



United Nations



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## **UN OFFICIALS CALL FOR 'NEW GLOBAL DEAL' AT PRESS CONFERENCE**

### **TO LAUNCH REPORT ON WORLD ECONOMY**

With a deepening global recession in view, United Nations development officials called this morning for a “New Global Deal” of coordinated, massive stimulus measures aligned with sustainable development and systemic reform of world finance, as they launched a major economic report at the Financing for Development Conference in Doha, Qatar.

“We have a house that is still on fire and we have to put out the fire and take measures to keep this from happening again,” said Rob Vos, Director of the Development Policy and Analysis Division of the Department of Economic and Social Affairs said at a press conference to launch the 2009 *World Economic Situation and Prospects*. Accompanying him were Jomo Kwame Sundaram, Assistant Secretary-General for Economic Development, and Heiner Flassbeck, Chief Economist of the UN Conference on Trade and Development (UNCTAD).

Introducing the report, Mr. Vos warned that the world might dip into a recession that would probably include developing countries due to global financial linkages. World gross production could actually fall, which had not happened since the 1930s. Borrowing costs and private financial flows to developing countries were slowing, world trade growth was decelerating rapidly, and commodity prices, including those of food and fuel, were plunging.

He said the report predicted a decline in per capita income, a recession in the most developed economies and slowing growth in countries with economies in transition. Middle-income countries would be hit hardest by the spill-over effects of the financial crisis, but all developing countries would be affected due to slowing trade. Net food and oil importers might see lower prices, but they would suffer mainly through reduced trade pushing them further into poverty. Many countries might have to borrow more or see their reserves evaporate while exporting countries would see sharp cuts in income.

So far, about \$11 trillion, or 20 per cent of world gross product, had been committed to stimulus and bailout packages, he said, noting that the report maintained that the measures would be much more effective if such measures were coordinated internationally and aligned with other international objectives such as sustainable development. Among the systemic measures required were governance reform at the International Monetary Fund (IMF) as well as reform of financial regulation and supervision, liquidity provisioning and of the present international reserve system.

“What we are experiencing now is a crisis foretold,” said Mr. Jomo, noting that the Department of Economic and Social Affairs and UNCTAD had been warning about global financial imbalances and the precariousness of the housing market for several years. The objective now was to limit the spread of the financial crisis, especially to the real economy. That could be

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done by maintaining liquidity and public spending as well as other stimuli. It was also important for the United Nations to continue providing leadership on systemic reform, which had last occurred at Bretton Woods in 1944. Since then, the system had developed in an ad hoc fashion. Leadership by exclusive groups such as the Group of Seven (G-7) had not produced optimal results; the redesign of the multilateral system must be inclusive.

Mr. Flassbeck added that problems involving commodities and currencies as well as the unwinding of risky positions all over the world had clearly been foretold in United Nations analyses. Fluctuations in commodity prices had been exacerbated by the crisis and there were new imbalances and overvaluations of currencies without anyone offering a viable currency regime. Those problems could only be handled systemically and simultaneously.

Asked about lower oil prices and the response of the Gulf countries, Mr. Vos said those countries should participate in the stimulus measures, while Mr. Jomo noted that they, as well as Asian countries, would be buying many of the bonds that developed countries would be selling to fund their stimulus programmes. Reserve management would also be crucial for the Gulf States.

Responding to a question about the origins of the crisis and various possible future scenarios, Mr. Voss said it could be said that the housing crisis had begun in the United States. However, because world financial flows were so interconnected, the financial crisis had been global from the start. Worst-case scenarios would most likely occur if the financial panic continued. Mr. Jomo added that an expansion of available resources was needed to deal with the problems of the status quo because only China and the Gulf States had enough funds to provide the kind of large-scale economic stimulus that was needed.

Asked about the competence of the United Nations to lead a multilateral response to the crisis, Mr. Jomo said the Organization had a good track record in that area, pointing out that the Secretary-General had set up a commission led by Nobel Prize-winning economist Joseph Stiglitz. Whether that initiative would have a major impact would depend on negotiations with Member States.

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