Statement to the Trade and Development Board
Sixty-second Executive Session
Geneva, 25 January 2016

AS PREPARED FOR DELIVERY

Excellencies,
Ladies and Gentlemen,
Distinguished colleagues,

This first Executive Session of 2016 of the Trade and Development Board comes at a paradoxical moment for the international community.

Successful agreements reached in 2015 on finance, climate, development, technology and trade offer us a modicum of hope and optimism for the future.

But we also face great uncertainty in the global economy, and a growing gap of trust between people and their governments about the interdependent world in which we live.

From terrorism to migration, from falling commodity prices and currencies to flagging trade growth, resurgent nationalisms and shrinking trust in the international system are breeding growing insecurity about how we will achieve the aspirations of Agenda 2030.

The two reports you will consider at this Executive Session, the 2015 *Trade and Development Report* and the 2015 *Least Developed Countries Report*, both outline what needs to be done to confront this challenging environment from two very different, but complementary perspectives.

The **2015 *Trade and Development Report*** addresses the dysfunction in the international economic and monetary system that has led us to where we are today.

The Report shows how we have entered a **new third phase** in the global economic and financial crisis.

In the first stage, centred on the United States, most countries applied simultaneously expansionary fiscal and monetary policies that avoided the implosion of the financial system and mitigated economic recession.

In the second phase, originating from Europe, developing countries maintained strong counter-cyclical policies, while developed countries shifted towards fiscal austerity, relying excessively on monetary policy for economic stimulus. This shift proved ineffective for prompting a strong recovery in developed countries, while encouraging large capital outflows towards emerging economies.

Now in the third phase of the crisis, the capital flows to developing and emerging economies have stopped or reversed. Commodity prices have plummeted, and many developing countries face growing constraints to sustain countercyclical policies.

The epicenter of the crisis has moved, but the crisis itself has not been overcome. World output and international trade grew in 2015 at around 2.5 per cent, well below pre-crisis levels, and expectations on economic recovery continue to be revised downward.

This meagre growth has also relied heavily on credit. Developed country debt is currently around 265% of GDP, according to the Bank of International Settlements. Several developing and emerging countries also face growing levels of household and corporate debt, making them vulnerable to new episodes of financial instability, as we have seen in recent months.

The instability in the world economy today stems from pro-cyclical forces in commodity and financial markets.

On the commodities side, several years of high prices spurred investment, which has led to excess supply and a reversal in price trends. The current deceleration in demand is putting further downward pressure on commodity prices. Since mid-2014, food prices went down by 20 per cent, minerals and metals by one third, and oil prices by 70 per cent. On the account of some, momentum-driven algorithmic traders and big hedge funds have driven commodity prices, particularly in the energy sector, significantly beyond the point that even once-bearish commodity analysts consider justified – at least in the medium-term – by supply and demand.

The negative shock on external and fiscal balances for producing countries has been larger than the positive impact on importing countries, leading to overall declining demand.

The plummeting commodity prices have also triggered a negative reaction on the financial side, with large capital outflows from major developing and transition economies leading to currency depreciation and tightening monetary policy. This has further restrained economic growth and increased financial fragility.

These trends are a reminder of the fact that the causes of the crisis have not been sufficiently addressed. This failure to address the root causes of the crisis is now beginning to have a strong adverse impact on LDC economies.

The ***2015 Least Developed Countries Report*** looks at the challenges facing these economies, particularly from the point of view of rural populations.

LDC economic growth declined from 5.6% in 2014 to 3.6% last year. This contrasts sharply with the post-crisis high of 7.1% in 2012. We must recall the target of 7% annual GDP growth for LDCs, enshrined in the Istanbul Programme of Actions. That target was easily achieved last decade.

But the bleak international environment is now slowing LDC economies through diminished commodity demand and shrinking aid and investment volumes.

Commodities account for over three fourths of LDC exports. Initially, as international commodity prices started declining, LDCs were still capable of compensating by expanding export volumes. But with the morose international demand for commodities, today this is no longer possible. LDC commodity export earnings are declining steeply. Total LDC exports started contracting in 2014, and the decline is projected to continually accelerate through this year. Forecasts indicate a slump of up to one third in LDC exports between the all-time high of 2013 and 2016. If confirmed, this would mean a $70-billion shortfall in export revenues in just three years.

Official development assistance to LDCs has also fallen victim to the crisis and the fiscal retrenchment measures enacted by developed countries. Bilateral official development assistance from OECD-DAC countries to LDCs shrank by 8% in 2014. The situation is compounded by the pressure to provide for a surge in immigration. Despite donor country pledges to reverse the decline in aid to LDCs, the gradual planned increase –if enacted– will still mean that aid to LDCs in 2018 remains less than that of 2013.

In terms of private capital flows, foreign direct investment into LDCs contracted by an estimated 11% in 2015. The subdued state of the world economy has led to the worldwide slowdown of foreign direct investment in natural resources. In recent years, this sector had been one of the most dynamic in LDCs, in terms of both attracting FDI and generating exports.

This **negative outlook poses an enormous challenge for the optimism embodied in the Agenda 2030 for Sustainable Development**. We have only fifteen years to achieve the Sustainable Development Goals, and already they seem farther away than they did just months ago.

But the strongest challenge will be where human and economic development gaps are widest, and where the pace of progress has been slowest. That is in the least developed countries. LDCs are truly the battleground on which the SDGs will be won or lost, as *The Least Developed Countries Report* continues to demonstrate.

And the rural areas in LDCs are the front line of our battle. Rural people in LDCs are 50 per cent more likely than their urban counterparts not to have access to sanitation or to attend secondary school. They are twice as likely not to have access to electricity, and more than four times as likely not to have access to clean water. At the same time, rural areas generate 60% of employment and one fourth of economic activity in LDCs.

The Least Developed Countries Report 2015 calls for massive investments in infrastructure and decisive financial backing and commitment of the international community to close the infrastructure gaps. It also calls on donor countries to respect their commitments to allocate 0.7% of their Gross National Income to official development assistance. At least half of the increased aid should be directed to LDCs, in line with their share of global human development gaps. And this ODA be directed to areas and sectors where LDC deficits are largest, especially agriculture, economic and social infrastructure in rural areas, and agricultural research and development.

Excellencies,
Ladies and Gentlemen,

We have a long road to travel to reach 2030, and a steeper path before us than we may have expected. But I am confident that through revitalizing our international discussion of these challenges, and by bringing these debates to the minds of people everywhere, we can re-energize confidence and we can re-ignite trade and development in a way that will deliver the SDGs.

This will be the focus of our discussions at Nairobi at UNCTAD 14, and I am pleased that Member States are already discussing these issues and will soon start negotiating the zero draft of the UNCTAD 14 outcome.

I encourage you continue this open and frank discussion at this Executive Session of the TDB over the next two days.

Thank you for your kind attention.