



## **The Future of Global Economic Governance in the Face of Global Crises – South Perspectives**

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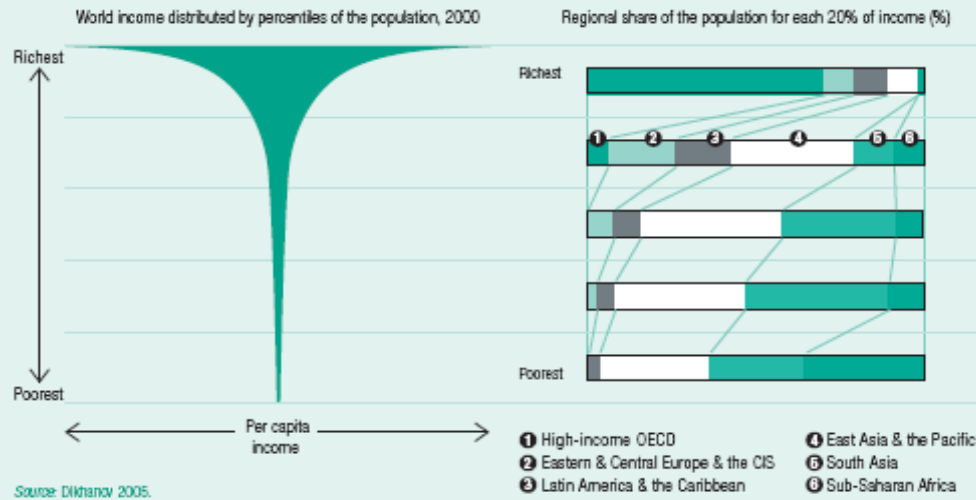
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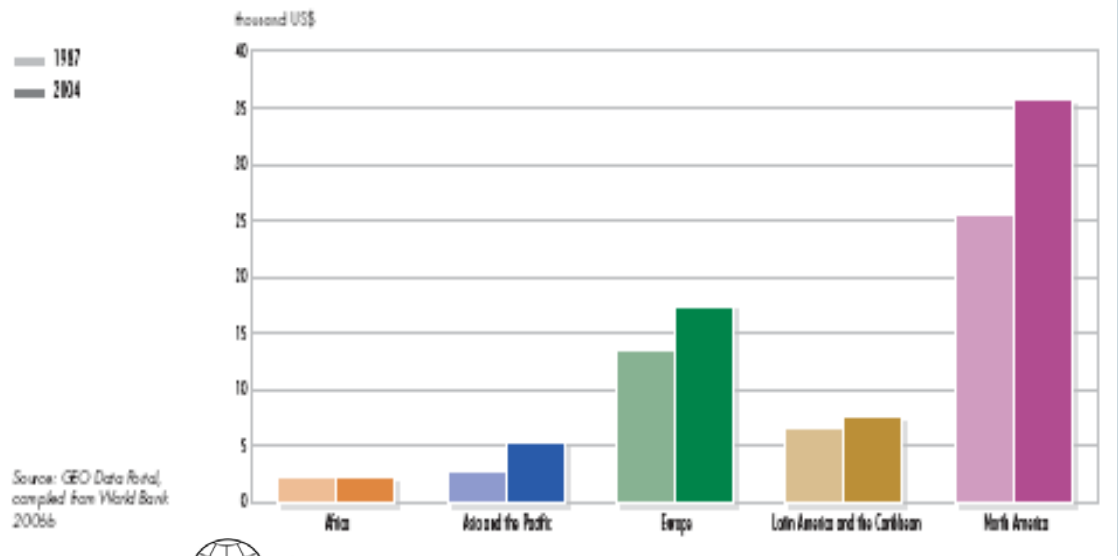
Africa	Asia and the Pacific	Europe	Latin America and Caribbean
<p> <b>Algeria</b>  <b>Angola</b>  <b>Benin</b>  <b>Burundi</b>  <b>Cape Verde</b>  <b>Cote d'Ivoire</b>  <b>Egypt</b>  <b>Gabon</b>  <b>Ghana</b>  <b>Liberia</b>  <b>Libya</b>  <b>Malawi</b>  <b>Mali</b>  <b>Mauritius</b>  <b>Morocco</b>  <b>Mozambique</b>  <b>Namibia</b>  <b>Nigeria</b>  <b>Sierra Leone</b>  <b>South Africa</b>  <b>Sudan</b>  <b>Tanzania</b>  <b>Uganda</b>  <b>Zimbabwe</b> </p>	<p> <b>Cambodia</b>  <b>China</b>  <b>India</b>  <b>Indonesia</b>  <b>Iran</b>  <b>Iraq</b>  <b>Jordan</b>  <b>Korea D.P.R.</b>  <b>Malaysia</b>  <b>Micronesia</b>  <b>Pakistan</b>  <b>Philippines</b>  <b>Seychelles</b>  <b>Sri Lanka</b>  <b>Vietnam</b> </p>	<p> <b>Serbia</b> </p>	<p> <b>Barbados</b>  <b>Bolivia</b>  <b>Brazil</b>  <b>Cuba</b>  <b>Guyana</b>  <b>Honduras</b>  <b>Jamaica</b>  <b>Panama</b>  <b>Suriname</b>  <b>Venezuela</b> </p>

**Figure 1.16 Where the money is**



A continuing development crisis

**Figure 1.7 Gross domestic product – purchasing power parity per capita**



## The climate crisis ...

latest science indicate GHG emissions as of 2005 has committed us to global warming of 2.4C above pre-industrial levels for the next 1,000 years ... even if GHG emissions were to fall to zero today ...

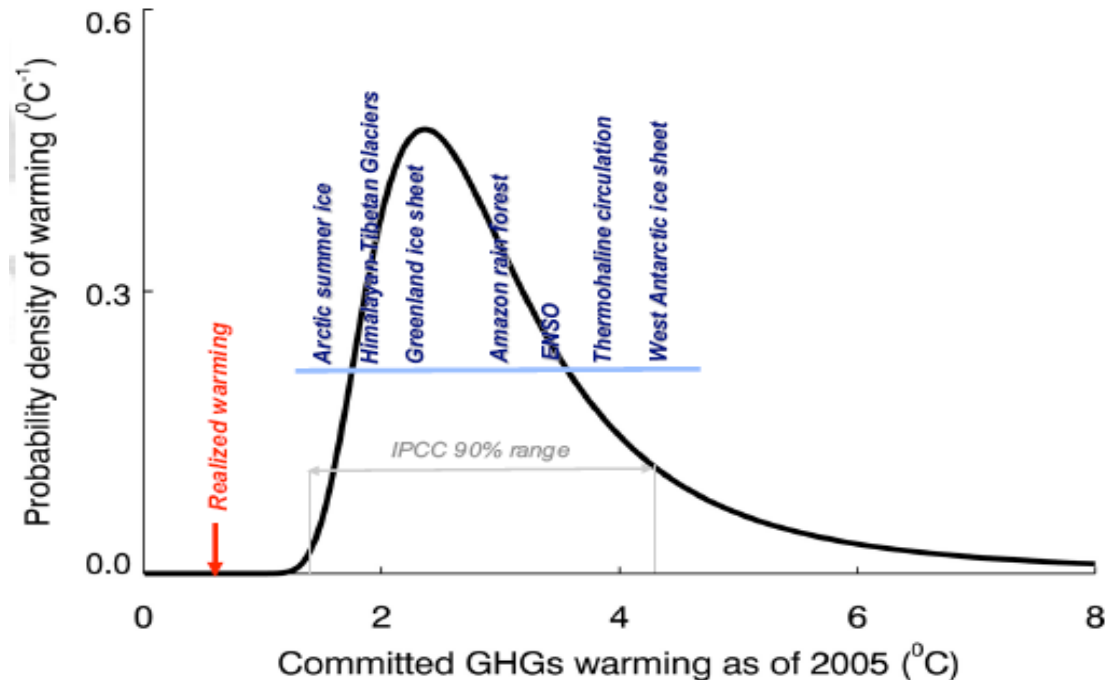
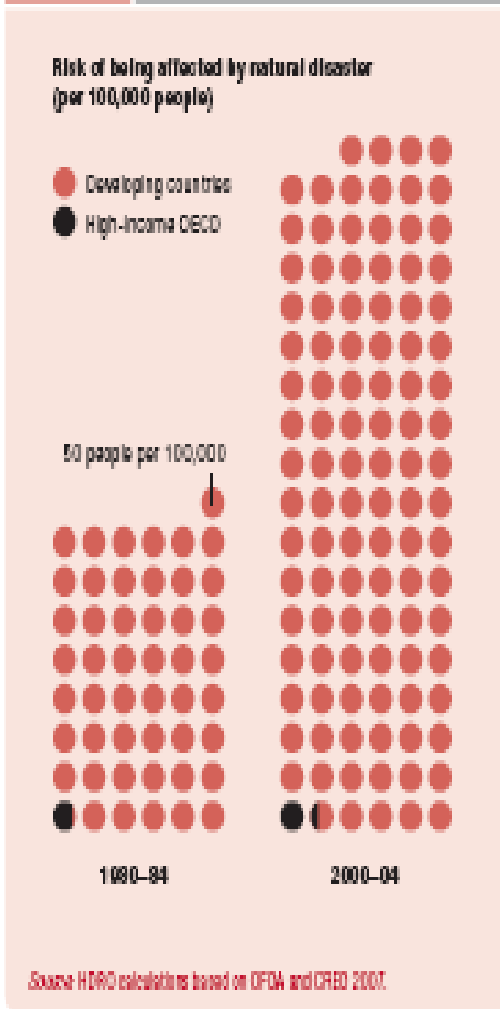
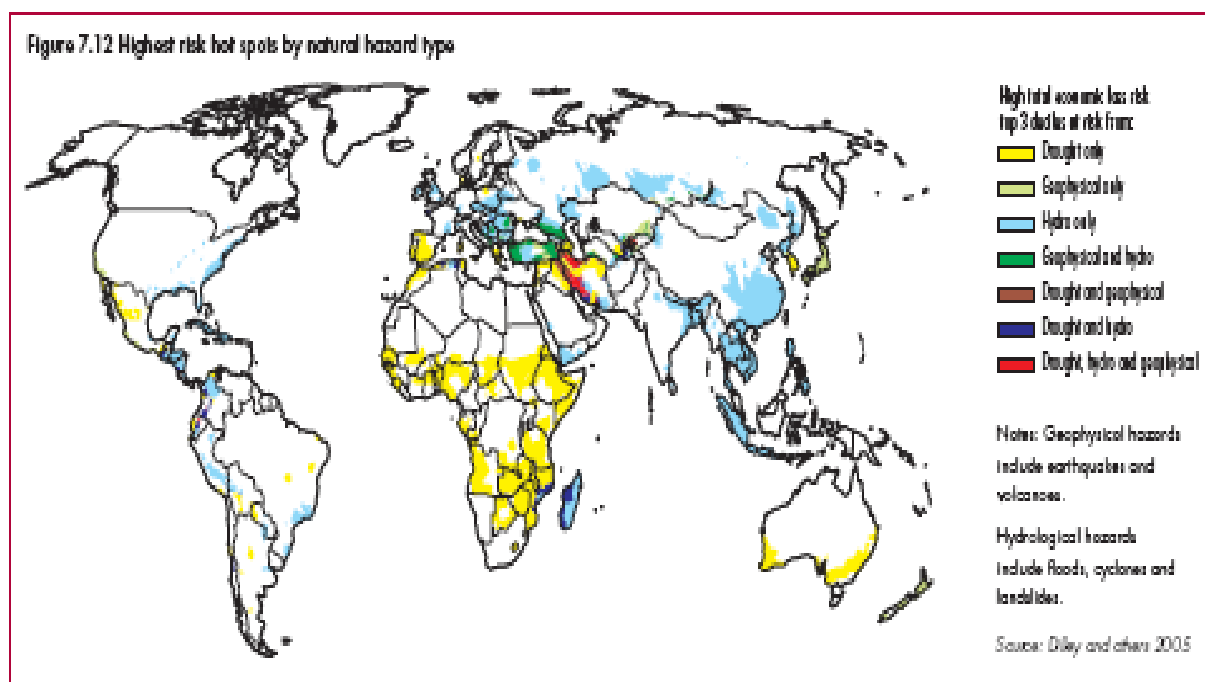


Fig. 1. Probability distribution for the committed warming by GHGs between 1750 and 2005. The normalized distribution is calculated from the probability density function given by Roe and Baker (7), and the mean and standard deviation of the uncertainties associated with feedback processes are fitted for Sanderson *et al.* (8). Shown are the climate-tipping elements and the temperature threshold range that initiates the tipping. Except those for the HKHT glaciers, the rest of the elements and the temperature thresholds are taken from ref. 6. ENSO, El Niño—Southern Oscillation.

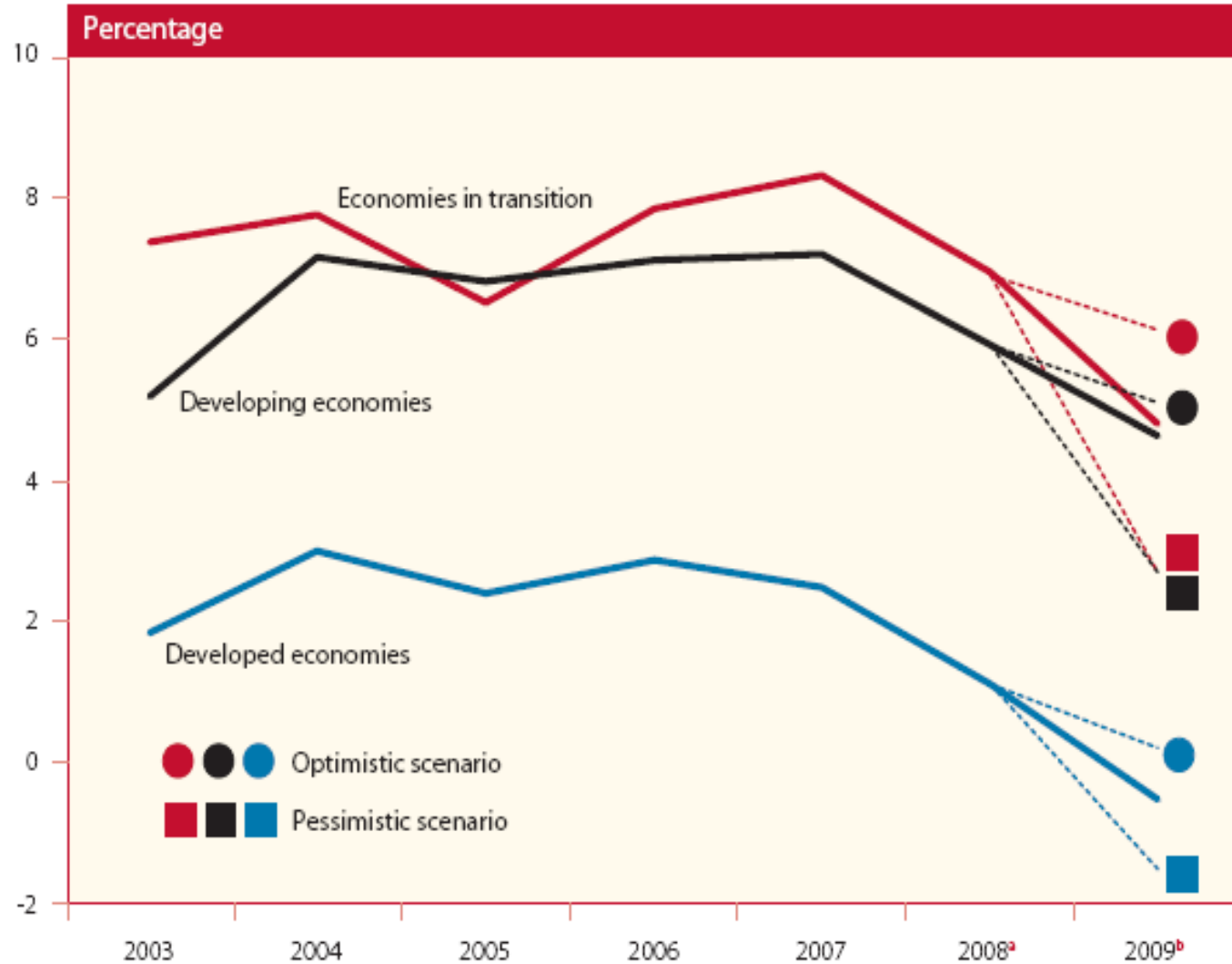
**Figure 2.2** Disaster risks are skewed towards developing countries



... impacting developing countries and the poor more adversely and in more ways ...



## Synchronized global slowdown, led by a recession in developed countries



## The global financial crisis and the South

### Significant downturn in all developing regions in 2009

Annual percentage change									
	2003	2004	2005	2006	2007	2008 <sup>a</sup>	2009 <sup>b</sup>		
							Baseline scenario	Pessimistic scenario	Optimistic scenario
<b>Economies in transition</b>	7.4	7.7	6.5	7.8	8.3	6.9	4.8	2.7	6.1
<b>Developing economies</b>	5.2	7.1	6.8	7.1	7.2	5.9	4.6	2.7	5.1
Africa	4.9	5.9	5.7	5.7	6.0	5.1	4.1	0.1	4.7
East Asia	6.9	8.0	7.7	8.6	9.0	6.9	5.9	4.6	6.4
South Asia	6.9	6.7	9.5	6.9	7.9	7.0	6.4	4.0	6.6
Western Asia	4.9	8.2	6.8	5.9	4.7	4.9	2.7	1.6	3.3
Latin America and the Caribbean	1.8	5.9	4.6	5.5	5.5	4.3	2.3	-0.2	2.7

Source: UN/DESA.

<sup>a</sup> Partly estimated.

<sup>b</sup> Forecasts, based on Project LINK.

**Impact vectors on developing country economies of Northern-created global financial crisis:**

- Dwindling capital inflows from North (FDI and equity investment) although capital may still be available from South for South-South investment (especially SWFs)**
- Massive withdrawals of capital leading to losses in equity markets (contagion and spillovers on South stock markets)**
- Increasing interest rates in Northern banks may prevent debt-based investment in the South**
- Decreased aid flows from North**
- Loss of remittance inflows from Southern migrant workers in the North**
- Lower levels of exports to North (although continued growth in China, India, and other parts of Asia and Latin America can temporarily sustain South-South trade growth)**

**But still growing albeit at slower pace (projected to be only 4.5 percent, instead of earlier projections of 6.0 percent)**

**Greater difficulties in raising financial resources to pay for development activities**

## **The G20**

- a shell game of dubious figures (is it really US\$1.1 trillion?)**
- A case of the G8 asking surplus-rich developing countries to bail them out from a crisis of their making, in the guise of “sharing” in global economic governance?**
- Business-as-usual approach with minor reforms at the edges**
- Revitalized the IMF without asking for corresponding reforms in its governance, policies and methods of work**

## What has the global financial crisis shown?

Need for systemic architectural and policy changes at the global level

- Showed that Washington Consensus-based model of global economic growth and development (centered on liberalization of trade, investment and capital) is flawed model

- Showed (short-term) efficacy of self-insurance strategy of many developing countries in amassing foreign currency reserves after the 1997 Asian financial crisis in postponing impacts of Northern financial crisis

- Showed the need for strategic governmental intervention to stimulate economic development

- Showed that global finance, at both national and international level, needs to be subject to governmental policy regulation in order to ensure stability

- Showed dysfunctional nature of current international financial architecture to manage the global economy as deep and virtually unregulated integration allows for rapid contagion and spillovers

## Six Lines of Priority Action on the Global Financial Crisis

- Regulatory deficit of global finance must be addressed.** Stronger regulation must be comprehensive, counter-cyclical, avoid reliance on internal risk models of financial institutions, restrict monopoly power, encourage diversification, and avoid unsafe/speculative financial products. Regulatory system must be based on strong network of national and regional authorities  
→ IMF must not be at the center of regulatory system; neither should BIS (lack of South representation and strong influence of large banks)
- **Avoidance of collateral damage to South from North responses to the crisis** – no protectionism against South exports; recognize South right to exercise WTO tariff flexibilities
- IMF (and World Bank) reform is required** → establish global reserve currency based on IMF SDRs; IMF lending during BOP crisis should be rapid and without overburdening conditionalities; IMF should encourage and provide advice on capital account regulations; BWI governance reform  
→ **Reforming global financial architecture** must be based on process and institutional design that is inclusive, participatory, and not based on ad-hoc groups like G7, G13, or G20. The UN must be deeply involved
- Expansionary fiscal, monetary and credit policies should be adopted** – e.g. lowering interest rates, increasing government spending to stimulate the economy. ODA should be increased to poorest countries. MDBs should finance large scale programme for commercial lending to exporters
- International debt court/workout mechanism must be created** as a way of resolving the debt overhang crisis of many developing countries (similar to domestic bankruptcy courts) by ruling on repayment terms of public and private sector international debt
- More reliance must be placed on regional institutions**, and South should actively work to create and support them → e.g. enhance levels of South-South regional integration

## What should the EU do with respect to its development cooperation programme?

The EU views itself as a development champion, having as its objective for the exercise of its soft power the achievement and promotion of global public goods such as poverty eradication, development, and fighting climate change. Hence, the first and foremost thing that the EU should do is to be coherent, in word and in deed, to this self-perception. Following are some of the actions it can do in this regard:

- Reconsider its policy and negotiating positions and objectives in the WTO Doha Round, in the EPAs, in the climate negotiations, among others, so as to make them positive and responsive to developing country concerns, needs and interests;
- Ensure that developing countries are able to export freely to the EU and to other developed country markets, considering that trade will be an important component in many developing countries' policy toolbox in responding to the financial crisis;
- Do good governance at home – rethink and change those policies that caused and may still cause collateral damage to developing countries' efforts to develop and become self-reliant;
- Support increased policy space and flexibility for developing countries in all areas of global policy making, such as in trade, intellectual property rights, climate change, investment, finance, security, migration, etc., so as to support developing countries in developing their own approaches, responses and solutions to their own development challenges;
- Support real, effective and genuine reforms in the IMF and the World Bank in order to give greater and commensurate voice and participation to developing countries. This means being willing to let go of its joint hold over these institutions together with the US, and in joining with developing countries to influence the US and other developed countries to make these institutions more democratic and reflective of the need for developing countries to be able to participate and have greater voice and vote in these institutions
- Support the creation of an international debt workout mechanism or system for countries that face debt servicing difficulties
- Work with developing countries in order to strengthen the role of the United Nations as a global economic policymaking center, especially the UN General Assembly and ECOSOC, rather than marginalizing the UN in favour of developed country-controlled institutions such as the IMF and the World Bank;
- Finally, the EU needs to reflect on and rethink what the fundamental philosophical and conceptual basis is for its development cooperation. Is it about simply enhancing and making more effective the underlying donor-recipient relationship, or is it about treating developing countries as the EU's equals? The response to this question, and how the EU actually operates in reflecting this response, will be crucial in terms of the EU playing a leading role in shaping with its partners a better, fairer and more equitable global future.



## Thank You

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