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Mr. President,
Distinguished parliamentarians,
Colleagues,
Ladies and gentlemen,

It is a real pleasure and honour for me to be invited to speak to this Inter-Parliamentary Union Conference on the global economic crisis. I would like to echo the message of the Secretary-General of the United Nations on how important it is for parliamentarians to be playing their role, particularly now in the midst of one of deepest crises the world has ever experienced.

Many are saying that this is a crisis that has not been seen for the last 70 years, although there have been more than 100 crises since. But the scale of the crisis, which has affected the whole world like this one, has not been seen since the Great Depression of 1930. Fortunately, this time around the world is better equipped to deal with some of the financial and economic issues, although it appears not to have learned from past experience how to avoid making the same mistakes and how to address the issues in a more systemic manner to prevent the recurrence of such crises and foster a global economy that does not suffer from the boom and bust cycles.

This crisis has a levelling effect; it is of a systemic nature. It does not belong to any part of the world. Unlike the Asian crisis of 1997, this is a global crisis. It is part of the global market capitalism that can be very effective and very efficient in allocating resources and driving forward the kind of competition that can create growth, but can be wanting in times of turbulence in its capacity to sort out its own problems.

UNCTAD in the past couple of years has been sending out warning signals, although there are very few people in the world who could have predicted exactly when this crisis would have erupted. UNCTAD has been one of the very few institutions that have been sending out regular warnings, particularly in the three or four areas that I would like to mention here. First, UNCTAD has drawn the attention of the global community to the fact that when the Asian crisis broke out in the 1990s, one of the major problems was that of imbalances. In those days it was imbalances in current accounts and balance of payments. This time, the imbalances are to be found in budget deficits, current account deficits, the deficit of financing, because one part of the world keeps consuming while another part of the world keeps saving. UNCTAD has always indicated that the huge imbalances that have been augmenting from year to year have to end. Yet it was constantly told that it was wrong.

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[*] Edited by the IPU for purposes of consistency and clarity

The second point that UNCTAD has always raised is the glaring dichotomy between the lack of financial regulation - particularly at the international level - and the tight discipline of the global trading regime. For many years, dating back to GATT and continuing under the World Trade Organization (WTO), the trade regime has always been subject to very stringent discipline in all areas of commodities trading and markets. In the financial sector, the idea of introducing an international regime, particularly on transparency and prudential regulations, has cropped up many times, particularly after a crisis. But when the crisis dies down and we go back into to the normal economic cycle, people abandon that idea.

The third warning sign that UNCTAD has been sending was that one of the key causes of the Asian financial crisis was the over hasty deregulation process that has led to full financial liberalization without really preparing the markets to be more mature and have the depth, the players and institutions to balance them. This time we have seen that even in the most advanced countries of the world that have been known for their financial resilience, the negative effects of excessive deregulation cannot be avoided. That has been part of the financial policy of the international economy over the past decade. We cannot say that there have not been any warnings or consideration of some of the causes of the crisis.

The questions being raised at the moment are: What are the causes? How long are we going to be kept under this recessionary trend? How far, how deep will it go? How many more financial institutions will be affected? How many countries will be involved? According to remarks being made by many policymakers and carried in financial newspapers, we have already begun the process of recovery. We are seeing "green shoots". But one has to ask: Where are the green shoots? Why are we seeing rising unemployment rates all over the world? The forecasts are that unemployment will keep on rising even if there is economic recovery at least until the end of next year. According to some predictions, at the end of this year we will see green shoots budding into trees and we will see a real recovery. But this is uncertain.

We are seeing recessionary trends that spread from the richer countries to the poorer countries. Of course the poorer countries were not hit in 2007 when commodity booms were still with us and in 2008, they were still operating on a normal basis. But at the moment we are seeing the spin-off effects. This is what we call the "innocent bystander" effects, because emerging economies are not in any way responsible for the crisis and yet they are at the receiving end. Only in 2009 are we seeing the real impact of the crisis on the developing countries.

According to the International Monetary Fund (IMF) projections made at its meeting in Washington a couple weeks ago, we are not really out of the woods yet. There will be no recovery before the financial institutions' balance sheets are cleaned up because the crisis emerged as a result of the huge imbalances in the international regulations - imbalances in excessive liquidity, excessive borrowing. These imbalances are found not only within the financial system itself, but also at the household level, the level of families with huge debts. In the United States, it is well-known that household debt accounts for 150 per cent of household income, whereas in the developing countries, household debt represents between 40 and 60 per cent of income, depending on the country. It would take a lot of effort, unprecedented action, huge stimulus packages, many government guarantees and bank capitalizations before the banks' balance sheets and household balance sheets are cleaned up. Families will have to put their house in order themselves by selling off their assets or saving more.

While this process of cleaning up the balance sheets is taking place, we are seeing an unprecedented outflow of funds from the emerging economies. They are not the cause of the crisis. Their currencies should have been stable because they had been trading as usual. Yet there is a tremendous outflow of funds back into the dollar areas. So instead of creating a dollar crisis, the dollar has actually been gaining in strength while these developing country currencies have been sliding.

At the same time, the global financial institutions such as the IMF and the World Bank, but also the United Nations, should be quite concerned about the quantity of funds being channelled into the stimulus measures. That figure stands roughly at US$ 5 trillion. Is there any fiscal sustainability in the financial support to the system? Some people are saying: just rescue them now and think about fiscal sustainability afterwards. Although we are in the midst of the crisis and we may have to put out strong stimulus measures, we have to devise an exist strategy. There must be post-crisis sustainability. What is going to come after this? Is the whole world going to be starved of liquidity? Are we going to have to put up with the so-called "debt bubbles" and "liquidity bubbles"? Will the emerging economies have to go through their own crisis after the advanced economies come out of theirs? So we have to start thinking about an exist strategy not just for the advanced countries, but for the global economy.

We cannot remain complacent and console ourselves with the soothing remarks made by policymakers to help build confidence to the effect that we are seeing green shoots because the stock markets are going up and the banks are showing some profit. We must not fool ourselves into thinking that everything is going to be remedied. One small remark about the banks' profits: for the majority of banks that have been showing profits, you have to look at one item on their balance sheets: the toxic assets reserve or the loans loss reserve, also called the distress assets reserve. Banks can push that amount into their income account, which automatically translates into profit for the bank. So I think one should be warned that these are signs that there is a lot of window-dressing at the moment. As in the past, there are innovative actions in the financial system. Financiers and financial institutions can be very innovative in the way they manipulate balance sheets and instruments.

I would like to echo what UN Secretary-General Ban Ki-moon has been saying: while the world has been looking at the plight of Wall Street, we at the United Nations have to look at the plight of those who have no street to walk on. The Secretary-General made the point at the recent G20 meeting in London, highlighting the fact that while the world has been spending trillions of dollars to help the top 10 or 20 largest economies of the world, the remaining 100 countries will remain in short supply of funds. The voice of the voiceless will have to be raised on this matter.

The negative impact on developing countries could come from four clearly visible fronts – trade, finance, mobility and investment. On the trade side, the impact is so deep that countries that have been doing well and that have been rewarded by globalization for being open and linked to the global economy are suffering because of their very linkages to the global economy. Throughout the world - from Asia to Latin America to Africa - countries are suffering because of the deep decline in their export earnings. Only very few economies are remaining afloat and buoyant because of their loose ties to the global economy. UNCTAD has been calculating that the loss of export earnings for these poor economies will be somewhere in the vicinity of US$ 800 billion, and this is just the beginning. On the financial side, there have been net fund outflows from the emerging economies. Finance has been more expensive because there has been a dearth of liquidity - it has been absorbed into the advanced economies and one of the most crucial areas for financing has been trade financing. There has been a great shortfall in trade financing, so much so that it was one of the major items of discussion at the recent G20 summit in London, where it was agreed that at least US$ 250 billion in trade financing would be mobilized. Trade financing is something that will have to be maintained although not necessarily at the level of US$ 250 billion. UNCTAD has been trying to activate the global network of export-import and regional development banks so they can try and help each other in the way that commercial banks will not.

Remittances by migrant workers recently soared over the past few years to about US$ 250 a year. This figure represents nearly three times the level of official development assistance (ODA). In fact, UNCTAD has been encouraging the mobility and movement of migrant workers so that they can continue to send remittances back home. This has been a major source of revenue for the poor countries. But again, we are seeing a strong drop in remittances. Last year UNCTAD predicted a drop of 10 per cent. This year, I'm afraid, it will be much deeper.

Global investment has been dropping since it peaked in 2007 at US$ 1.9 trillion. Last year there was a decline of 20 per cent and this year there will be a drop of at least 20 per cent, if not more. Indeed, some countries have been indicating that their foreign direct investment (FDI) inflows have been dropping by at least 30 per cent.

The scale of the crisis, which will eventually affect all developing countries, will be of an unprecedented magnitude. This begs the question whether there will be enough stimulating funds to channel into all these economies because not all developing countries have learned the lessons of past crises and have accumulated their own reserves. Many of them did not have a chance to. Most of them have to cope with current account deficits and budget deficits so they may need to borrow to put that money into fiscal expenditure.

The second point that I would like to draw your attention to is the fact that we have to carefully examine the operations of the IMF. We are pleased to see that the IMF is regaining its importance, that more capitals are being put into it. A few years ago the IMF had no clients, but now, it has so many clients all over the world that it cannot cope with its own funding sources. The IMF now has US$ 250 billion to distribute around the world. But the money will not be enough because huge amounts are needed for Europe alone - Eastern Europe, the Baltic States and Iceland. Countries in transition and developing countries are also in the long queue of countries that will ask for standby arrangements. The G20 meeting in London agreed to provide the IMF with fresh capital of US$ 500 billion. The problem is that the stimulus money is needed now, at this moment, or maybe even last quarter. We do not need it at the end of this year or next year. We need it now. But most of these are pledges and we have to keep a very close eye on them. Are they going to be disbursed? How are they going to be disbursed? It is not a smooth and easy-going process. It takes a lot of analysis, conditions, pre-conditions, post-conditions and complementary funding from other sources. So, the question is: When are all these funds going to be made available and more importantly, can the IMF change its traditional regime from one that has been fraught with all kinds of conditionalities and take countries out of the crisis?

The IMF, being a traditional lending institution, has to see to it that its funds are returned. So as a lending institution, it tells its clients to use the funds frugally, raise interest rates, reduce expenditure and slow down the economy, which is deflationary, pro-cyclical. This is what we have to avoid these days. The whole world is trying to take counter-cyclical measures. All the advanced economies that do not have to tap into the IMF arrangements have been doing the exact opposite of what the IMF preaches to borrowing nations. In fact, the standby credit that has been extended to Hungary, Pakistan, Ukraine and a few other countries still contains the same conditionalities. These are all deflationary conditions. They are imposed to ensure the return of the borrowed money. They do not exist to ensure the recovery of the economy.

Another area where MPs might be involved has to do with the creation of new money – the IMF's special drawing rights (SDRs). SDRs are part of the arrangement to create units which are placed in the accounts of countries. They can convert these SDRs into hard currency to trade and buy merchandise, trades and services. The G20 agreed to a new allocation of

US$ 250 billion in SDRs. The existing quota of SDRs – which has been agreed for years - has yet to be fully allocated. The negotiating process is a very unforgiving and tremendous one.

We have to convince the IMF to start thinking out of the box. The IMF is made up of members who have rights and powers. Based on that configuration, nearly 50 per cent of all funds would go to the top seven members, who do not even need those funds anyway. That does not help the rest of countries, which are in short supply of funds. Allocation has to be done taking into account the real needs of countries and not according to voting rights and powers of countries. Indeed, these voting rights have to be subjected to real reform. This has been pending for years and must be a major post-crisis issue.

Past commitments for ODA, Millennium Development Goals (MDGs) and adaptation funds have always been below target, especially ODA pledges. There is a great possibility that all these funds will not be delivered. ODA targets have been roughly US$50 billion below target since the G20 Gleneagles Summit. All countries will need to maintain ODA, MDG, adaptation fund and Rome Summit food security commitments. We must make sure that food security does not become another bubble, another crisis. I travelled to Asia, Africa and Latin America in the past couple of months and people there have told me that the financial shortfall has not been in trade alone, it is also at the farm level. Farmers are saying that they cannot plant anymore - and this has been confirmed by FAO - because acreage area has been reduced. Harvests will drop, this in turn will cause a decline in food supply, leading to higher demand for food and speculation and we will have another crisis on our hands. The exit strategy will have to take into account these issues.

The question is: can all of these issues be sorted out? It will take the rest of the year for the crisis to simmer and maybe by the end of the year some countries will come out of it but it will certainly go on until 2010. At the same time, we have to begin working on the new regulations regime. When there is a crisis, we become overly anxious about the new reform regime but once the crisis dies down, it is back to business as usual. So we have to make sure that post-crisis mechanisms are set up to work on the reform regime. The good news is that the G20 has agreed to extend the Financial Stability Forum (FSF), which targets particularly OECD countries. Under pressure from the rest of the world, the FSF has been transformed into the Financial Stability Board (FSB) and has been extended to all G20 members. That is good but insufficient. That means that roughly 20 countries will be working on the new financial regime. We have to get the global community and the United Nations involved. We need their help, their input, we need to echo the concerns and the voices of people. How broad will be the scope of the new financial regulations?

We must all take part in the post-crisis regulatory reform. Reform of the Bretton Woods institutions must not be cosmetic, it must be structural. Prudential regulations cannot be applied partially. Developing countries borrowing funds from the IMF are subject to spatial prudential surveillance. This should cover all regions of the world. The strongest impact of the economic meltdown has been in the advanced economies. These economies will have to be subject to surveillance as they are under the trade policy of the WTO. This time we cannot have cosmetic change. We need structural, drastic reforms.

Thank you very much, Mr. President.