

SUMMARY
UNESCO FUTURE LECTURE

“The G-20 Summits and the UN system: Prospects and Challenges”

By Mr. Kemal Derviş

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Biography of Kemal Derviş

Kemal Derviş is Vice president for Global Economics and Development at the Brookings Institution, Washington, DC, a member of the Board of Overseers at Sabanci University, Istanbul, and the former Executive Head of the UNDP. He has been the head of the United Nations Development Programme from August 2005 to March 2009. Prior to his appointment with UNDP, Kemal Derviş was a member of the Turkish Parliament and, in 2001-2002, Minister for Economic Affairs and the Treasury of the Republic of Turkey. He was responsible for Turkey's recovery programme after the devastating financial crisis that hit the country in February 2001.

Kemal Derviş earned his Bachelor and Master's Degrees from the London School of Economics, and his Ph.D. in economics from Princeton University. He taught economics at the Middle East Technical University and Princeton University in 1974-1978. He then joined the World Bank, where he held various positions - becoming a Vice-President in 1996 - before taking up his cabinet position in Turkey in 2001.

Kemal Derviş has published several books and many articles in academic journals as well as current affairs publications, on topics ranging from mathematical models of growth and social mobility to international trade, European enlargement and global governance. A recent book entitled *“A Better Globalization: Legitimacy, Governance and Reform”* was published by the Brookings Press (2005) and deals with the current debates on global governance.

Welcome address by Mr. Koïchiro Matsuura, Director General of UNESCO

In his welcome address, Mr. **Koïchiro MATSUURA** commended Kemal Derviş's tenure as head of the United Nations Development Programme (UNDP) and the United Nations Development Fund (UNDG), during which he successfully shepherded the “delivering as one” initiative and played an important role in reforming the Chief Executives Board (CEB). Mr. Matsuura expressed his satisfaction at the cooperation between UNESCO and UNDP under Mr. Derviş' chairmanship, which was crowned by the signing in October 2008 of a new memorandum of understanding providing for closer collaboration between the two organizations, especially at the country level.

Mr. Matsuura reminded the audience that Mr. Derviş had been called an “Economiste de crise” – a title that pays tribute not only to his distinguished career at the UN and before that at the World Bank, but also to his successful stewardship of the Turkish economy through very difficult straits earlier this decade. Stressing that the global nature of the present economic crisis has brought to the fore the need for a new multilateralism, he voiced his very interest in hearing what Mr. Derviş had to say about the current crisis in his capacity as senior advisor to UN Secretary-General Ban Ki-moon on G20 activities. Before giving the floor to Mr. Derviş, he recalled that UNESCO has been particularly vigorous in advocating for sustained investment in the social sectors, especially in education and for special action on the part of donors and developing countries to protect access to education among the poorest and most vulnerable groups.

Lecture by Mr. Kemal Derviş

Mr. **Kemal DERVIŞ** started his lecture recognizing that since we are in the middle of interesting times, such events as the UNESCO Future Lecture are good opportunities to peer into the future. He nonetheless warned the audience that predictions by most economists, a group to which he confessed belonging, turned out to be erroneous, leaving the world blind to the nature of the global crisis that hit the world and shook many beliefs. Even those who rightly predicted that the world was headed for a major economic downturn did not foresee the extent and scale of the crisis. Mr. Derviş acknowledged he had first believed the crisis would be swiftly fixed by traditional interventionist government tools, not realizing how deep banks and the financial system at large were in trouble. The world had experienced crises in the recent decades – in Asia or, he added, in his own country, Turkey – but not on that scale, not worldwide and with prospects of negative growth like with the current crisis.

Mr. Derviş identified five financial channels in this crisis. The first channel is the toxic assets and the housing bubble in the United States. But, he immediately remarked, not that many banks had invested in toxic assets. Those explain the cause of the crisis, not its magnitude. The latter is due to the second financial channel, the credit crunch which affected the whole financial system and the whole world as well. This is the channel that brought the crisis to the developing countries, especially through the diminishing of foreign investment. Trade is the third channel of the crisis. According to the most recent figures trade has fallen by 11% worldwide, thus chiefly impacting the countries most involved in globalization. Countries exporting to Europe and the United States are more affected than those exporting to China and India. The fourth financial channel of the crisis is the remittances sent by migrants to their home countries. This channel is of particular concern for many countries in Latin America and Africa. Dwindling tourism is the fifth channel of the crisis.

With no part of the planet spared by the downturn, the crisis is truly global and there is no decoupling of the economies. Nonetheless, Mr. Derviş noted that there is a differentiated geography of growth. While Europe and the United States will experience a 2/3% decline of their growth, China and India are expected to grow by 7 and 6% respectively. In the industrialized countries, the crisis is far from over because the excessive debts of the households and the banks still need to be addressed and because the massive stimulus plans will have to be compensated eventually. But, he insisted, decision makers

must not make untimely choices: now is not the moment to withdraw from stimulus plans as some people advocate for fear of inflation. Economies will have to adjust but we have to be ready to adjust and have to accept a measure of inflation to foster growth.

As a consequence, he anticipated that, in the mid-term, there would be strong stimulus plans in the rich countries and sustained growth in Asia, a combination that could get the world back on track. As for the long-term, Mr. Derviş's main point was that with China and India saving up to 40% of their GDP, there would be a lot of room for investment and further growth, probably around 4% in the next decade. In his view, such a rate signals that, for the economy to remain sustainable, we will have to better manage natural resources and move from a carbon intensive economy to a green economy.

He lauded Secretary General Ban Ki-moon for his focus on climate change as a long term public good that can only be managed in a multilateral framework. As a leader in the international community, Mr. Derviş acknowledged that while the mainstreaming of this issue had taken time, it was gaining ground in all the economic agendas at the national level and especially at the international level. Protectionism is not, he emphasized, an option against climate change: borders can be closed to goods, not to greenhouse gases. The need to tackle climate change through multilateral channels has been underlined by the G8 and G20 leaders, which is a real progress. But, Mr. Derviş insisted, the "G" venues cannot offer the solutions we need. First of all, they are exclusive and restricted. They leave out many countries and notably the poorest ones. Second, the G8 and G20 cannot make binding decisions. These remain the preserve of sovereign governments or parliaments and international organizations, especially the Bretton Woods ones or the WTO. Quoting Mr. Matsuura, Mr. Derviş stressed that real progress would only come from a new multilateralism. We have to realize that the international system has to be balanced in a more balanced manner – especially when it comes to the Security Council, Ecosoc, IMF, World Bank or the CEB. Although the WTO is not legally part of the UN system he noted, it belongs to the broad UN galaxy and may represent a model for international instruments, with its legally binding mechanisms that, for example, have helped limit the degree of protectionist backlash that followed the onset of the financial crisis.

As a conclusion, Mr. Derviş affirmed that the crisis was a wake-up call for a new multilateralism, of which the UN must be a key component because the world is in want of a political space. This led him to envision a future world where political movements would rise across borders to promote international policies. For the time being he complained, global reforms are difficult because they have to go through national channels. Unfortunately, he finished, if all politics remains local, we will have major problems.

Debate

The first questions from the room focused on the responses to the environmental crisis and the feasibility of a world environment organization. Mr. Derviş first noted that climate change had been an opportunity to bring science closer to economics. He said that he was not in favor of creating new institutions when other ones with a related mandate were available for reform, like, in this case, UNEP. In his opinion, the December discussions in Copenhagen would be tough because the finance side of climate change has long been neglected. It would be good enough if the negotiations resulted in efficient financial and burden sharing mechanisms. In his view, the real challenge of the coming years will be to

combine the response to the climate crisis and the management of natural resources with an accelerating productivity likely to increase the ecological pressures on the planet.

Asked about the food crisis, Mr. Derviş said he was relatively optimistic about the outcomes of this major priority. Solutions would come from enhanced trade policies, with less or none if the market distortions created by the rich countries' subsidies to their agricultural industries.

The CEB and UNDG were the object of another question. They have evolved, Mr. Derviş noted, towards a better integration of the diverse UN actors. He added that the UN's action is about capacity building, thus giving the tools for countries to operate on their own.

Mr. Derviş was inquired about measurements of wealth. He recalled that the UNDP was a pioneer in inclusive approaches of wealth that do not equate human progress with growth and markets.

Mr. Derviş answered a question on the current situation in Africa. After decades of slow progress, the continent has just experienced a period of accelerated growth. This is what makes the global financial and economic crisis worrisome: it could jeopardize the successes of the past decade. Nonetheless, reasons exist to be hopeful, not the least because a new breed of leaders has emerged, who are pragmatic, flexible and result-oriented. Despite major injustices in history, Africa is looking into the future in a very positive way.

Another question revolved around the prospects of exporting countries. Mr. Derviş responded that, in the current crisis, where you export is very important: things will be more difficult for countries exporting to Europe or North America than for those exporting to China or India. In his opinion, countries have to get organized in a regional way, especially the poorest and smallest ones. If Germany or France agree that they need a common currency to face globalization, this has to be even truer for developed countries. Recalling that regional cooperation is a part of multilateral cooperation, he stressed that multilateral mechanisms are always more favorable to smaller countries than bilateral agreements where they can be pitted against very powerful countries.

Some people in the audience questioned the fact that important amounts of public money went into the banking system. According to Mr. Derviş, their concern pertained to one of the most difficult issues in the crisis. Nonetheless, he explained, the banks received a lot of attention from the political authorities, because in a bank crisis the money that gets lost is, in the end, the savings of their clients who, by the millions, are citizens. Their savings must be protected – which does not mean that the bankers should be exonerated. Nationalizing of the banks can be an efficient solution, but it is met with political and ideological resistances.

To a question about the Vulnerability Fund proposed by R. Zoellick, Head of the World Bank, to help the poorest countries out of the crisis, Mr. Derviş answered that had not been a priority at the G20 Summit, because, on the one hand, the idea of such a Fund was dwarfed by the amounts of liquidities pledged to the IMF with a view to assisting emerging economies, and because, on the other hand, the poorest countries, which would have benefited from the Funds, were not present.

Finally, asked about the prioritizations of public investment, Mr. Derviş regretted that worldwide military spending still disproportionately exceeded Official Development Assistance contributions.