TWN Info Service on WTO and Trade Issues (July09/06)
07 July 2009
Third World Network

www.twnside.org.sg

Finance conference adopts outcome document

Published in SUNS #6730 dated 30 June 2009

New York, 26 Jun (Bhumika Muchhala and Meena Raman) -- The outcome document of the United Nations Conference on the World Economic and Financial Crisis was adopted by consensus at a plenary session on 26 June afternoon held in the General Assembly hall.

Hailing the consensus adoption of the document as a first step towards putting the world on a path towards solidarity, stability and sustainability, the President of the General Assembly (PGA), 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", he said.

He added that the historic conference had also called on the Assembly to follow up on the issues raised -- including global stimulus, the role of SDRs (special drawing rights), reserve currency, reform of the Bretton Woods institutions, external debt, and regulation of financial markets – through a working group.

[Paragraph 54 of the document states: "We invite 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."].

The adoption, without re-negotiation, of the document had been a foregone conclusion since the draft of the two Co-facilitators (the Ambassadors of the Netherlands and of St. Vincent and Grenadines) had been accepted by negotiators on 22 June and transmitted to the Conference, and another decision had been made on the first day of the conference not to set up a Main Committee to discuss the draft.

However, it was generally known that the United States was unhappy with certain paragraphs of the text and that it would raise its concerns at the final plenary, and that several developing countries were also dissatisfied with some parts and might also speak up.

This indeed happened. Following the adoption of the conference's outcome document, several countries and groups expressed their views on the document. The US, supported by Canada, had concerns about several paragraphs, while the EU and Japan were generally positive about the outcome. The G77 and China accepted the outcome positively. Cuba, Venezuela and Nicaragua raised several concerns.

The United States welcomed the last three days as an important opportunity to discuss the global crisis. Its government had listened with great interest and held discussions with delegations from all regions. The outcome document offered views in several paragraphs on the governance and operational aspects of international financial institutions, and the Bretton Woods institutions in particular.

The US said that those bodies had governance structures independent of the UN. Any decisions on their reform could only be made by shareholders and their boards of governors. The US did not interpret the language in the document as endorsing a formal UN role in decisions affecting them.

With regard to paragraph 54 (which establishes an "ad-hoc open-ended working group of the General Assembly to follow-up on the issues contained in this outcome document), the US' view is that the UN did not have the expertise or mandate to provide direction for meaningful dialogue on a number of issues, such as reserve systems, international financial institutions or the international financial architecture.

On paragraph 15, the US said that when countries faced an acute shortage of foreign reserves, they should implement efficient policy and monetary responses. Trade measures would not solve balance-of-payments problems associated with capital account pressures, a widening fiscal gap or other corporate failures.

The US said that use of them should be avoided and only resorted to when applied in accordance with WTO rules. Articles 12 and 18 related to the GATT and the Understanding on the Balance-of-Payments Provisions. Those conditions included requirements not included in the outcome. There was no provision under the WTO Agreement for use of "trade defense measures" to address balance-of-payments issues.

The US added that Paragraph 15 also described temporary capital restrictions and debt standstills as a way to address foreign reserves shortages. The US did not condone the use of capital controls. If used, they should be taken only as a last resort on a temporary basis and in line with existing multilateral and bilateral agreements.

[Paragraph 15 states that developing countries "facing an acute and severe shortage of foreign reserves because of the fallout of the crisis," 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."].

On paragraph 20, which encouraged regional reserve currency arrangements, the US said that such arrangements should be judged by whether they contributed to regional and global financial stability.

In relation to paragraph 25 relating to "protectionist measures", the US noted that the WTO was engaged in a monitoring process of such measures by countries. It said that duplicative efforts should not be undertaken across other bodies. It was of the view that proposals suggested in the paragraph could undermine the existing monitoring and reporting process, and all countries needed to be vigilant about how they responded to the crisis.

Regarding paragraph 27, on unemployment, the US said that it was committed to allowing labour migration to meet labour market needs but this was subject to domestic law.

On paragraph 28 relating to the "urgent need for all donors to maintain and deliver on their existing bilateral and multilateral Official Development Assistance (ODA) commitments and targets...," the US interpreted the reference to ODA targets to mean donor countries' individual targets.

On paragraph 34, which focused on the need for a structured framework for cooperation in the area of debt, the US said such a framework should be explored in line with existing structures, including the Paris Club.

Regarding paragraph 35, it said that US joined others in supporting a general special drawing right (SDR) allocation that would inject $250 billion for global liquidity. However, the SDRs were a monetary asset and not suitable for development finance.

With regard to improved regulation and monitoring of global and national financial markets in paragraph 37 of the outcome document, the US stated that it interprets the words "international commitment" to include internationally agreed and principles-based financial standards by which each country should regulate its financial markets.

Paragraph 38 referred to promoting double taxation agreements, and this should apply only in instances when significant double taxation existed between relevant jurisdictions, said the US.

The US added that to be productive, the working group process should be based on the UN mandate and field presence. The UN has no expertise or mandate to provide direction on a number of issues such as reserve systems,international financial institutions and the international financial architecture.

Sudan, on behalf of the Group of 77 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. "We could dwell on its shortcomings and imperfections, but we refrain from such an ignoble act," said the group. Being human beings, our efforts would aim high but they will remain imperfect.

The G77 and China said it would have liked the outcome to urgently address the issue of mitigation of the crisis. It called for member states to urgently address the issue of mitigation of the crisis starting from the first session of the ECOSOC (UN Economic and Social Council) meeting in Geneva.

Sudan said the task ahead is arduous and the group had the following key priorities: First is the establishment of the working group to follow up on the specific decisions and actions adopted by the outcome document. Second is 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. Third is the strengthening of 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 BWIs.

The European Union said that the conference had been an important event especially because developing countries have had the opportunity to voice themselves for the first time since the beginning of the financial crisis.

The EU also said that the outcome document is a very "ambitious" document which provides the basis for the UN to substantively follow-up through three specific ways. The first mechanism of follow-up is the establishment of the ad-hoc open-ended working group of the General Assembly. The second is through the strengthening of the collaboration and coordination between the UN and the Bretton Woods Institutions, and the third is through the possible establishment of an ad-hoc panel of experts on the world economic and financial crisis and its impact on development.

The EU affirmed that the outcome document contains many references to the integration and linkages between the UN system of specialized agencies and programmes and other institutions such as the Bretton Woods Institutions and the World Trade Organisation and other trade fora.

"The current crisis requires concerted international action," the EU said, adding that it was satisfied that what was achieved was the beginning of international action which prioritises a path of sustainable growth and development.

Japan welcomed the adoption of the outcome document by consensus, saying that it is a "milestone in the history of the UN." The document reflects the interests of all Member States as well as the complexity of these interests. Japan welcomed the follow-up process to this conference in the UN, adding that the ad-hoc and open-ended working group needs to make maximum use of existing mechanisms and institutions while also taking advantage of the strengths of the UN, especially its development mandate.

With regard to the reform of the Bretton Woods Institutions and the issuance of SDRs for meeting the financing shortfalls in developing countries, Japan said that these matters should be carried out in accordance with the respective mandates and governance structures of the IMF and World Bank.

Canada agreed with the US on the role of the UN, and that it "cannot support the formal role of the UN" in issues dealing with the financial and economic system. On the follow-up process, Canada said that the ad-hoc working group proposed in the document should focus on follow-up. It was not useful for the forum to address issues that fell outside the UN's mandate and expertise, such as global reserve system, reform efforts of the Bretton Woods institutions, and frameworks for sovereign debt restructuring.

Canada echoed the US, saying that SDRs cannot be used for development purposes. SDRs can only serve the purpose of international liquidity provision through quota-based allocations to reserves, such as that agreed to in the G20 communique on the $250 billion allocation of SDRs through the IMF.

With regard to migrant workers and labour migration in paragraph 27, Canada clarified that legislation on migrants cannot be applied to all countries universally, and must follow the individual national legislation provisions on labour migration and the treatment of migrant workers.

Cuba expressed its discontent on the outcome document as being "far below what is required". The outcome document did not contain new and additional resources that are urgently needed by developing countries which are facing the critical economic impacts of this crisis, it said. It does not sufficiently call for the 0.7% contribution of GDP from developed countries that is needed for official development assistance (ODA).

Cuba said that the developing countries continue to be subjected to "humiliating alms from the rich countries which are conditioned on their policies." Furthermore, the outcome document, in Cuba's view, did not pay heed to the need for a radical transformation of the international financial architecture, nor does it reflect a substantive discussion of the root causes of the financial crisis.

Cuba also stated that it rejects the phrase "human security" in the outcome document, which has a "clear interventionist connotation" that links to "attacks on sovereign international territory." The financial crisis instigates a debt crisis in developing countries, said Cuba, where most developing countries are vulnerable to precipitous declines in foreign exchange reserves.

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 as mentioned in paragraph 34 of the outcome document.

With regard to ODA in paragraph 28 of the outcome document, Venezuela expressed grave concern for the way in which aid effectiveness is stated. With regard to paragraph 30 on increasing and making more effective South-South cooperation initiatives, it was stated that the countries of the South are already cooperating together in various ways, such as through Latin American ALBA initiative, the Petro Caribe oil alliance, and other vehicles that are based on "solidarity and complementarity."

Nicaragua emphasized that the IFIs need to work for the development of people, not capital. The follow-up process of the conference needs to 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. To that end, it was important that the open-ended working group follow up on paragraph 15, which touched on the shortage of foreign reserves and their negative impact on balance of payments. Indeed, it was an unjust paradox that so much capital was flowing out of the poorest countries to the richest.

It was also clear that trade would be part of the discussion. On paragraphs 24 and 25, Bolivia believed that the financial crisis had demonstrated that free trade and free markets were unable to self-regulate. Regarding paragraph 10,it said that it was essential to mitigate the impact of the crisis with special emphasis on the least developed countries, particularly those that were landlocked. Moreover, the weakest part of the document was its lack of criticism of the Breton Woods institutions.

Jamaica, speaking for the members of the 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. It also said that the follow-up process must ensure that access to concessionary financing and grant funding is extended to small developing countries and that the GDP unit for measuring economic growth must not be the only indicator for development. Developed countries have a moral and political obligation to developing countries following the financial and economic crisis, it said.

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. This is the first step in the right direction. However, it falls short in concrete measures in the reform of the international financial institutions and architecture and the role of the UN. It was also concerned about the reference to "human security" as UN documents should not be open to vague concepts that had not been agreed on.

The General Assembly President Miguel d'Escoto Brockmann said 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.

D'Escoto Brockmann said the General Assembly had been asked to follow up on the conference through a working group. The issues to follow up on include 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. At the same time, the crisis should not delay our response to climate change and the environment.

He said "we are happy but not completely satisfied", and there are many other crises such as water, food, energy, and humanitarian affairs. "We must all join forces. There is much to be done. We will not be content as long as issues are unresolved. My role is to invite you to look beyond today's concerns and hold up hope for humanity."

TWN Info Service on WTO and Trade Issues (July09/04)
07 July 2009
Third World Network
www.twnside.org.sg

UN: North's bailouts destroyed trading system's playing field, says Stiglitz

Published in SUNS #6729 dated 29 June 2009

New York, 26 Jun (Bhumika Muchhala) -- The bailouts given to companies in developed countries have destroyed the framework of the multilateral trading system for a level playing field, according to the Nobel prize-winning economist Joseph Stiglitz.

Speaking at the UN conference on the global financial and economic crisis, Stiglitz said that the massive bailouts and stimulus programmes of the rich countries have "destroyed the framework for an international and multilateral global playing field for trade."

The profound effect of bailouts and guarantees to firms affect any remaining notion of a level playing field. Even if a developing country gave guarantees of the same monetary worth, it does not have the same effect as guarantees given to firms in developed countries.

Stiglitz also said that given the lack of governance in the global financial and capital markets, there was need for a global economic and coordinating council. Thus, the importance of a global economic coordinating council cannot be overlooked at this conference, he stressed, speaking at a roundtable, held on 24 June, on the theme "The Role of the UN and its member states in the ongoing international discussions on reforming and strengthening the international financial and economic system and architecture".

Stiglitz is the Chairman of the Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System, whose report was distributed at the conference.

The roundtable was co-chaired by the Prime Minister of Barbados, H. E. The Honourable David Thompson and the Prime Minister of the Republic of Serbia, H. E. Mirko Cvetkovic. Other panel members were Ms. Ngozi Okonjo-Iweala,Managing Director of the World Bank, Ms. Alicia Barcena, Executive Secretary of the Economic Commission for Latin America and the Caribbean (ECLAC), Mr.Andrei Bougrov, Executive Director of the International Bank for Reconstruction and Development, and Mr. Yu Yongding, former member of the Monetary Policy Committee of the Peoples' Bank of China.

Stiglitz said it was imperative to address the developmental impacts of the financial and economic crisis. He said that policy space for developing countries is crucial in light of the highly uneven playing field in global trade and finance that has been created as a result of the massive bailout and stimulus packages of the rich countries.

The regulation of international financial markets is also an imperative, and the responsibility for that lies primarily in the developed world, while also requiring the cooperation of the global community.

Stiglitz highlighted that the reform of the IMF, in particular, is more fundamental than ever before. The world needs to remember that it was the IMF that contributed to and exacerbated the financial crisis of 1997-1998, over ten years ago. The Fund's past track record calls for the need to create new institutions and more efforts to disburse funds through a variety of mechanisms. Funds to developing countries should be disbursed through grants, not loans, in order to avoid a new debt crisis in developing countries.

Furthermore, competition among the various funds-disbursing agencies is required. Such competition would lead to better policies, better management and more choice among developing countries. For example, there are large sources of liquidity in the world that could serve as funds for developing countries. However, the problem is that many of these country sources of liquidity do not trust the existing institutional mechanisms by which to provide the funds.

Stiglitz said that a double majority voting structure should be implemented in the IMF. He said that it is a good thing that the heads of the World Bank and IMF will be se ected on the basis of merit, as agreed to by the G20, but more needs to be done in light of the immediacy of developing-country needs.

An agenda of deeper reforms is needed.

Any new growth model should recognize the constraints imposed by natural resources, Stiglitz emphasized. A new growth model should try to focus on more ultimate objectives of increasing human welfare in a comprehensive way. The current financial crisis, if anything, emphasises the extent to which existing economic growth doctrines were flawed, said Stiglitz. "Our Commission's view is that reform of the existing doctrines is not enough.There is a need to go further."

The massive bailouts and stimulus programmes of the rich countries have "destroyed the framework for an international and multilateral global playing field for trade." The profound effect of bailouts and guarantees to firms affect any remaining notion of a level playing field. For example, even if a developing country gave guarantees of the same monetary worth, it does not have the same effect as guarantees given to firms in developed countries. In that sense, "even symmetric actions have asymmetric implications," Stiglitz said.

Stiglitz concluded by saying that the challenges posed by the current financial crisis are enormous, and they cannot be solved in this kind of a conference. However, the conference had initiated a process towards solving the financial crisis.Alicia Barcena, of ECLAC, expounded on five specific actions necessary to attain effective global economic governance.

First, the balance between the market and the government must be restored. The government's role has to be brought back to life after years of being subdued by dominant economic policies. Second, the provision of global public goods needs to be espoused by the multilateral institutions in a democratic manner.

Third, there needs to be a movement from self-selected bodies to an inclusive and representative multilateral system. Fourth, the global economy needs to move from an oil-based economy to a carbon-free economy. And last, a more integrated and strategic approach needs to be applied to global economic governance in the coming future.

Trade protectionism is a major concern in the region, in that unilateral exchange rate protectionism and competitive bilateralism are on the rise. The biggest shock of the crisis is the trade shock, much more so than the financial shock. Trade has fallen by about 40% in the Latin American and Caribbean region. What is needed is a cash transfer programme on a global scale.

Financial and trade movements are happening at a much faster rate than institutional and political developments. This asymmetry results in a reckless form of globalization that is threatening equitable development in the most fundamental of ways.

On a new global architecture, she said that the structure of crisis management needs to be articulated. Second, crisis prevention and risk mitigation need new structural changes, such as in regulatory systems, in transparency and accountability and in looking at development through a more cross-sectoral vision.

Andrei Bougrov said that the global attention is on the Bretton Woods Institutions and loan conditionalities, as the World Bank and International Monetary Fund, in particular, are criticized to a high degree.

"I am of the opinion that conditionality does not work," said Bougrov. He also believed that the Bretton Woods Institutions cannot be reformed from within, primarily because its shareholders are not concerned with reform.

The current global crisis reminds us that we can no longer afford to ignore real reforms anymore. Institutions and systems need to be better coordinated on an urgent level.

Yu Yongding said that since China had over $1 trillion of reserves in the form of US Treasuries, it had to worry if there is a devaluation of the US dollar, or inflation, as it would suffer great losses. China has engaged in crisis management through a stimulus package and a second step is the need to address the reality that China cannot keep relying on exports, because the global economy is in recession. Thus, China needs to be engaged in structural reform and stimulate domestic demand which would also benefit other countries.

Policy space for developing countries is also crucial, said Yu, as capital account and financial market liberalisation in developing countries has left very little policy space with which to act in response to the crisis. Developing countries should be able to self-determine what policies they need to adopt and this needs to be an integral part of the reform of global governance.

There is need to reform the system in order to address the present system's instability, an inherent deflationary tendency and inequality. There is also need to address the global reserves system so as to avoid future crises.

Yu said that some people have said that change is too utopian and we should not think about reform now. But it is not utopian but realistic to undertake reform. The time for change is now, and we should use this opportunity, at this pivotal time, for change, he concluded.

Ngozi Okonjo-Iweala, Managing Director of the World Bank, said that there has been a massive plunge in the average growth rate in developing countries, which has fallen from 7.7% in 2008 to 1.2% in 2009. An additional 55 to 99 million people are going to fall into poverty as a result of the crisis, and this is on top of the 135 million people who had already been thrown into poverty by the food and fuel price crisis last year.

What are we, the international community, going to do, particularly for the low-income countries, asked Okonjo-Iweala. What have the international financial institutions been doing? Are we going to provide a fiscal stimulus for developing countries?

She explained that the World Bank has been implementing its Vulnerability Financing Facility. During the food and fuel price crises last year, the facility amassed $2 billion in total, and disbursed $730 million to a total of 33 countries severely impacted by the food and fuel price crisis.

Capital flows from the World Bank Group to its developing-country members has doubled in amount from previous years to $34 billion currently. Out of this $34 billion, $14 billion is going to low-income countries, and a good part of that is being disbursed in the form of grants, so as to avoid the accumulation of further debt. In this way, Okonjo-Iweala said, the World Bank has been helping developing countries to close their financing gap so that they can retain some food security.

In response to this current crisis, $8 billion has been mobilised for low-income countries by the World Bank Group and the International Finance Corporation. She asked, how can more funds be mobilised in such a way,toward the low-income countries?

With regard to the ongoing debate on global governance, Okonjo-Iweala emphasized that "we should not forget that the World Bank is part of the UN system." Any response through the UN has to touch upon the World Bank as well.

TWN Info Service on WTO and Trade Issues (July09/03)
07 July 2009

Third World Network

www.twnside.org.sg

Conference panel calls for debt moratorium and arbitration system

Published in SUNS #6729 dated 29 June 2009

New York, 26 Jun (Meena Raman) -- Avoiding a new external debt crisis in developing countries has become a high-profile issue at the UN conference on the economic crisis, with prominent members of a roundtable calling for a debt moratorium and the setting up of an international court for debt arbitration and restructuring.

The Secretary-General of the UN Conference on Trade and Development (UNCTAD), Dr. 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 Minster for Foreign Affairs of Laos. Other members of the panel included Ms. Noeleen Heyzer, Executive Secretary of the UN Economic and Social Commission for Asia and the Pacific (UN-ESCAP), Mr. Robert Johnson, former Chief Economist of the US Senate Budget Committee and Mr. Yaga Venugopal Reddy, former Governor of the Reserve Bank of India.

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.

He said that there has also been new borrowings by almost all countries. In the richest economies, the IMF prediction is that public debt will reach 106% of GDP. It will go up in the next couple of years. There could be an increase in debt of $9 trillion in three years.

There would be a dire situation in terms of public finance. There are three possible options to deal with this: allow inflation and keep printing money to meet the requirements; default on the debt and intensive competition in the debt market which will crowd out finance to developing countries.

There is need for measures to deal with this. There is need to address how to deal with vulnerable economies. About 90 developing countries may have debts beyond 100% of their GDP. The growth of GDP must be higher than the growth of debt-servicing if these countries are to avoid a problem. 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 $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 pro-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 mobilization of financial resources would be missed out. Hence, SDRs should be based on the needs of countries.

Supachai also said that members should not be misled by remarks about the emergence of green-shoots as an indication of economic recovery. While there may be some improvement in the stock markets and the beginning of lending again by some banks in the US, if one looks at the economic indicators, the economy is far from recovering. Looking at indicators relating to real estate, the job market and international trade, we are very far away from green-shoots.

There needs to be caution in speaking about green-shoots, so that there is no step back from taking measures in relation to fiscal stimulus. When tackling the financial recovery, all effects of the stimulus measures should not be measured in terms of financial recovery but in terms of decent job creation.

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 which have had no role in causing the financial crisis have suffered the most collateral damage, with a loss of 7 percentage points of gross national income, as their economic growth is expected to fall from 8.7% in 2007 to 1.6% in 2009 on average. The so-called emergence of "green-shoots" does not apply to developing countries which are predicted to take a long time to recover.

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 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 are given back.

Khor said that the suggested amount of $100 billion for low-income countries was very low compared to the amount provided for bailouts and fiscal stimulus in developed countries. He estimated that bailout 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 agreement 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 (FTAs).

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 SDRs.

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.

UN-ESCAP Executive Secretary Dr. Noeleen Heyzer said that 60 million jobs are expected to be lost in Asia by the end of the year due to the crisis. The average growth rate in the region decreased from 8.8% in 2007 to an estimated 2.8 % this year. She said that unlike previous crises, developing countries cannot trade themselves out of this.

What was needed was to evolve homegrown policy responses to promote domestic and regional sources of demand. Fiscal stimulus packages must target the poor who are unable to cope. There was need for a regional financial architecture. Reform of the international financial architecture should also include a new global reserves system.

Robert Johnson, who also served on the UN commission of experts chaired by Prof. Joseph Stiglitz, said that the IMF and the World Bank are institutions that embody a vision and a flawed model that believed in the existence of a perfect market with perfect competition. Because it was flawed, debtors and creditors are reluctant to come to the door of a physician who does not understand the disease.

On the provision of SDRs, Johnson said that he had been concerned for years that the volatility of international capital markets had led many countries to accumulate US dollar reserves and this had a deflationary impact on the US economy. Although there is a reluctance in the US to see the emergence of an alternative reserves currency, many countries think that a balance of commerce is very different from a balance of savings (reserves).

There is need for re-balancing the dollar overhang in a balanced way. In future, a reform will diminish the need for keeping reserves, but SDR allocation is an improvement and he hoped that the US will study this carefully.

Yaga Venugopal Reddy, who is also a member of the UN commission of experts,said that crisis management should be viewed in the context of development. If a country has limited resources, it has to balance satisfying the bondholders with protection of the poor and fostering of development. He added that finance is only a means, but the financial sector developed excesses such as excess leverage which must now be corrected. We cannot avoid the fundamental requirement of removing the excesses.

When the international community proceeded with the globalization of finance, the assumption was that capital will move from North to South to help development. This did not happen. Now, we are faced with a situation in which the developed countries are using more financial resources to recapitalise. Alluding to this drawing capital away from developing countries, Reddy said this has to be managed. He added that developing countries need to manage their capital accounts, and especially in relation to the management of their debt.

There is increasing recognition that financial regulation should be counter-cyclical. Financial regulation cannot be viewed in isolation and has to be linked with fiscal and monetary policies in an integrated manner. Thus, the relations between the institutions dealing with financial regulation, and fiscal and monetary policies have to change and be coordinated.

On the international coordination of financial regulation, Reddy cautioned that it is difficult to have the same regulation for all countries. There should be international coordination over systemically important institutions and countries, but not over developing countries in general,which should adhere to national regulations with some minimal guidelines.

There is a need for re-balancing between states and market, between the financial and real sector, and between the financial sector and fiscal and monetary sector and institutions, whether for preventing or managing crises.

Reddy also emphasised the importance of policy space for national governments, as global institutions and governance have not kept pace with the globalization of finance. If the global governance is not there, eachcountry should have the policy space to formulate its own national policies.