Statement by Mr. Martin Khor

Executive Director of South Centre

to the

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Mr. Chairman,

This crisis triggered by widespread speculative lending and investment in major international financial centres is causing a major setback to development and poverty reduction. The combination of sharply declining export earnings, collapse of remittances, reversal of private capital flows and an extreme degree of credit squeeze affecting even trade finance is producing a sharp economic slowdown and contraction in many parts of the developing world. According to the most recent projections by the World Bank, as many as 90 million people in the developing world could slide into poverty this year, coming on top of some 100 million new poor created by the food crisis. On FAO's estimates, the crisis has increased hungry people by 100 million, bringing the total to exceed a billion.

Developing countries have been using every possible means they have at their disposal to fight the fallouts from the crisis. However, many of them face serious balance of payments and budget constraints. According to estimates by various international organizations, in 2009 their foreign exchange shortfalls would lie between $1 and $2 trillion. Furthermore, it is unlikely to disappear over the coming years. We are looking at the world economy "through a glass darkly", arguably one too dark to contemplate sensible projections based on reasoned and professional judgement. It suffices to say that even the most optimistic assessments suggest that it will take a few years for the world economy to get back on track.

We recognize the efforts made at the G20 summit to provide external financial support to developing countries to enable them to cope with the impact of the crisis. But developing countries need significantly greater amounts of quick-disbursing, unconditional external financing. Furthermore, they should not be burdened with additional debt in order to respond to fallouts from a crisis they cannot be held responsible for. These objectives can best be achieved by a special and sizeable SDR allocation.

The agreement reached in the G20 summit on SDR allocation brings no more than $20 billion to low-income countries, but they need several times more. Since many of these countries are on the verge of falling into an unsustainable debt trap, this should be provided through a no-cost special SDR allocation. Furthermore, there should be a moratorium on their official debt, including deferral of principal and interest payments with no additional cost. This is an established practice, used in the past in response to disasters such as the Asian Tsunami of 2004. The hardship caused by the current global crisis in many parts of the developing world is comparable.

The additional financing needed by middle-income countries reaches several hundred millions of dollars. This should be provided through a reversible SDR allocation, to be repurchased when the crisis is over. Thus, it will not generate inflationary pressures now or in the future. No such explicit exit provision is incorporated in financial bailout and fiscal packages introduced in advanced countries.

Mr. Chairman,

The difficulties we are currently facing are reflections of deep-seated shortcomings in multilateral arrangements for the prevention of financial crises with global ramifications and for their proper management when they occur. There are almost always misguided regulatory, macroeconomic or exchange rate policies behind every major crisis. It must now be evident that adverse international spillovers from such policies are much more damaging to development than those from trade policies. But unlike international trade, there are no effective multilateral disciplines in money and finance.

It is ironic that policy oversight of the IMF − an organization entrusted to safeguard international monetary and financial stability − is confined primarily to its poorest members who need to draw on its resources because of their lack of access to private finance and, occasionally, to emerging economies experiencing interruptions in their access to private financial markets. Policies in its major shareholders that exert a disproportionately large influence on global stability escape any meaningful surveillance and oversight. Securing independent, effective and even-handed IMF surveillance should be an important item on the reform agenda. It must also be clear that this issue cannot be resolved without a fundamental reform of its governance.

An international reserves system based on national currencies is known to be inherently unstable, susceptible to generating unsustainable payments positions and exchange rate gyrations in countries enjoying reserve-currency status. This problem is no doubt aggravated by the absence of meaningful multilateral obligations by such countries and lack of effective surveillance over their policies. This makes it all the more important to look into possibilities of establishing an international reserves system not based on national currencies, and the role that a redefined and broadened SDR could play in that respect.

Mr. Chairman,

It must now be clear that the view that financial markets regulate themselves is not only wrong but is also highly damaging. There is a need for global financial rules and oversight for global players, but such arrangements should not lead to a one-size-fits-all approach and undermine the policy autonomy of developing countries to regulate their financial systems and capital flows according to their exigencies. Furthermore, any global arrangement in this area should address the problems faced by developing countries in their interactions with international financial markets, including the pro-cyclical behaviour of international lenders and rating agencies and the destabilizing behaviour of international portfolio investors in developing countries.

Mr. Chairman,

It is a certainty that crises with global ramifications will continue to occur regardless of the measures that may be adopted for prevention, and necessitate international interventions including provision of liquidity to countries facing payments difficulties. Such support should be unconditional when the fault does not lie with domestic policies. Nor should it be provided simply to enable countries to remain current on their obligations to international creditors and investors at the expense of imports, employment and economic growth.

Countries experiencing large and sustained capital outflows should have the right to exercise temporary debt standstills and exchange controls, and should be granted statutory protection in the form of stay on litigation. An international debt court should be established within the UN system in order to settle sovereign debt disputes with private creditors.

The international community has been muddling through the official debt of low-income countries for a decade and a half without being able to bring a lasting solution. The current crisis is adding to the debt overhang, making the existing approach even less tenable. The time has come to look for a new strategy. Debt assessment and sustainability analyses should be taken away from the IMF and entrusted to an independent body which is itself not a creditor, with the agreement of both creditors and debtors to implement its recommendations.

Mr. Chairman,

This crisis has shown once again that global integration has resulted in growing interdependence not only among countries, but also among various issues of concern to the international community including development, trade, investment, employment, money, finance, climate, and technology and property rights. At the global level these issues are addressed by specialized institutions established by intergovernmental agreements. Although reference is often made in their charters to common global social and economic objectives, in practice each of these institutions focus on its specific mandate and objectives. This creates systemic incoherence not only because there can be trade-offs among the objectives pursued by different agencies, but also because failure in certain areas of global policy has broader implications for the multilateral system as a whole.

Efforts to improve coherence of policies in such diverse but interrelated areas remain sporadic and ineffectual in large part because they rely on ad hoc cooperation among specialized agencies, the compartmentalization of whose mandates and jurisdictions is not well designed for proper consideration of certain key connections between different issues and appropriate policy responses in different areas. The task of securing coherence and coordination falls on the United Nations as the only universal and democratic forum with an explicit mandate and purpose to resolve “international problems of an economic, social, cultural and humanitarian character.”