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Held at Headquarters, New York, on Wednesday, 13 November 2013, at 3 p.m.

Chair: Mr. Diallo . . . . (Senegal)

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The meeting was called to order at 3.05 p.m.

Introductory remarks by the Chair

1. **The Chair** said that the Outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development (General Assembly resolution 63/303, annex) had identified four lines of action: making the stimulus work for all; containing the effects of the crisis and improving future global resilience; improving regulation and monitoring; and reforming the international financial and economic system and architecture. Despite recent improvements in world financial markets, the global economy was still struggling to recover and the global employment crisis continued, complicating efforts to achieve the Millennium Development Goals by 2015. Firstly, international policy cooperation and coordination must be increased to address weak global aggregate demand, and bold macroeconomic policies must be complemented by social and labour policies tailored to national needs. Secondly, cooperation must be enhanced to respond to negative spillover effects of monetary policy in developed countries and mitigate the effects of the crisis on developing countries. Thirdly, innovative sources of development finance must be sought to counterbalance the decline in official development assistance (ODA). Fourthly, regulation and monitoring must be improved, ensuring that the financial sector promoted growth and provided access to credit and other financial services. Developing countries should play a larger role in the regulatory reform process. Fifthly, the international financial architecture must continue to be reformed to keep global imbalances under control, address volatile cross-border capital flows and mitigate the risks associated with sovereign default, which had fuelled the accumulation of international reserves in developing countries, diverting funds from development. Finally, the international governance framework must be strengthened, with completion of the ongoing quota and governance reforms of IMF and the World Bank.

Keynote address by Professor Ocampo, School of International and Public Affairs, Columbia University, and Chair of the United Nations Committee for Development Policy

2. **Professor Ocampo** said that two basic issues should be addressed by the international community: international macroeconomic instability and international financial instability. The former meant avoiding boom-and-bust cycles and mitigating financial crises and the economic effects of contraction. The latter required regulation of financial institutions so that they did not accumulate too much risk and spread it to the rest of the world. Since the 1970s and in the current context of globalization, crises had become quite common, starting with the Latin American debt crisis in the 1980s, followed by the crisis of emerging economies in the late twentieth century and leading up to the current global financial crisis, which should more properly be called the North Atlantic financial crisis.

3. Financial regulation had progressed, thanks to the creation of the Group of 20 (G-20) Financial Stability Board and its reforms increasing the capital base of banks and financial institutions, as well as the liquidity requirements applicable to them; placing limits on leverage; and introducing stricter regulation measures for systemically important institutions. Progress was depicted as being generally good in the Board's streamlined analysis, although that was perhaps misleadingly positive compared to country implementation. One major element missing from the Board's analysis was regulation of cross-border capital flows. Yet cross-border finance and its cycles of abundance and restriction were among the most problematic financial issues for emerging and developing countries. The 2012 IMF paper entitled "The liberalization and management of capital flows: an institutional view" had made important suggestions but its views had not been consistently incorporated in financial regulations talks. Fortunately, the G-20 had addressed the issue at its Cannes Summit in 2011, and the resulting document was significantly more nuanced, in particular recognizing that developing countries must exercise flexibility with regard to capital account regulation.

4. In the area of countercyclical financing, progress had been mixed. IMF resources to expand credit lines had substantially increased. In addition, there had been significant innovation, including the reform of the kinds of conditionality associated with credit lines and the creation of contingency credit lines, to be used preventively to stave off the contagion effects of the financial crisis. Possibly even more important was the provision of countercyclical financing by multilateral development banks, as many developing countries were not usually willing to borrow from IMF. While

the World Bank had been able to sharply increase its financing during the crisis, the approved increase in its share capital had not become effective: the United States had not given its agreement, which was needed because the change required an 85 per cent majority of votes of member countries. He hoped that the United States Congress would finalize the approval process.

5. The World Bank's subsequent reduction in financing had major implications for a number of countries, in particular India. Although ODA and multilateral development bank financing had increased at the beginning of the crisis, the previous three years had seen a reduction in both. Consequently, middle-income countries had fared much better than low-income countries in terms of financing availability, despite the fact that low-income countries should be the priority in lending operations.

6. Although the G-20 mutual assessment process was an important macroeconomic consultation mechanism among major economies, its implementation was very disappointing. While 2008 had seen concerted action to counteract the recessionary forces in the world economy, with the move towards austerity in 2010 the mechanism had become totally ineffective at coordination. The major objective of macroeconomic policy coordination should be the reduction of local imbalances but certain countries had gone in the wrong direction as a result of asymmetrical adjustment. For example, the European Union had transitioned from a trade deficit of 200 billion euros in 2007 to the same amount in surplus, and Germany currently possessed the world's largest trade surplus. The slowdown of emerging economies was certainly related to the contraction effects generated by the European surplus. That surplus was the most blatant manifestation of inadequate economic cooperation and should not be permitted by the G-20.

7. With regard to the international monetary system, very little reform had occurred. The beginning of the crisis had seen the largest issue of special drawing rights in history, 250 billion dollars. There were three proposals on reform of the monetary system, particularly on how to reduce dependence on the United States dollar as the dominant reserve currency and move to a system that used special drawing rights, the only truly global currency. The three proposals were presented by the Governor of the People's Bank of China, the Stiglitz Commission convened by the President of the General Assembly and the Palais-Royal Initiative. All three largely agreed on a policy of reform of the international monetary system, but none of the proposals had ultimately been implemented. Due to the recent threat of United States default, it was more crucial than ever to have a system that was not exclusively based on the dollar.

8. Although there were high expectations of a European push for reform in light of the Greek crisis, the global economy still had not adopted a bankruptcy regime. After the emerging economies crisis, the issue had been addressed by IMF, which had proposed the creation of a sovereign debt restructuring mechanism, but the mechanism had not been approved. Many countries needed stronger debt restructuring mechanisms, including middle-income and low-income countries.

9. In the area of governance, there had been some progress. One example was the 2010 governance reform of the Bretton Woods institutions, which changed capital and quota compositions to reflect the realities of the global economy and protected low-income countries from losing voting power in both institutions. The long-term reform project had not been completed, however, in part because the United States had not approved the reforms and had thus withheld funding. Although the creation of the Financial Stability Board was a significant innovation, it remained paradoxical that global financial regulation was the purview not of a treaty-based organization but of an ad hoc grouping of countries, the G-20. The easiest solution would be to entrust that responsibility to the Bank for International Settlements. The current situation was that one group of very powerful countries issued rules and expected everyone else — including non-members of the financial institutions — to follow them. He believed that every country that was subject to a rule should have a voice in designing it.

Presentations by Panellists

10. **Mr. Bertuch-Samuels** (Special Representative of the International Monetary Fund (IMF) to the United Nations and Deputy Director, Strategy, Policy and Review Department, IMF) said that, if historical contagion patterns had repeated themselves during the most recent financial crisis, emerging markets and developing countries would have been hit much harder. Thanks to sound policies, pre-crisis buffers and ability to turn for help to IMF and multilateral development banks, they had weathered the storm better than during

previous crises. IMF had provided massive crisis response, including unprecedented special drawing rights allocation, increased lending to member countries including low-income countries and extension of interest-free loans until the end of 2014. For the first time, countries had overcome the stigma of borrowing from IMF; Poland and Mexico, for example, had used precautionary credit lines to put defensive mechanisms in place, in case further crisis spillover occurred.

11. During the previous five years, much had been done to stave off a great depression, including a massive fiscal stimulus in several major economies and the ongoing exceptionally accommodating monetary policies of major central banks. It appeared that activity was strengthening in advanced economies but recovery had nevertheless been disappointing. Stronger economic growth therefore remained a priority, alongside completion of repairs to the financial sector and supervision reforms. He hoped that the IMF Global Policy Agenda would help to foster macroeconomic coordination and accountability.

12. The Agenda's immediate objective was ending the cycle of subdued growth and recurring market jitters that had characterized the recovery thus far. Stronger policies were required, as well as support for multiple transitions, including the normalization of global financial conditions; a shift in global growth dynamics (rising contributions from advanced economies, and lower growth from emerging markets); and completion of the global financial system reforms. IMF must provide the right kind of policy advice and programmes to secure a strong, sustainable economic balance, but also a job-rich recovery. In collaboration with the International Labour Organization (ILO), IMF had begun to consider more closely the impact of growth on recovery and the problem of jobless recovery. It was helping members deal with transition challenges, including the unwinding of unconventional monetary policies, and the changing landscape of global growth drivers. In order to achieve financial system stability, reforms must be accompanied by growth-promoting policies. Implementation gaps must be addressed to avoid diluting the reforms or creating inconsistency across jurisdictions. The reforms needed for a safer financial system would have a cost, but would provide a more sustainable platform in the long run, on which the real economy could grow and prosper.

13. Among the commitments that must be upheld were: timely implementation of Basel III regarding capital liquidity and leverage rules; development of domestic and cross-border resolution regimes, in particular to address "too big to fail" issues; over-the-counter derivative reforms; and better monitoring of the shadow banking system, in order to prevent it from becoming a new source of crisis. Additionally, due to the increasingly multipolar and interconnected nature of the world, IMF must integrate bilateral and multilateral surveillance and improve its understanding of macrofinance linkages. To that end, it had developed a number of new instruments, including a spillover report, a pilot external sector report and a revamped financial surveillance strategy. Although the Fund was not itself a regulator, it did assist in analyzing the implications of global regulatory forums for emerging markets and developing economies, as well as provide technical assistance to introduce new regulations in low-income countries.

14. One issue newly addressed by IMF was international taxation. Better coordination was needed in order to avoid cross-country spillover and loss of badly needed domestic tax revenues, especially in the developing world. The Fund would continue its research and complement the 2-year Action Plan on Base Erosion and Profit Shifting led by the Organization for Economic Cooperation and Development (OECD) to address strategies used by multinational companies to reduce tax liability. IMF recognized that it must be credible and financially strong in order to fulfil its role and commitments, and thus that governance structures must adapt to evolving realities. Its quota and governance reform had unfortunately not yet been ratified by the Fund's largest shareholder, the United States, but he was hopeful that it would ultimately be successful.

15. Finally, with regard to resources, it had been proposed that the windfall profits from gold sales should be used to fund the IMF Poverty Reduction and Growth Trust providing concessional lending to low-income countries. Every country must pledge a share of its gold profits; although 70 per cent of the membership had approved the proposal, more pledges were needed from the remaining countries.

16. **Mr. Zhan** (Director, Division on Investment and Enterprise, United Nations Conference on Trade and Development), accompanying his statement with a digital slide presentation, said that he would focus on

the issue of cross-border direct investment. He agreed with Professor Ocampo that international efforts to reform the system were lacking. Foreign direct investment (FDI) remained an important source of development financing, especially in light of diminishing ODA, but had shown an 18 per cent decline in 2012. The latest monitoring by UNCTAD showed that global cross-border direct investment had increased by only 4 per cent but UNCTAD was cautiously optimistic that flows would start to increase steadily in 2014.

17. Policy-making was undergoing transformation at both the national and international levels, marked by stronger regulation, an attempt to reduce the effects of liberalization and FDI policies that were more attuned to national development strategies. Between 2007 and 2009, the world had witnessed a steady increase in restrictions and regulations regarding FDI, accompanied by fewer measures promoting liberalization. In addition, some countries such as France, Greece, the Republic of Korea and the United States were using policies to retain investment domestically or to encourage multinationals to reshore their operations.

18. Although no multilateral investment system existed, there was an international investment regime composed of 3,500 largely bilateral treaties at all levels. The regime was multifaceted, atomized, inconsistent and rife with gaps and overlaps. As such, it must be reformed or abandoned. As more than one third of all bilateral treaties would reach their expiration dates by 2018, many countries were currently reviewing investment regimes, as well as updating and renegotiating their treaties. Another area where reform was being discussed was the flawed system of investor-State dispute settlement and another important trend was the shift from bilateral to regional treaties. Over a dozen regional treaties involving over 100 countries were currently being negotiated. Finally, at both the national and international levels, there was a growing tendency to mainstream sustainable development in investment policies.

19. With regard to the impact of unconventional monetary measures on FDI, including quantitative easing, he said that currently little direct impact had been witnessed but that it was expected that, at the time of exit, FDI and the operations of transnational companies, including in developing countries, would be affected. The impact would be largely indirect, relating to the cost of financing and perhaps a sharp rise in long-term interest. Higher financial costs would likely lead businesses to cut back on capital expenditures. Alternatively, the rise in risk premiums could affect foreign investment decisions and create short-term instability. The major impact so far was linked to the possibility of early withdrawal and triggering of currency depreciation in emerging markets. If any sharp currency depreciation occurred, it would affect FDI in different ways, depending on whether the investments were market-seeking, resource-seeking, efficiency-seeking or export-oriented, new investments or investments in host countries. There was a kind of wealth effect due to currency misalignment. Another possibility was a sharp decline of equity prices. In conclusion, he emphasized that cross-border flows were of two different types: portfolio investment (bank lending, bonds, stock) and direct investment. The behaviours of those two groups were very different: while the former were generally very volatile, the latter remained relatively stable at global levels despite the possibility of bumps, especially in small economies.

Interactive discussion

20. **Mr. Escalona Ojeda** (Venezuela) said that no reference had been made to the economic impact of tax havens, which affected prices of food, energy and raw materials and particularly hurt developing countries.

21. The lack of investment in developing countries was not due to any lack of capital: the developed world had a capital surplus. A 1 per cent tax on existing capital would be enough to fund implementation of the United Nations Framework Convention on Climate Change and the outcome of the United Nations Conference on Sustainable Development, for a start.

22. Another problem was the new way in which banks were operating. Traditionally banks had served as intermediaries between savings and investment, pumping investment directly into the real economy. That was no longer the case: currently investment went directly to financial speculators. The change had distorted the global economy and significantly affected developing countries.

23. **Mr. Seksenbay** (Kazakhstan) said that the financial crisis continued to shape the global financial architecture and there was little immediate prospect of achieving pre-crisis levels of growth. Achieving

sustainable growth was the highest priority; and emerging markets were drivers of growth, major consumers of goods and, increasingly, global price-setters and technological innovators. According to IMF, developing countries' economies were improving, while the global share of developed countries' gross domestic product (GDP) was diminishing. The GDP of rapidly developing countries would be twice as high as that of developed countries in 2016. A re-examination of global governance principles was in order.

24. The President of Kazakhstan had established a new international forum, G-Global, to give developing countries a greater voice. Kazakhstan, had recently hosted the first World Anti-Crisis Conference. Participants had created guidelines for the World Anti-Crisis Plan with international experts, States Members of the United Nations and the United Nations Secretariat. The purpose of the Conference was to support economic growth through international cooperation, development of scientific research, improved supervision of the financial sector and development of human capital. The World Anti-Crisis Plan would focus on reforming the international financial system and development.

25. The second World Anti-Crisis Conference would be held in May 2014, on the eve of the Bretton Woods institutions' seventieth anniversary. It would be attended by governors of central banks and ministers of finance and economy. In connection with the Conference, a series of events designed to contribute to the development of the World Anti-Crisis Plan was scheduled to take place in other countries.

26. The G-Global Internet communication platform provided academic support for the project. International organizations, research centres and representatives of States Members of the United Nations were making recommendations for the World Anti-Crisis Plan and had published 5,000 relevant reports and papers on the site, in addition to comments and reviews. All Member States were invited to participate in the second Conference, and to contribute to deliberations on the World Anti-Crisis Plan.

27. **Mr. Mbodj** (Senegal) said that, as well as affecting private capital flows and FDI in developing countries, the 2008 financial crisis had led to a drop in external demand, reducing developing countries' income from exports. Senegal's domestic production had slowed, its revenues had fallen and its budget deficit increased. The crisis had reduced financial liquidity, remittance flows and ODA, with a negative effect on development programmes. It had revealed the vulnerability of developing countries to unexpected drops in external demand. He asked the panellists what measures must be taken to strengthen developing countries' resilience in the face of external shocks.

28. **Professor Ocampo**, responding to the representative of Venezuela, said that regulations to curb volatility of capital flows needed to be part of the international financial system. IMF had contributed to regulation development, but more robust regulations were needed.

29. He expressed support for the establishment of an intergovernmental body on tax havens, as proposed by the Secretary-General. Such a body could be a functional commission of the Economic and Social Council. OECD was the only body that dealt with tax havens, but it had limited membership; although IMF had done some work on the subject, it did not have explicit responsibility for taxation cooperation.

30. Raw materials, like financial flows, were subject to price volatility. Prices of raw materials, including oil and metals (and agricultural products, to a lesser extent) had been high over the last ten years, but the high-price cycle was reaching its end. Along with the global economy's acceleration, that would impact on developing countries.

31. He applauded Kazakhstan's initiative to manage the financial crisis, particularly because it focussed on long-term as well as short-term issues, such as how to stimulate international trade to generate stronger global growth. A significant slowdown in international trade (growth had been under 3 per cent a year for the last six years) was one of the most damaging results of the crisis. Any anti-crisis policy needed to consider how to spread the benefits of international trade to more countries, particularly low-income countries.

32. Responding to the representative of Senegal, he suggested that countercyclical policies were needed to protect vulnerable countries. In terms of policy-making space, there was a significant difference between developed and developing countries, and countries with and without reserve currencies. The United States, the European Union and Japan, for example, had the option of implementing their own countercyclical policies. Developing and emerging economies were more limited, owing to factors such as instability of

capital inflows. The international community should help developing countries to create policy space to implement their own countercyclical policies.

33. **Mr. Bertuch-Samuels** said that crisis prevention was more important than crisis management. International institutions should focus on reducing the frequency and severity of crises. The market economy entailed ups and downs: if they were eliminated, countries would forgo wealth creation. The economy was like an ocean with tall waves, and all that Governments could do was build safe harbours and sturdier ships. The creation of policy space and buffers, including fiscal buffers, for developing countries could mitigate the effects of crises.

34. At the international level, it was necessary to create mechanisms to help countries unable to deal with external shocks. The IMF quota discussion was important not only for governance and representation, but also because the Fund was a quota-based institution. More quotas increased its firepower, which was more useful than loans from wealthy countries.

35. Effective bodies were needed to take measures when crises hit. Each crisis was different and therefore measures had to be ad hoc; crisis-response blueprints were a laudable but impractical aspiration. Those with influence needed to be prepared to quickly convene and take decisions.

36. Referring to the Venezuelan representative's comment about the disappearance of banks' traditional function of intermediating savings directly into the economy, he said that the role of banks was a complex issue and that financial markets had evolved over time, partly in response to the needs of the real economy. Derivatives were sometimes a useful tool. It was as yet unclear what long-term impact new regulations such as the international regulatory framework for banks (Basel III) would have on investment, including investment in development. Developing countries needed stable financial systems which enabled long-term investors in assets such as infrastructure, with complex risks involved, to properly hedge. Banks' traditional role of channelling savings into the real economy was not a requirement for a stable financial system. Structure, or the kind of banking system in place, was also important. Countries needed to examine their financial sectors and identify the kind of system best suited to their particular situation — that would depend on countries' development status and the development of their financial sector, among other factors. In most developing countries, there was still traditional intermediation between banks and the real economy, which was what they needed. Their major problem was that often large segments of the population did not have access to banking services.

37. On regulation, he said that everything that happened globally was based on voluntary mechanisms: groups of countries with similar interests agreeing together on standards. There was no international regulatory body or international financial law, and was not likely to be any time soon. The reform agenda must continue; increasing the financial system's resilience was the best that could be done.

38. **Mr. Zhan**, responding to the representative of Venezuela, said that two types of financial offshore mechanisms existed: the first were tax havens, which had received a great deal of attention recently. They were mainly small island countries. Last year about $80 billion had transited through them in the form of FDI. That was about $15 billion more than in 2007, pre-crisis. The number of countries trying to get into the business had also increased. The other type of mechanism, which had not received much public attention, was special-purpose entities, or SPEs: firms located in developed countries, particularly in Europe, involved in transfer pricing, offering low tax and preferential tax benefits and responsible for transiting $600 billion a year in foreign investment. Neighbouring countries had recently drawn attention to SPEs, claiming that they created unfair competition for foreign investment, and eroded their own countries' tax base. SPEs were an important threat. Dealing with tax havens and special purpose entities needed a multilateral approach. They were not illegal. Before action could be taken, it was necessary to identify which measures used by offshore financial centres and SPEs were benign and which were malign and used for tax avoidance.

39. For the time being, there was a lack of financing for development. The demand for such financing was increasing while the supply was diminishing — ODA in particular. Yet, as the Venezuelan representative had pointed out, there was no lack of available cash: there were approximately $10 trillion in pension funds, $6 to 7 trillion in sovereign wealth funds and $6 trillion in the cash reserves of major transnational companies. Pre-crisis, accumulations of cash had been nearer $2 to 3 trillion. Despite much greater current

amounts, there was less investment. Factors underlying low investment related to macroeconomic predictability and stability, regulatory frameworks in host countries, a lack of projects to invest in, capacity to build such projects, and risks involved in long-term investment. The financing for development framework, supported by the United Nations Department of Economic and Social Affairs, was well placed to deal with those issues.

The meeting rose at 5.15 p.m.