STATEMENT BY DR. CARLOS CORREA, EXECUTIVE DIRECTOR, SOUTH CENTRE TO THE MEETING OF MINISTERS AND GOVERNORS OF THE INTERGOVERNMENTAL GROUP OF TWENTY-FOUR (G-24)

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Economic slowdown and mounting fear of recession

With the synchronous growth upswing in the world economy in 2017, there was widespread optimism that the economic momentum would continue for the next few years. However, the weakened growth in 2018 and 2019 up to now has dashed the hope. Recent disappointing economic data from major advanced economies and the slowdown in most emerging and developing economies have made the much expected economic pick-up of 2020 become more remote. Coupled with the escalating trade wars, geopolitical tension, exploding debt burden and climate change induced natural disasters, the fear of a potential economic recession has been mounting.

As the global economic slowdown gathers pace and risks are heightened, alternative policy measures should be explored to stimulate growth rather than relying heavily on ultra-accommodative monetary policy and other expansionary instruments. It might be important to point out that the side effects of a decade of quantitative easing have become more pronounced. The excessive liquidity as a result of this policy, to an important extent, failed to achieve the expected aim of stimulating growth and productivity. As a matter of fact, the global productivity has been stalled and in some cases even declined – a proof that liquidity created by these policies may not have been largely utilized for promoting innovation and investment in productive sectors. Meanwhile, aggressive risk-taking and a search for yield by the financial sectors have been intensified and credit quality has been further deteriorated in some cases leading to greater possibility of bad debt. Structured securitisations which were brought almost to an end by the US subprime mortgage crisis was reborn after the crisis and has been expanding fast, making the Bank for International Settlements sound a warning recently. A huge expansion in the assets of central banks in some major economies has been another side effect. Volatility in the financial markets has been intensified with a large amount of capital flows driven by speculative purposes and some by flight-to-safety sentiment.

Worsening debt sustainability and increasing debt vulnerability across the board

Growing debt vulnerabilities of low- and middle-income developing countries are worrisome. The post-2008 financial crisis era has witnessed an exponential increase of external debt for developing countries across all groups. Quantitative easing, low and negative interest rates in high-income countries, new access to the international financial market, climate change induced natural disasters and periods of higher commodity prices are among the reasons for the debt explosion. Traditional caution against currency and maturity mismatches in borrowing has been put aside. Short-term debt in hard currencies has increased by a wide margin. Total external debt stocks of developing countries and economies in transition as a whole have more than doubled between 2009 and 2018. With a stronger dollar, slower world economic growth and international trade losing momentum, the debt servicing burden has been increasing and international reserves of many developing countries have been declining. For sub-Saharan African countries debt service to export ratio more than tripled between

2011 and 2018. The coming few years will be the height for many developing countries, especially low-income countries, to pay back their matured debt. With the current deteriorating debt sustainability trajectory, the concerns about debt unsustainability and debt crisis are very well founded. An effective and timely debt crisis resolution mechanism and policy measures are urgently called for. Debt crisis prevention measures including ensuring responsible lending and borrowing should be put in place.

Escalating trade tension and its "great spillover"

Trade wars, big and small, have been escalating and spreading. The trade tension has not only led to an unprecedented crisis for the international trading system, but also constitutes a major threat to economic recovery from the global financial crisis (GFC). This is mainly because the economic growth prior to the GFC was driven to a large extent by international trade and investment which are dependent on a rule-based trading system and predictability of trade and international relations instead of trade and investment barriers and resort to coercive or punitive measures. The surge of protectionism and unilateralism, which underpins the imposition of tariffs as trade sanctions, impedes global economic growth. Their negative impact has spilled over to financial, services and other sectors; from countries suffering from punitive tariffs to other countries including the source country which has imposed tariffs, hence there is currently the discussion of "the great spillover" of trade tension. Debate is still going on as to whether the service sector has been weakened or not. Data shows that services have trended low but at a slower pace than that for manufactures. The uncertainty and instability created by the trade tension have weakened investor confidence which in turn prevents the expansionary monetary policies from realising their aim of stimulating economic growth through facilitating investment. The retreat from multilateralism is a major hindrance for global economic recovery from the GFC.

Implementing the 2030 Agenda for Sustainable Development

The world economy is facing multiple threats and risks. This is partly due to the difficulty in adapting to the already emerged multi-polar world. International collective actions are urgently needed to cope with these risks. The 2030 Agenda is a point of reference for sustainable development supported universally by both developed and developing countries. The 17 Sustainable Development Goals (SDGs) cover all the threats the world economy is facing now. Therefore, in addition to continuing to undertake global governance reform, uniting under the banner of the implementation of the 2030 Agenda could be a way to take effective and timely international collective actions to prevent the world economy from plunging into a dark recession.