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Press Conference by Head of South Centre on World Economic, Financial Crisis

The United Nations should be the place that “educates the innocent and the victims” on how to deal with the world economic and financial crisis, Martin Khor, Executive Director of South Centre, said at a Headquarters press conference this morning.

He said that, having played no role in causing the crisis, the developing countries had suffered the most “collateral damage”, with losses averaging 6 per cent of gross national income as their economic growth was expected to fall from 8.3 per cent in 2007 to 1.6 per cent in 2009.

This week’s United Nations Conference on the World Financial and Economic Crisis, however flawed, presented the best chance to start addressing the crisis, he said. Two main issues up for discussion were how to help developing countries cope with the crisis, and reform of the international financial system.

He went on to note that South Centre, a Geneva-based developing-world think tank with 50 members, had recently produced a major paper on the key issues for developing countries to do in response to the crisis. Sudan, as Chair of the “Group of 77” developing countries and China, had also produced a statement summarizing the views of developing countries following the beginning of negotiations in April on the substantive aspects of this week’s Conference.

Much of international action on the crisis so far had been undertaken by such exclusive clubs as the Group of Eight (G8) or Group of Twenty (G20), but this week’s meeting would be the first-ever event in which all countries could come together, he pointed out. It was especially important for developing countries, most of which had no other forum but the United Nations in which to discuss the most serious economic downturn since the 1930s. Among the most crucial issues was the need for a follow-up mechanism to continue with the technical work after the Conference determined the main direction of action. The process should not end with the Conference, and the United Nations should play a central role in that regard.

Many substantive issues could not be resolved by the event, since there had been too little time to negotiate the complex issues involved, he said, calling for the establishment of a working group to elaborate on decisions and issues arising from the Conference. It could prepare recommendations for real action. External financing was needed to make up the \$1,000 to \$2,000 billion shortfall in income from reduced developing-country exports and the outflow of capital caused by the crisis. Those funds should come from new special drawing rights that the International Monetary Fund (IMF) could issue to developing countries.



Allocated by quota, the \$250 billion in special drawing rights already approved by the G20 would go mainly to developed countries, he continued, stressing that any new allocation should be provided on the basis of need. There was also a case to be made for a temporary moratorium on debt repayments for countries facing problems arising from the crisis, as well as the establishment of an international debt court that would allow countries in trouble to declare a “debt standstill” while arranging debt restructuring similar to Chapter 11 of the United States Bankruptcy Code.

Noting that developing countries needed “policy space”, he emphasized the need to address IMF- and World Bank-imposed loan conditions as well as free-trade-agreement provisions that curbed the use of policy measures to promote fiscal stability, pointing out also that developing countries facing balance-of-payments constraints could not apply counter-cyclical policies. The Conference should recognize their right to undertake trade measures within World Trade Organization rules, as well as “debt standstill” and temporary capital controls.

There was a need to examine world economic governance, he said, proposing the establishment of a new global forum to coordinate and ensure the coherence of policies undertaken by various international agencies. That would allow developing countries to participate in crisis-related decision-making and other world economic issues. There was also a need to reform the governance and policies of the IMF and the World Bank, regulate financial markets and capital flows, strengthen surveillance of developed-country policies and create a new reserve system based on special drawing rights. The lack of regulation and reform in those complex areas had contributed to the crisis and should be addressed immediately.

Responding to numerous questions about the Conference and its possible outcome, he said all the ingredients for success were in place and the main issues were reflected in the draft outcome document. However, the next few days would see “an intense battle”. Developing countries were expected to put their faith in the United Nations. “We must make the UN a place again — if not the place, then a place — to discuss these fundamental issues, because all of us are here in this home and we have put forward [...] these proposals here.”

He went on to caution that not all issues could be settled during the Conference, but at least some of them could be resolved in principle and passed on to the working group, which could tackle technical details and elaborate concrete recommendations to the General Assembly. While there was no expectation that any specific decisions would be taken, if the Conference pointed in a certain direction, determined certain principles and made some general decisions, it would be a success. However, if the event failed to produce such outcomes and ended with a decision merely to hold another conference “in 10 years’ time, when there is another crisis”, it would be a profound failure.

Replying to a question about United States President Barack Obama’s financial policies, he said there had been many hopes that the new Administration would look at the United Nations and the world differently. The President’s Cairo speech had been “path-breaking”. He added: “We are all waiting for the action, but the words are good. I am still waiting for an Obama speech on how we are going to help developing countries in the economic area.”



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Asked about the role of the General Assembly President, he said perhaps the Conference would not have taken place had it not been for him. The document produced by the President contained many useful elements, which had been retained in subsequent drafts. However, many people at the United Nations were not used to “the flowery rhetoric and so on”, and that was what had “upset” many people. For example, many diplomats had questioned the reference to “Mother Earth”, wondering what that had to do with the economic crisis. However, there had been serious negotiations in the last two weeks and it was to be hoped that the Conference would be given the best chance to succeed. It was important to look at the substance and added value of the proposals.