levels of household and corporate debt are a threat in many countries and raise the risk of balance of payments crisis, even where public finances are relatively healthy.

In this extremely challenging context, developing countries and regions are trying a wide range of policies and mechanisms. Virtual payment systems and currency swaps are helping reduce exposure to exchange rate volatility and promote regional trade; trade-finance arrangements have been expanded. Regional reserve funds are helping soften liquidity crises, sometimes responding more quickly and without the restrictions associated with traditional sources of finance. Infrastructure funds and development banks are providing long-term finance; inter-regional industrial policies and institutions are being established to increase market scale and breadth, and promote technological upgrading, diversification and value-added.

This Roundtable therefore aims to:

- share information and improve understanding of the range of regional-integration mechanisms currently existing and the experiences of developing countries using them;
- build consensus on the potential benefits of regional financial and monetary cooperation and the policies needed to enable this.
KEY ISSUES

- Currency and payment mechanisms to reduce exposure to exchange rate shocks and volatility (such as SUCRE in Latin America, currency unions in West Africa, currency swaps in Asia). What lessons are learned for countries yet to join such mechanisms; or those that plan to expand them?

- Regional reserve pooling to provide short-term liquidity (including FLAR in Latin America, and the Chiang Mai Initiative in Asia). What are the critical ingredients for their success? Can they be expanded?

- Support for long-term investment finance through regional development banks and infrastructure funds (including CAF, AFDB, IADB, the Asian Infrastructure Initiative and the New Development Bank). Can policy help development banks better support regional investment? What is needed in terms of public investment? What can the private sector offer for regional investment?

- Macroeconomic co-ordination and co-operation to generate stable demand for "decent jobs", in diversified and higher value-added productive activities that can help support sustainable and inclusive growth.

CONTACT

Diana Barrowclough  Senior Economist, Division on Globalization and Development Strategies
diana.barrowclough@unctad.org

Estève Morel  Associate Economic Affairs Officer, Division on Globalization and Development Strategies
esteve.morel@unctad.org