

March 2010: The impact of the current financial and economic crisis on foreign direct investment and other private flows, external debt and international trade

The following are notes made by Anglican UN Office intern Albert Gyan of a round table discussion 23-24 March during the UN General Assembly concerning the impact of the current global financial crisis on developing versus developed countries, the impact on society, international trade, debt, and economic activity.

Chairperson: Olga Algayerova, State Secretary of the Ministry of Foreign Affairs of Slovakia.

Organizations represented: the World Bank, the United Nations Development Programme (UNDP), the United Nations Conference on Trade and Development (UNCTAD), and the World Trade Organization. Also participating in the discussions were high-level Government representatives, 22 representatives of international organizations and observers, and 24 representatives from civil society organizations and the private sector.

The round table featured two panelists: Daniel Titleman, Chief of the Development Studies Section, Economic Commission for Latin America and the Caribbean, and Heiner Flassbeck, Director of the Division on Globalization and Development Strategies of the United Nations Conference on Trade and Development.

Albert Gyan represented the Anglican UN Observer.

Impact on Society

Mr Titleman stated that the social cost of the crisis both outweighs and outlives the economic variable, which means that it will take twice as long to be resolved. It is also true that very often this social cost is offloaded onto faith communities and the household. However, no finances are transferred along with the social needs with the increasing workload. The increased burden on the care economy makes it less effective and hence the brunt of the impact is fully felt at the household, with an increase in domestic violence for example.

A related concern that the above raises is that precisely because the brunt of the social impact is borne by faith communities that are financially stretched (and often not funded as development partners), the social consequences of the crisis will not be short-term but long-term interaction level and shall therefore be passed on to future generations. The problem pervades society such that no amount of financing can restore lost sense of self-esteem & dignity leading to job crises and subsequent losses. Increased job losses translate into a decrease in household real incomes. It holds an impact on the Millennium Development Goals, as maternal mortality rates persist or increase due to worsening economic and social conditions.

Solving this problem involves developing financing that can build on the resilience of the faith communities that are present before, during and after crises. For, these are the institutions that sustain air on the ground even when governments and their policies change.

International Trade

The focus of trade discussions at this forum overlooks other forms of trade that this crisis has escalated. Examples of such trade include human trafficking, sex trade and trade in human organs. These are likely to escalate as nation states are encouraged to mobilize domestic resources (e.g. tourism), though as a response to reduced financing. A massive move towards export-led growth will be seen in many of these countries to help develop and increase economic growth. Spikes in agri-trade would result in rising land costs due to increased demand for arable land. Hence, deforestation will be on the increase as more land is opened up for export crop plantations. There are also a number of implicit agro-based concerns – imbalances in the use of agricultural resources for export crops and domestically consumed crops could result in food shortages and eventual crises.

Impact on Debt

Siphoning and hemorrhaging of resources from debt-trapped countries accrue domestic debt. The question of where this debt burden falls is itself problematic, and as debt rises to unmanageable proportions, it undermines the mobilization of resources creating new debt. As the vicious cycle established becomes more obvious, the problems of this become pronounced on economic activity.

- Foreign Direct Investment (FDI) – corporate social responsibility must be scaled up.
- Reform of International Financial Institutions (IFIs) – Review

Impact of the Crisis on Economic Activity

Mr Titleman noted that the Gross Domestic Product of developed countries dropped by 3.2% while developing countries saw a 2.1% decrease. International trade declined by 13%, global financial flows dropped by 82% and FDI dropped. FDI flows to developing countries dropped by 96% while Least Developed Countries saw a significant decline in remittances, which have usually been a big source of financing for them. Economies in transition were the most affected by the crisis, and exports from Asia Pacific were affected (the main transition channel).

He mentioned that an after effect of this crisis is that developing and lingering economies would become the engine for growth in 2010-2011. He also mentioned that FDI might not recover to pre-crisis levels.

Challenges

In the aftermath of the crisis, some of the challenges faced on the economic front include the reformation of IFIs and FDI. IFIs should be required to reform their architecture, implementing new supervision schemes and fund allocation criteria. Policies related to these goals should be increased to the levels and efficiency of the Doha Development Agenda and these changes must be made, taking into consideration both the question of stability as well as of development.