



United Nations Conference on Trade and Development

Distr.: General
15 September 2016

English only

Fourteenth session

Nairobi

17–22 July 2016

Ministerial round table: South–South mechanisms to tackle vulnerabilities and build resilience – the innovative use of regional financial and monetary integration

Summary prepared by the UNCTAD secretariat

1. The panellists said that one of the first South–South mechanisms established to tackle vulnerability and build resilience was the Group of 77. Since then, those mechanisms had become ever more important. In part, this reflected an increase in the number of Southern countries that were able to host and coordinate such mechanisms; it also reflected a growing need to provide complementary mechanisms in additions to what had already been provided by multilateral institutions. South–South mechanisms were increasingly seen as a way to provide the financial architecture needed by developing countries to overcome economic vulnerability and build resilience. This was particularly true of today's environment, which was uncertain, unbalanced and volatile.
2. Several speakers outlined the new and difficult financial and monetary challenges facing developing countries. To date, many of these countries had performed reasonably well despite the adverse global environment, but major shocks such as forecasts of a fall in global growth – exacerbated by the impact of the decision by the United Kingdom of Great Britain and Northern Ireland to leave the European Union – and the effect of de-risking and financial disruption in the advanced economies, could cause serious economic setback. Domestic shocks such as drought or other internal factors could also affect their performance. Moreover, even though countries had dealt with these shocks, many lacked a safety net. Some regions had developed regional reserve funds and stabilization funds but others, such as Africa, lacked such recourse.
3. One panellist said that regional payment mechanisms could be part of a wider effort to fashion a payment system to help build resilience, including by promoting interregional trade at the same time as offering a buffer to volatility in major global currencies.

GE.16-15946(E)



* 1 6 1 5 9 4 6 *

Please recycle



The Unified Regional Payment Clearing System, commonly known by its Spanish acronym SUCRE, was a virtual currency that had been introduced in seven Latin American countries. It could be regarded as a simple regional mechanism that could be used to pay for trade, but could also be expanded to a wider effort that could extend to the creation of regional special drawing rights to promote credit that did not rely on the use of the United States dollar or systemically important financial institutions.

4. Some South–South mechanisms had been helpful as instruments to increase political influence and change thinking at the global level. One delegate described the process through which the creation of the BRICS¹ country grouping had enabled its members to influence the Group of 20 and the International Monetary Fund on capital controls. By using the platform of solidarity among those countries, it had become possible to reach a new understanding by which capital controls could once again be used like any other tool in the policy toolbox; further, countries could decide when and if they should be used. This represented a major turning point in thinking because it was essential that the use of such instruments be considered “normal” so as to avoid an overreaction by the financial markets. A second example was that the BRICS grouping had begun to act as defenders of the common cause and had become very vocal in their efforts to achieve reform of the International Monetary Fund.

5. Another high-profile example was the establishment of the New Development Bank, which had been set up in two years’ time and had already signed off its first loans to members. The rapid pace of change was a sign of the high level of political commitment of its members and a willingness to seize an opportunity in a timely manner.

6. On the other hand, some very long-standing South–South mechanisms might need to be re-evaluated in the light of changing conditions. The director of the International Organization of la Francophonie described the many problems faced by members of the African Financial Community (CFA), stemming from their currency being pegged to the euro. This meant that member countries had to follow inflation targeting and macroeconomic stances that had been designed for Europe and did not meet African needs. Not only were there strong negative impacts on members’ competitiveness for exports, the peg between the CFA franc and the euro encouraged high imports, creating a structurally based deficit in terms of the balance of payments. If there were a high level of interregional trade in West Africa, it might make sense to have a common currency; however, intraregional trade levels were below 15 per cent, and as all members had remained primary producers, trade prospects were not bright. Moreover, the guaranteed convertibility between the CFA franc and the euro encouraged the outflow of capital into centres such as Paris, and into real estate. It also led to credit rationing that had had an effect of further hindering prospects for investment and growth.

7. Some speakers said that South–South integration not only required mechanisms that focused on development banks, reserve funds or currency or payment mechanisms, but harmonization at the practical and political levels. Suggested measures included rules for cross-border trade, legal and oversight arrangements, and practical issues relating to transport infrastructure that were necessary to bring tangible benefits to people.

8. In response to the panellists’ description of the diverse challenges facing developing countries, one speaker said that the solutions would necessarily also differ. Most developing countries shared the challenge of dealing with destabilizing international capital flows. It was thus important to provide a safety net for countries facing difficulties, which was the original goal of the World Bank and the International Monetary Fund. Other goals were growth and employment, and it was crucial to insist on the original role of these

¹ Brazil, the Russian Federation, India, China and South Africa.

institutions. Regional mechanisms could play a complementary role, but were a poor response to the problems the Fund and the World Bank failed to address – poor, because they were established in times of crises. The Chiang Mai Initiative, for example, was a response to the Asian crisis of 1997–1998. Thus, both global and regional institutions and mechanisms were necessary to provide macroeconomic stability and a shield, or at least the means to mitigate the effects of external shocks.

9. Several other issues, such as tax evasion and tax avoidance, illicit capital flows and policy space, were becoming crucially important for developing countries, and UNCTAD should be given a clear mandate to work on them. It was essential that UNCTAD should remain forward-looking, and that delegates become more engaged in ongoing negotiations.
