Input of the South Centre to the UNCTAD Intergovernmental Group of Experts on Financing for Development

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I. Introduction

This is a contribution by the South Centre to the first session of the UNCTAD Intergovernmental Group of Experts on Financing for Development (IGE-FFD) that will take place on 6-9 November 2017. Pursuant to the terms of reference of the IGE-FFD (TD/B(S-XXXI)/2), the first session will focus on the action areas of sections A and C (domestic public resources and international development cooperation, respectively) of chapter II of the Addis Ababa Action Agenda, as follows:

(a) Domestic public resources: What can be done to enhance the mobilization of domestic public resources for development in developing countries?
(b) International development cooperation: How can international development cooperation maximize its contribution to achieving the Sustainable Development Goals?

In this context, it is important that the discussion of the IGE-FFD on the action areas identified above be undertaken on the basis of a clear understanding of the global macroeconomic and systemic issues that shape and influence how countries, particularly developing countries, are able to mobilize domestic public resources for development, and how developed countries should be pursuing the fulfilment of their long-standing international development cooperation commitments to maximize their contribution to the achievement of the SDGs.

II. The Financial Crisis and the Global South: Impact and Prospects[1]

For many, if not most, developing countries, enhancing domestic resource mobilization over the near- and medium-term will become increasingly difficult. At the same time, the continuation of austerity measures and other fiscal policies undertaken by developed countries in response to the global financial crisis have resulted in cutbacks in budgetary allocations for official development assistance and other forms of development cooperation.

The world economy has not fully recovered from the effects of the financial crisis that began a decade ago in the US. Despite the recent cyclical bounce-back global income growth remains well below the levels recorded in the run-up to the crisis. Recovery in the US has been sluggish by historical standards and unbalanced between the poor and the rich, and finance and industry. The Eurozone has been unable to resolve its financial crisis let alone economic and social crisis. Potential growth has fallen in both the US and Europe because of inadequate demand, weak investment and sluggish productivity growth. Exceptional monetary policy measures introduced to deal with the crisis are still in place.

The economic landscape is not much better in the global South. The crisis has moved in a third wave to several developing countries after having swept from the US to Europe.[2] Major developing countries that were expected a few years ago to become global locomotives are now struggling to revive growth. The jury is still out on whether the second largest economy, China, will be able to avoid financial turmoil and growth collapse.

A central factor responsible for this state of affairs is policies pursued in response to the crisis in the US and Europe. There are two major shortcomings: the reluctance to remove the debt overhang through timely, orderly and comprehensive restructuring, and fiscal orthodoxy. These resulted in excessive reliance on monetary policy, with central banks going into uncharted waters including zero and negative policy interest rates and rapid liquidity expansion through large acquisitions of public and private bonds.

These policies have not only failed to secure a rapid recovery, but also aggravated the global demand gap by widening inequality and global financial fragility by producing speculative bubbles and a massive build-up of debt almost everywhere, by some additional $50 trillion since 2008, outpacing the growth of world nominal income. They have also generated strong deflationary and destabilizing spillovers for developing countries.

The fortunes of developing countries traditionally varied with conditions in international commodity markets because of their dependence on commodity exports. However, global financial conditions have increasingly become a stronger influence because of their deepened integration into the international financial system, financialization of commodities, and mutually reinforcing impulses between international financial and commodity markets, described as commodity-finance nexus. There has been a strong correlation between commodity prices and capital inflows to developing countries in the new millennium, and growth in the South has gone

[1] This section is a drawn from Akyuz, Yilmaz and Yu, Vicente Paolo III, The Financial Crisis and the Global South, South Centre Policy Brief No. 43 (August 2017, available at https://www.southcentre.int/wp-content/uploads/2017/08/PB43_The-Financial-Crisis-and-the-Global-South-Impact-and-Prospects_EN.pdf. The Policy Brief is a summary of a South Centre Research Paper by the same authors with the same title – Akyuz, Yilmaz and Yu, Vicente Paolo III, The Financial Crisis and the Global South, South Centre Research Paper 76 (May 2017), available at https://www.southcentre.int/wp-content/uploads/2017/05/RP76_The-Financial-Crisis-and-the-Global-South-Impact-and-Prospects_EN.pdf

[2] See e.g. Khor, Martin, Prepare Now for a New Financial Crisis, SouthViews No. 152 (24 July 2017), available at http://us5.campaign-archive.com/?u=fa9cf38799136b5660f367ba6&id=4e0d74ef96

up and down with them.

Conditions in global financial markets are shaped by policies in major developed countries, notably the US, while China has a strong influence on commodity prices. The boom in capital flows resulting from the very same credit and spending bubbles that culminated in a severe crisis in the US and Europe, and the so-called super cycle in commodity prices, largely due to increased demand by China and other big developing countries, came to an end with the collapse of Lehman Brothers in the US in 2008. However, the downturn was short-lived. Capital flows recovered rapidly due to the sharp cuts in interest rates and rapid monetary expansion in the US and Europe. Commodity prices also picked up thanks to a massive investment package introduced by China in response to contraction of its exports to the US and Europe and a rapid recovery in developing countries.

The boom in capital flows started to dampen in 2014 on expectations of tighter monetary policy in the US. In 2015, for the first time in many years, net capital flows became negative and reserves declined in Developing countries, just as their current account financing needs increased. Currency and assets markets came under strong pressure after sustained booms supported by capital inflows. The downturn in commodity prices that started in 2011 coincided with a slowdown in China and other developing countries. Declines in energy prices have been steeper than other commodities because of excess supply created by large investment projects financed with cheap money, notably in US shale oil. They have depressed growth not only in developing countries but also globally because of sluggish demand in developed countries.

World trade slowed significantly from the mid-2000s. This is caused not so much by the rise of protectionism as structural factors. First, there has been no more big-bang liberalization. Second, the expansion of global supply chains has lost its initial momentum. Third, the slowdown in investment has led to a decline in trade relative to income since investment is more import-intensive than consumption. Fourth, the rebalancing of external and domestic demand by China has resulted in a slowdown in its imports because Chinese exports are more import intensive than domestic spending. Finally, there is significant import substitution in export sectors in China where imported parts and components have gradually come to be produced domestically.

There have also been significant shifts in global balances. First, current account balances have been moving against developing countries and in favour of developed countries. The sharp decline in commodity prices is an important but not the only factor. Second, there is a remarkable convergence between current account balances of the US and China and a significant decline in China's bilateral trade surplus with the US. Finally, current account of the Eurozone shifted from deficit to surplus as a result of austere policies pursued in the region. German surplus as a per cent of GDP now surpasses China's by a large margin.

Global economic prospects depend on how systemic and structural problems would play out. Growing inequality in major developed countries and China is creating a problem of underconsumption and restraining aggregate demand. The attempt to address the demand gap with debt-driven spending bubbles generates significant financial instability. In the same vein, the beggar-thy-neighbour policies pursued to overcome stagnation by relying on foreign demand are a source of tension in the international trading system.

These difficulties could be aggravated by policies advocated by the new US administration (such as on tax cuts and trade protectionism[3]). On the macroeconomic side they could produce a steeper path for US interest rates and stronger dollar – factors anathema to financial instability and crises in the South through their effects on capital flows and commodity prices. Tariffs and export subsidies advocated could also hit developing countries since they account for a large proportion of US imports and trade deficits. Japan and Germany also run high surpluses in absolute terms, but as a per cent of GDP, the top five countries running surpluses with the US are developing countries. The US administration's proposed tax reform package could also result in increased capital outflows from, and the reduction of US corporate direct investment flows into, developing countries.

Global prospects also depend crucially on developments in China. Its efforts to create a vibrant domestic consumer market have so far yielded little results and it keeps going back to debt-driven investment bubbles as growth falters. It faces a secular decline in growth, from double-digit levels to some 6 per cent. Although its corporations are over-indebted, a Lehman-type meltdown is highly unlikely in view of close state control over creditors and debtors. Global spillovers from a financial turbulence in China can be expected to remain more limited than those from the subprime crisis.

Even in the absence of renewed external trade and financial shocks, developing countries are unlikely to repeat their pre-crisis growth performance in the years ahead because of weak investment, slow productivity growth and a less favourable global economic environment. Their resilience to external shocks is weak, particularly in comparison to that during the subprime crisis. The deepened global financial integration of many of these economies has resulted in new vulnerabilities and heightened their exposure to external financial shocks. Their policy options are limited in responding to deflationary and destabilizing external impulses. Many developing countries find themselves in a tenuous position with an uncanny similarity to the 1970s and 1980s when the combined booms in capital flows and commodity prices that had started in the second half of the 1970s ended with a debt crisis as a result of a sharp turnaround in the US monetary policy. It would now be difficult for some of them to avoid liquidity and even debt crises in the event of severe and durable financial shocks.

This state of affairs raises three sets of policy issues for the global South. The first one concerns the policy response to a possible tightening of global financial conditions resulting from a reversal of ultra-easy monetary policy in the US. Developing countries need to avoid "business as usual" responses such as hiking interest rates, using reserves and borrowing from the IMF and resorting to austerity to maintain an open capital account and stay current on debt payments. Rather, developing countries should seek to bail in international creditors and investors by introducing, *inter alia*, exchange restrictions and temporary debt standstills, and use selective import controls to safeguard economic activity and employment.

Second, developing countries need to rethink global integration. Most developing countries have allowed too much room for global market forces to drive their development, relying excessively on foreign markets and capital, and transnational corporations. The pendulum has swung too far, particularly in investment and finance and would have to be rebalanced.

[3] See e.g. Khor, Martin, Implications of a US Border Adjustment Tax, Especially on Developing Countries, South Centre Policy Brief 38 (April 2017), available at https://www.southcentre.int/wp-content/uploads/2017/04/PB38_Implications-of-a-US-Border-Adjustment-Tax-Especially-on-Developing-Countries_EN.pdf; and Li, Yuefen, The Trump tax reform plan is likely to negatively affect developing countries, SouthViews No. 155 (25 October 2017), available at http://us5.campaign-archive.com/?u=fa9cf38799136b5660f367ba6&id=2a7006e617

Finally, the challenges that developing countries now face raise once again the question of global economic governance – reform of the international trading and financial architecture so as to discipline beggar-thy-neighbour policies of major economic powers, to reduce exposure of the global South to external shocks, and to introduce adequate mechanisms for the prevention and effective management of financial crises with international origins and consequences. Although some of these have found their way from time to time into the international agenda, particularly after bouts of virulent crises, hardly any action has been taken to bring them to conclusion because of opposition of major developed countries. The global South has not been very effective in pursuing these matters and suffers from a collective action problem. Political solidarity and a common reflection may be needed among developing countries about the policy response to the next major global economic turmoil and in setting priorities and the agenda for change in global economic governance. These are systemic governance issues that need to be raised by developing countries in the United Nations – including in the IGE-FFD.

III. On the Existence of Systemic Issues and their Policy Implications[4]

The issues of domestic resource mobilization and ensuring that international development cooperation is maximized for the achievement of the SDGs are closely linked to systemic macroeconomic governance issues because of their closely connected policy implications.

While the term had been used earlier, the idea of "systemic issues" as both a conceptual and a policy matter emerged in the first International Conference on Financing for Development (FfD) convened in Monterrey, Mexico in March 2002. In the "Monterrey Consensus" which was the outcome document of that conference, the idea of an "enabling international economic environment" as a necessary ingredient to support national development efforts (United Nations, 2003, paragraph 7) and a whole chapter called "Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development" became components of the debate on international economic governance.

Systemic issues are issues that arise from the built-in features of the global system and the impact of the interaction of its parts; as implied in the chapter title in the Monterrey Consensus, it pertains to the coherence and consistency of the monetary, finance and trade systems. Systemic issues point at the weak points in the whole global financial "architecture," the international structures and mechanisms that are beyond the control of individual countries.

Systemic issues are a particular concern to developing countries, which have experienced their greatest development reversals during international payments crises. Macroeconomic volatility and periodic crises have long-lasting impact on growth and employment in developing countries, in contrast to the case of developed countries. Growth volatility and investment volatility interact strongly and undermine efforts to spark sustainable private investment. These crises also destabilize public sector balances, part of which is due to the default international response to these crises which privilege rescuing international creditors and impose most of the adjustment costs to the debtor side.

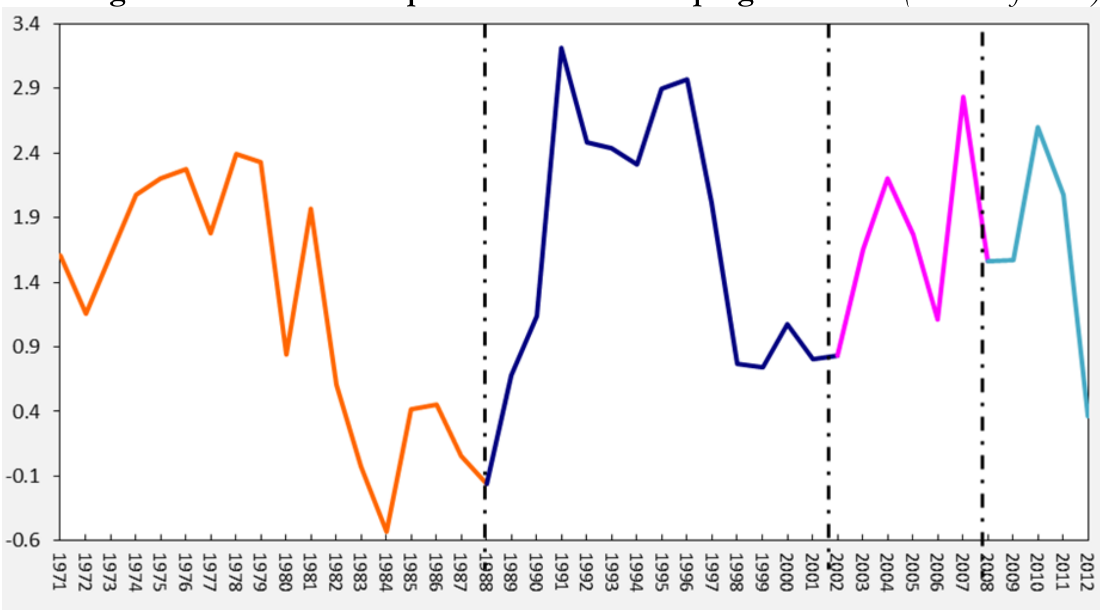
The international policy community has walked away from these crises with a variety of theories and insights about various weaknesses specific to the economies swept into the crises. However, the pattern of synchronous crises among developing countries has been difficult to ignore and

[4] This section is drawn from Montes, Manuel, On the Existence of Systemic Issues and their Policy Implications, South Centre Policy Brief 35 (January 2017), available at https://www.southcentre.int/wp-content/uploads/2017/01/PB35_On-the-Existence-of-Systemic-Issues-and-their-Policy-Implications_EN.pdf

other thoughtful observers have discussed this pattern in their much earlier analyses (Ocampo, 2008).

From the experience of developing countries, international payments crises have been associated with sudden stops in international liquidity. The most damaging episodes have followed years of booming international liquidity. In March 2011, with the intention of providing a warning on the fleeting nature of the global liquidity boom occasioned by the monetary easing-based responses of developed countries to the 2007-08 financial crisis, Akyüz (2011) published in a South Centre Research Paper a "Chart 1.b" on net private capital flows to developing countries. This chart showed that the 1982 developing country debt crisis and the 1997 financial crises which started in East Asia came from the end of liquidity booms. Figure 1 reproduces this Chart updated to 2012 data.

Figure 1: Net Private Capital Flows to Developing Countries *(Per cent of GDP)*



Source: Akyüz (2011), Chart 1.b, p. 6

The importance of this chart is that it illustrates the existence of a systemic issue in liquidity booms. While there would have been features specific to the countries that were swept into the 1982 debt crises and the 1997 financial crises and features specific to each of these two global episodes (Montes, 2008), countries in the developing world collectively experienced the consequences of the end of a liquidity boom, marking the end of a period of low interest rates, the frantic search for new foreign borrowers on the part of international private financiers and rising commodity prices. This configuration corresponds to increasing international debt liabilities on the part of developing countries during the boom.

Akyüz (2011) sought to alert developing countries that, like the previous two large booms depicted in Figure 1, the liquidity boom of the 2000s, unsustainably extended by the Great Recession policy choices of the North Atlantic governments, will come to an end, and inaugurate another era of payments difficulties in the developing world.

However, during the first decade of the 21st century, the high rates of economic growth seen in developing countries, and their relative resilience in continuing to grow while riding out the global financial crisis of 2008, spurred two important contrary interpretations of the 2008-2010 experience of the booming economic situation in developing countries. Both were centred on signaling the permanence of the pleasant economic situation in developing countries at the very time that the developed countries were experiencing their deepest recessions since the 1930s. In hindsight, these contrary views were misinterpretations of the situation.

The first was posed by the UNDP (2013) in its 2013 human development report entitled "The Rise of the South: Human Progress in a Diverse World." The report highlighted what it considered a profound shift in global dynamics, driven by the fast-rising new powers of the developing world (UNDP, 2013), pointing to the economic successes in China, India, Indonesia, Mexico, South Africa, Thailand, and Turkey that were becoming leading actors in the world stage.

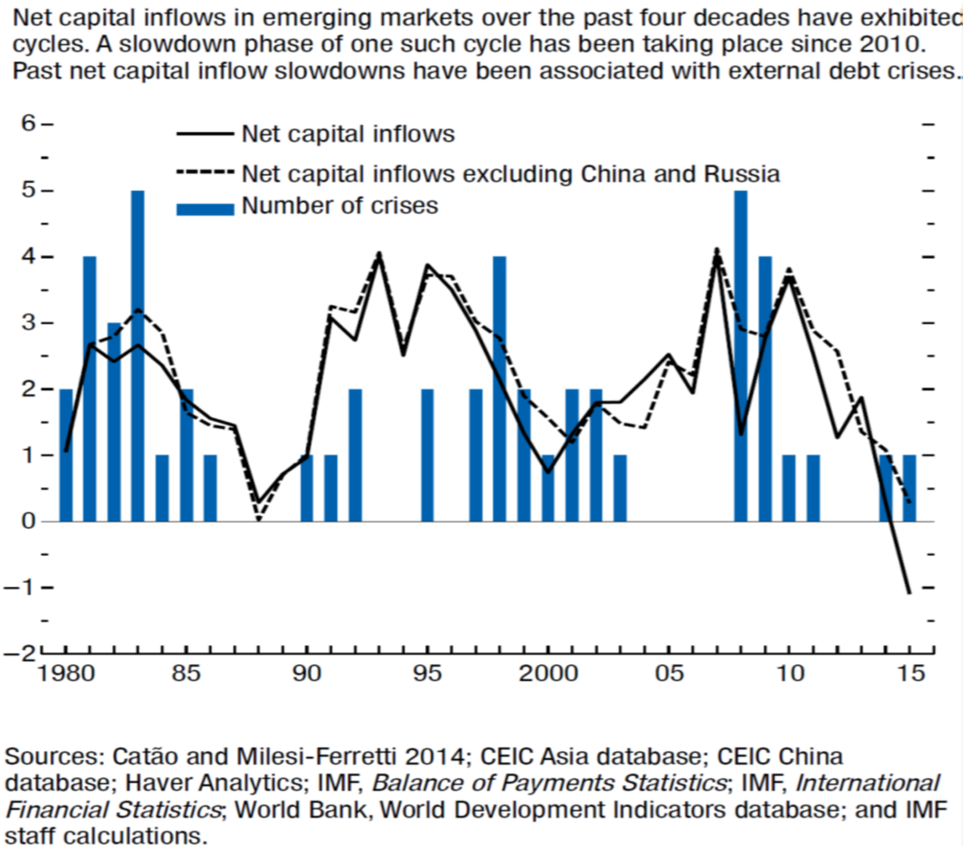
The second misinterpretation came from a global policy discussion called "decoupling," sparked by research from the Bretton Woods institutions, which suggested that the dependence of growth in developing countries on economic performance of developed countries had significantly receded. These studies sought to test whether greater trade interdependence has increased the international synchronicity of business cycles. As stated in the abstract of a representative paper, during "the period of globalization (1985–2005)," (Kose, Otrok, and Prasad, 2008) there is evidence of divergence in the business cycle between the group of industrial countries and the group of emerging countries. Kose, Otrok, and Prasad (2008, p. 25) are careful to qualify their results as applying to "macroeconomic variables representing the real side of the economy, but leaves out financial ones." However, as is often the case, these kinds of qualifications are set aside in policy discussions and policy-making. In this policy atmosphere, the 2008-10 boom in developing countries could be interpreted as another data point consistent with the concept of "decoupling."

In fact, the decoupling misinterpretation was also the occasion for associating the then-happy situation in the developing world with structural reforms reflected as "strengthened domestic policy frameworks, reduced external vulnerabilities (e.g. more flexible exchange rates, higher reserves etc.) and more prudent counter-cyclical policies" (van Rensburg, 2012), to quote from a World Bank blog in that period.

These misinterpretations also did not subvert the standard policy advice for both developed and developing countries. Austerity was required in developed countries to restore safe levels of public indebtedness, even if the accompanying policies reduced growth rates and worsened debt sustainability. While they appear to have been decoupled, developing countries were adversely affected by these austerity policies and the pivot of developed countries toward export competitiveness.

In a notable turnaround, the IMF's (2016) April 2016 World Economic Outlook presented a discussion of the episodic pattern of net capital inflows along the same lines as Akyüz's (2011) warning in its chapter 2, entitled "Understanding the Slowdown in Capital Flows to Emerging Markets." The chapter begins with "Figure 2.1" (reproduced here as Figure 2).

Figure 2: IMF Graph on Net Capital Inflows to Emerging Market Economies and Number of Debt Crises,
1980-2015: Q3 *(Percent of GDP, unless noted otherwise)*



Source: IMF (2016), Figure 2.1, p. 64.

The pattern in net capital inflows from the IMF hews closely to the pattern in Akyüz's (2011) graph (Figure 1). The IMF figure uses total net capital flows, while Akyüz's figure traces only net private capital flows, but this difference is technically minor since private capital flows dominate the changes in direction of flows. With the use of data only from the developing economies with the largest volumes of capital flows, both graphs use the same basic methodology. The IMF figure skips the boom leading up to the 1982 developing country debt crises, whilst the Akyüz figure includes the boom and bust leading to the 1982 downturn. In the IMF figure, there is an additional depiction of the net capital inflows pattern excluding China and Russia, which does not materially change the pattern and an added set of bars showing the number of payments crises.

It could be said that in trying to understand the current conundrum facing developing countries in April 2016, the IMF discovers the pattern that Akyüz presented five years earlier, with Akyüz (2011) taking a more focused attention to the private sector aspect of the volatility of these flows. The IMF graph only references the authors that depicted the bars on the number of payments crises - so that otherwise the graph is fully created in the IMF. The IMF (2016) report has no reference at all to Akyüz (2011), with the possible inference that the IMF staff discovered this pattern on its own[1] even though the methodology of generating the graph was comparable.

The IMF discussion can be seen as a turnaround of a sort in accepting the episodic global pattern of net capital flows, over which individual countries have no control – thus, a "systemic issue." Logically, a systemic issue cannot be managed only with individual country policies.

Despite the recognition of the systemic pattern in net capital flows, the discussion in IMF (2016) does not suggest a noticeable change in policy stance on the part of the IMF, a stance centred on relying heavily on exchange rate adjustments to wrestle with the Mundell-Fleming "trilemma" (Mundell, 1963).

Before the Asian currency crises the dilemmas created by open capital accounts had been debated but the policy discussion has not moved markedly away from the IMF emphasis on exchange rate and fiscal adjustments. Developing countries are particularly disadvantaged by these kinds of priorities in adjusting to volatile private capital flows (Montes, 1997). Precipitous exchange appreciation causes loss of competitiveness in the tradables sector; exchange depreciation increases the debt service burden and is usually contractionary. Reducing or raising the public sector deficit in response to changes in the direction of net private capital flows induces a highly unstable fiscal policy pattern, public sector job dislocations and uncertainty in the ability to support long-term investment programs.

If private sector capital flow volatility is "systemic," more effective and coordinated financial regulation is called for, particularly in countries that are hosting financial centres. The situation also indicates the need for effective capital controls in developing countries, beyond the macroprudential controls that is acceptable to IMF, if not only for the reason that not all private capital transfers are intermediated in the banking system. More importantly, if priority is to achieve industrial development objectives and, indeed, to concomitantly develop the domestic financial sector itself as part of the overall development strategy, developing countries are foolish to rely on the portfolio-motivated investments from external or externally-connected actors which induces great domestic volatility and high borrowing costs for local financing of real sector projects (Montes, 2013).

IV. Conclusion: Better Crisis Preparation and Enhanced International Cooperation

To conclude, the following systemic issues should be highlighted as the context in which discussions relating to domestic resource mobilization, especially in developing countries, and enhancing international development cooperation, particularly by developed countries, should be undertaken by the IGE-FFD at its first session.

- **A new global financial crisis is in the making** -- On the basis of standard indicators, the global economy has not fully recovered from the 2007-08 financial crisis. Policies pursued in the US and Europe in response to the crisis have failed to restore rigorous and sustained growth but produced significant financial fragility. Despite the recent upturn, global growth remains well below the rates seen before the outset of the crisis.

  Debt in both advanced and developing economies has accumulated massively as a result of the ultra-easy monetary policies pursued in the US and Europe. Asset and credit bubbles and excessive risk taking have resurfaced, as was the case before the crisis. As a result, central banks are hesitant in normalizing monetary policy. But the longer the ultra-easy monetary policy is pursued, the more difficult it will be to get out of it without creating significant instability and economic contraction. In any case, as it happened in the US in 2007-08, the process of debt accumulation, financial bubbles and excessive risk taking can end in a severe crisis even in the absence of a fundamental shift in monetary policy in major developed countries.

Because of their closer integration into the international financial system, almost all developing countries are now vulnerable to the onset of another financial crisis, irrespective of their balance-of-payments, external debt, net foreign assets and international reserve international positions, although these could play an important role in the way such shocks impinge on them. A large majority of developing countries, notably those in Latin America, Africa and South Asia, have negative net asset positions (their external liabilities exceeding external assets by a large margin). Most of them are now running current account deficits because of weak commodity prices and sluggish export markets in the major economies. Even those with positive external asset positions and current account balances are vulnerable to external financial shocks because their financial markets are closely linked with markets in developed countries.

A sharp reversal of capital flows now can wreak havoc in currency and financial markets of all developing countries and can push deficit countries not only into a liquidity crisis but also a debt crisis. While developing countries have made significant efforts to accumulate unprecedented amounts of international reserves since the beginning of the decade. However, in the majority of cases, these came from capital inflows rather than current account surpluses. Thus, there are corresponding foreign liabilities. In fact, foreign liabilities exceed reserves by a large margin since an important part of capital inflows have been used to finance current account deficits. Therefore, in most cases reserves can turn out to be highly inadequate in meeting the foreign exchange shortfalls that could result from a combination of a sharp and sustained decline of capital flows and export earnings.

In the event of a severe and sustained liquidity and balance-of-payments crisis, flexible exchange rates adopted in most developing countries since the recurrent crises of the 1990s and early 2000s may well be unable to absorb the shocks and allow the economies to achieve a soft landing to a lower level of activity. Rather, currencies can come under severe stress, resulting in serious difficulties for corporations which have been borrowing heavily in reserve currencies as well as for sovereigns in many low income countries which have gone to international markets for the first time, taking advantage of low interest rates and favourable risk appetite. As shown over and again, hiking domestic interest rates under such conditions cannot be expected to restore capital inflows and balance-of-payments equilibrium. Such an action would in all likelihood make matters worse by pushing the economies into deeper recession.

- **Prepare for the next financial crisis through more systemic approaches to international debt resolution and cooperation and explore the use of heterodox fiscal and other policy instruments** -- Developing countries should make contingency plans about how to respond to a renewed crisis rather than assuming/hoping that no such shocks would ever happen.

  They can strengthen South-South mechanisms and shore up other international arrangements in anticipation of such a crisis. In responding to a severe balance-of-payments shock, developing countries should not simply go back to business as usual and use their reserves and borrow from the IMF and adopt austerity in order to remain current on their obligations to foreign creditors and investors and keep their capital account open. They should, instead, seek to involve private lenders and investors in the resolution of liquidity and currency crises by introducing, inter alia, exchange restrictions and temporary debt standstills.

It would be extremely difficult to avoid debt crises after so many years of financial excesses and debt build-up. Should the world economy turn down and incomes collapse, an important part of the debt piled up since 2008 could become unpayable, notably the debt incurred by private residents and sovereigns in developing countries.

The international community should not muddle through in resolving international debt crises, as done during the Latin American crisis in the 1980s and more recently in the Eurozone. Rather, they should seek orderly and equitable debt resolution drawing on widely accepted principles of insolvency regimes.

In the event of a payments crisis, developing countries should undertake measures to ration foreign exchange, prioritizing imports of essential medicines and in order to sustain domestic production. This will mean imposing controls on non-essential imports for the time being. These measures should be supported by the IMF, where necessary, through lending into arrears, but such lending should be for current account transactions – not debt service – in order to avert import compression and contraction in economic activity.

- **Prepare to provide international liquidity** -- The IMF lacks resources to effectively address any generalized sharp contraction in international liquidity that may result from the normalization of monetary policy in the US and/or a massive flight to safety. In any case major central banks, notably the US Federal Reserve, as the main originators of global financial fragility that now threatens the South, should assume responsibility for the provision of adequate international liquidity. This can be done through a large special drawing rights (SDRs) allocation. The IMF can designate major central banks to purchase SDRs from developing countries who want to use the SDRs allocated to them. A decision can also be made to allocate SDRs only to developing countries or to non-SDR countries excluding Eurozone members. In this way, balance sheets of major central banks would be expanded by purchasing SDRs from those who want to use them.

  Alternatively, the US Federal Reserve and other major central banks can act directly as a quasi-international lenders-of-last-resort to Developing countries facing severe liquidity problems through outright purchase of locally and internationally issued sovereign bonds of these economies to shore up their prices and to provide liquidity. They could also establish swaps to supplement reserves of non-reserve issuing countries. At the onset of a crisis, developing countries should activate various South-South mechanisms for liquidity provisions; they should be delinked from IMF programs and extended. There is the Latin American Reserve Fund established in 1978 by seven Andean countries to provide balance-of-payments support and improve investment conditions of reserves held by member countries. It has been operating without linking liquidity provision to IMF programmes. There are two other arrangements—the Chiang-Mai Initiative Multilateralization (CMIM) of East Asian countries and the Contingent Reserve Arrangement (CRA) of BRICS (the grouping of Brazil, Russian Federation, India, China, and South Africa).

- **Revitalize international cooperation and action on Financing for Development** -- For both developed and developing countries, the stakes are getting too high now to continue with business as usual. The times call for a in-depth, honest, and systematic discussion at the multilateral level between the developed and developing countries on ways and means in which the systemic and structural deficiencies of the global macroeconomic governance system can be addressed in the spirit of international cooperation, with a sense of urgency in order to avert the next global financial crisis from occurring.

Developed countries should be ready to have discussion and multilateral negotiations on systemic and structural economic issues take place in the United Nations; agree to undertake effective and real reforms in the governance of the multilateral financial institutions so as to improve the voice and participation of developing countries in these institutions; ramp up and comply with their long-standing and new political commitments to provide official development assistance and climate financing for the achievement of the SDGs and climate agreements; and work with developing countries to have a more integrated and systemic approach towards ensuring multilateral policy and institutional coherence while recognizing that developing countries continue to need fiscal, economic, and industrial policy space in which to pursue the SDGs in line with their national development objectives.

The times also call for the ramping up of political and economic solidarity among developing countries, in order to prepare better for new financial crisis and engage with developed countries more effectively. Developing countries could consider convening a series of discussions among themselves about the policy responses required in the event of another widespread financial disorder. Such a discussion could also involve examining priorities and the agenda for change in global economic governance arrangements. In this context, the United Nations, including UNCTAD through the IGE-FFD, would be the best multilateral policy forum for an improved and enhanced North-South engagement on FFD issues and their systemic underpinnings can be held.

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