Statement by Mr. Ján Kubiš

United Nations Under-Secretary-General
Executive Secretary of the United Nations Economic Commission for Europe

The China Beijing International High-Tech Expo

The China Financial Summit 2011
Financial Innovation and Economic Restructuring

Beijing, China, 18 May 2011

Mr. Chairman,

Distinguished Participants,

Excellencies,

Ladies and Gentlemen,

It is a pleasure and honor to be with you today at this prestigious international event in China – a country with the enormous economic dynamism which is recognized by all active in the global economy. China has been an important island of economic and financial stability and its growth is a driving force of global and regional economic growth. As member of the UN, G-20 and BRICS it has been playing an important role in promoting the global cooperation that helps contain and pave the sustainable way from the worst financial crisis and global recession since the 1930s.

Financial disturbances caused i.a. by excessive and unregulated leverage and general malfunctioning of the international financial and monetary system were the main causes of the recent global financial and economic crisis. Some view that the global imbalances produced by the current system were the fundamental underlying cause of the crisis. Without the extraordinary interventions by public authorities much of the world would have been thrown into another great depression. Yet, we are still recovering from this crisis, and that recovery is very uneven. In Asia, many countries have returned to strong levels of economic growth thus once again confirming a major realignment of the global economy towards emerging and developing countries. In spite of some rather encouraging signals high unemployment, insufficient competitiveness and sovereign debt problems are hampering the recovery in Europe and North America, and the slow recovery there is dampening progress elsewhere. Sluggish post-crisis growth, persistent unemployment, surging global liquidity, rising commodity and food prices and inflation as well as risks of protectionism are clear and present dangers of the global economy.

As noted recently by the UN SG Ban Ki-moon:" Policy responses in one part of the world continue to have an effect on prospects in others. Over the past six months, for instance, monetary stimulus in the United States and Europe, designed to pull up their economies, had the unintended side effect of making investing in emerging economies more attractive. Yet massive capital inflows are posing challenges to the countries receiving them. How to channel them to long-term investments for development? How to avoid massive outflows when global conditions change again?"

Our UNECE region comprises 56 countries of Western Europe, USDA and Canada, South East Europe, Turkey, Russia and the transition economies of the CIS, including Central Asia. In spite of many positive developments in many of our countries, national income has yet to return to its level prior to the crisis, and unemployment is expected to stay high for several more years. In addition, the sovereign debt levels of many developed countries have increased substantially and the fiscal consolidation which must follow will have a detrimental effect on many useful governmental programs and activities for years to come. This includes official development assistance. As a result of the crisis, progress has been derailed in achieving the Millennium Development Goals, which are the most prominent from among many internationally agreed-upon targets for reducing global poverty.

Mr.Chairman,

It is in this global economic and financial environment that experts and policy makers increasingly draw attention to an important shortcoming of the export-oriented growth model in many of the emerging economies, notably in Asia: to the shortcoming of inequality. They stress that "inclusive" growth is critical to the credibility of market-oriented reform and long-term sustainable development. Recent protests in the Arab world and North Africa, but also signals from some countries in Asia, like Thailand and India suggest that a development model primarily focused on growth and poverty reduction risks failure if it lacks social inclusion and more equally shared progress.

China is one of the best-known illustrations of economic and income imbalances spawned by such an export-oriented model, moreover in the conditions where the umbrella of the extended family has largely substituted for public welfare. The past years also show that a development model that prioritizes increasing State revenue causes the growth of its social consumption capability to lag behind that of national productivity, widening the gap between urban and rural areas and between the rich and the poor, and worsening social contradictions and risks.

Of course, it will take more than a social safety net to temper inequality. As technological progress puts an ever-growing premium on skills, poorly educated workers are falling behind. Therefore nurturing a more equal, better-educated society will be critical for sustainable and socially just development. It is also the way how to avoid falling into the middle-income trap. This is when per capita incomes stall because countries fail to graduate from a reliance on resources and cheap labor to growth based on innovation and productivity.

If it avoids the trap, Asia would account for half of world output by 2050, up from 27 percent now; if it fails, the proportion will be about 32 percent, according to a report prepared for the 2011 annual meeting of the Asian Development Bank.

It is therefore encouraging to see that through the just-enacted 12th Five-Year Plan China aims at changing its socially unsustainable, although otherwise remarkably successful economic growth paradigm that focused on increasing the size of national economy as such. It shifts the focus away from export- and investment- led growth dynamic toward a model and approach aimed at fostering more equitable growth. It will thus engage China's 1.3 billion domestic consumers as a significant growth factor by raising private consumption. The plan and its policies and measures put more priority on promoting people's prosperity over the next five years, on providing more just income distribution, more decent and better-paid jobs both in cities and in the countryside, in different regions of this vast country. That will create good expectations for national economic development. At the same time, that will help narrow the disparity in income distribution, between urban and rural population, will allow people to share the fruits of the country's fast economic growth and will promote and equitable society. This way internal demand will also help counter negative impact of instability of external demand and in the longer run will help address the issue if global imbalances.

Also the UN system plays its role in tackling this new challenge of growth without equitable development and income distribution. The recent UN Conference of Least Developed Countries maintained that a bottom-up inclusive growth must help bring a decent future for the world's most vulnerable. Another milestone will be the UN Conference on Sustainable Development (UNCDS) – also referred to a 'Rio+20' that will take place in 2012 in Brazil. The objective of the Conference is to secure renewed political commitment for sustainable development, assessing the progress to date and the remaining gaps in the implementation of the outcomes of the major summits on sustainable development, and addressing new and emerging challenges including equitable growth. To this end, the Conference will focus on two themes: (a) a green economy in the context of sustainable development and poverty eradication; and (b) the institutional framework for sustainable development.

Mr.Chairman,

The crisis was rooted in the inadequate regulation of financial markets in the advanced economies. Thus although a high proportion of financial transactions occurs solely in the private sector, the public sector has a very important role in establishing the regulatory institutional structure governing these activities. This task, which has always been difficult, was made even more complicated over the last decade by two developments – financial market innovation and globalization.

Innovation has been important in the financial sector for some time, but recently it seemed to create very complex and difficult-to-understand products that provided an illusory and distorted view of the real risks involved for market participants. This underscores a more general principle about innovation in that it can bring about enormous benefits to societies and contribute to their growing welfare, but their application often entails inherent risks which policy-makers cannot afford to neglect.

The second factor that made regulation difficult was globalization. Financial markets have become global but regulation remains primarily national. In addition, unilaterally strengthening national regulation often puts domestic firms at a competitive disadvantage. Thus, in order to keep these firms domestically, which was desired for numerous reasons including the high salaries they pay and the tax revenues they provide, countries sought to keep their regulations to a minimum. This led to a process of regulatory arbitrage, that being the lowering of regulations in order to attract or keep financial firms in a particular country.

These remain key problems in the current attempts to strengthen regulatory structures and create a more stable financial system. Global governance of the financial system remains inadequate and as a result reform efforts are focused on primarily national legislation where competitiveness considerations are limiting reform. The only real solution to this problem is more international cooperation. Innovation of financial instruments will continue and regulatory authorities must be forward looking and pre-emptive in their approach. Thus addressing innovation and globalization were keys to the crisis and remain the important challenges ahead in creating an efficient and stable financial system at all levels – global, regional or national.

An example of regional cooperation could be ASEAN +3/AMRO cooperation, that should i.a. monitor trends, asses financial vulnerabilities and liquidity problems and engage in emergency relief operation, if and as needed.

As far as China and its financial sector is concerned, IMF 1st Deputy Managing Director J. Lipsky only some days ago assessed the situation and made certain recommendations. Among them were: to increase the commercial orientation of the banking system, to use conventional monetary tools with regard to credits, to strengthen supervision of macro-financial vulnerabilities, notably concerning credit quality, to strengthen and improve financial oversight. All that will further open China's financial sector will integrate if further with the world financial system. Gradual currency liberalization and de-coupling of yuan from USD is already on the way, although it will take some years to make yuan fully convertible, if all goes well.

Overall, the implementation of the 12th 5 Year Plan and related developments, accompanied by gradual re-evaluation of yuan and the increase of its use in bilateral and regional trade will make yuan an undisputable first candidate for inclusion in the IMF's SDR basket.

Mr.Chairman,

In addition to the role of governments and international bodies in creating the proper regulatory framework for the private financial sector, they also have a role in shaping investment patterns in areas where private sector finance is subject to some form of market failure, limitations or inadequacies. The United Nations system and its family of organizations including the Economic Commission for Europe are also active in this area. Let me highlight a few of our activities and the problems they attempt to address.

In any economic system there are important economic functions that governments must perform. This includes the provision of public goods or those with significant economies of scale; this includes utilities, roads, national defense, police, and perhaps education and health care. Historically in market economies these activities were financed by governments through taxes or public debt and managed by some public agency. However, it has now been realized that in some cases these public services can be more efficiently financed and managed by the private sector if, *and this is an important if*, a proper regulatory structure can be created for that activity that insures that the public interest is maintained.

This approach of public-private partnership attempts to combine the best aspects of the private sector with its emphasis on management and efficiency and the best aspects of the public sector with its emphasis on widespread access and equity. Creating this regulatory structure however, can be quite complex and the specifics can vary considerably depending on the type of activity involved or other circumstances. The UNECE has been promoting and fostering PPP over the last 15 years.

We have learned a number of lessons from the successes but also difficulties and barriers accompanying PPP projects. Let me share with you a few of our experiences.

First we have learned that there exists a large gap between government policy pronouncements on PPP and project implementation. Very few states are able to translate policy support into fully fledged operational programmes in PPPs.

Second we have learned that the most important factor hindering effective project implementation is the lack of a capable public sector dealing with PPP. The public sector often does not have the skills in project finance and legal contracts that are the core skills required in PPP and which are found more in the private sector. Thus there is a need to build the capacity in government so that it can run a PPP programme. To address these constraints, several countries pursuing PPP programmes have as the first step set up dedicated cross-sectoral units – PPP Units - at the national level to guide and complement the efforts of line ministries and local government units.

Third we have learned that the best approach to capacity building in PPP is a 'learning by doing approach', that is, to work with actual officials seeking to undertake PPP and acquire the knowledge and skills from the process of setting the projects up, procuring and then implementing them. Capacity building is particularly needed in the preparation of PPP projects that will attract business and assume truly competitive outcomes for the bidding process. And a sustained pipeline of bankable projects is needed to keep private investors interested.

Fourthly we have learned that the international private sector is very sensitive to shortcomings and bottlenecks in the legal and institutional framework. The laws should not be over-restrictive and they should give confidence to the investor that the 'rules of the game' will be respected. Accordingly, the UNECE is working with the United Nations Commission in International Trade Law (UNCITRAL) to prepare an international standard of best practice in PPP legislation – model legislative provisions that can guide governments to enact the most appropriate legislation.

Fifthly, project implementation may be further held back by unrealistic expectations of both public and private sector partners in a PPP.

Finally, there is a need for a proactive public communication and stakeholder consultation in PPP.

To move our work and assistance to our partners to a next level the UNECE took recently an initiative to create an International Centre of Excellence in PPP consisting of a hub based in Geneva and specialist centers in different countries focused on specific aspects and areas of PPPs. Each centre will specialize in a given sector. They will be established not only in UNECE countries, but globally, for example in the Philippines, Japan, Saudi Arabia or Qatar and we expect more partners in the future. We'd be happy to co-operate also with China that has a strong record of promoting and using PPPs.

China has impressed the world in the creation of innovative mutually beneficial partnerships for infrastructure investment in the developing and developed world and its increasing appetite for international PPP investment. The challenge now is for China to introduce PPPs to improve efficiency and productivity in its own public infrastructure particularly social infrastructure; the UNECE international centre of excellence on PPP can help China identify the right models for its own internal PPP development.

It is widely recognized that the key to improving living standards involves the creation of dynamic and innovative economies. Yet for many countries, innovation remains a challenge; especially problematic has been the creation of entrepreneurial firms that are central to producing new products and ideas. One of the key factors that is limiting the creation of new innovative companies is their inability to obtain financing at their earliest stages when the financial viability of their products or ideas are still unproven and they have little collateral to offer. As a result the UNECE has established a program to help countries improve or even create a venture capital industry in some of ECE economies.

More generally, public intervention is required to attract private financing to this sector, overcoming market failures which otherwise would hold back a critical engine of economic growth and innovation. Public support can take multiple dimensions. Grants allow the exploration of opportunities that, once they show some promise, can grow to attract other forms of financing. Hybrid public-private funds can alter the balance of risk and rewards to entice private investors to finance innovative projects. Public initiatives can also contribute to overcome coordination problems and facilitate the flow of information, connecting potential sources of opportunities and different types of investors.

Many of our activities in this area are linked to climate changes adaptation and mitigation. Climate change is undoubtedly one of the greatest challenges facing mankind. Over the next several decades there will be substantial changes in global production and consumption patterns. This will require massive investments and technological innovation in many sectors. Given the externalities involved, there is obviously a very important role for public policy in making these investments or influencing those of the private sector. Given the global nature of the problem, international organizations will have an important role is shaping this public policy.

The UNECE has also established several programs whose objective is to promote financing of activities that address some aspect of climate change as well as build capacity for climate change mitigation and adaptation and help define the international regulatory environment for tackling climate change. Increasing energy efficiency is one of the most effective methods of mitigating climate change. We have found that there are a number of energy-efficiency increasing investments which can save more in energy use than they cost to undertake. Nevertheless these investments are not being made because of the inability to create a bankable investment project. This may be due to the fact that the business or public authority wishing to make the investment, or the local bank, is unfamiliar with how to create a bankable loan for this type of investment.

Alternatively, country risk and the local legal or regulatory structure may not be conducive to making these types of investments. As a result the UNECE has developed a technical assistance program that shows these entities how to identify and develop a bankable investment project and we are in the process of establishing a dedicated energy efficiency investment fund. In addition we provide policy advice for local and national authorities in how to create the institutional and regulatory environment that will support these investment projects.

This ECE program which was established in 1991 is referred to as the Energy Efficiency 21 project and initially was focused on creating cost-effective investment projects in Eastern Europe. Energy efficiency in these economies is only about one-half that of those in Western Europe as measured by energy use per unit of GDP, and therefore there are a lot of opportunities for increasing efficiency in a cost effective manner. Given the success of this program the UNECE work was expanded in 2008 to scaling up the promotion of energy efficiency in all regions of the world through the other UN regional commissions, including ESCAP in Asia, and is referred to as the Global Energy Efficiency 21 programme. As for the UNECE effort in its region, the real challenge of energy efficiency market formation around the world is to tap into private (commercial) financing sources, which can provide amounts that are significantly higher than all others combined. The role of the state is seen mainly in creating a legislative and regulatory environment that would foster energy efficiency and renewable energy market formation, promote public-private partnerships (PPPs) and encourage private financing.

In January 2008 the UNECE began implementing the Financing Energy Efficiency Investments for Climate Change Mitigation Project.

The Project is designed to establish a public-private partnership investment fund for some 12 countries of Central and Easter Europe, including Central Asia with a target capital of € 250 million and develop a pipeline of new and existing projects to be financed by it. It has established a network of National Participating Institutions and local experts who implement the project nationally and interact by means of advanced Internet communications. The project is also conducting national case studies and a comprehensive regional analysis of policy reforms to promote energy efficiency and renewable energy investments.

The Project is addressing the following barriers:

- Lack of awareness of national governments, local authorities and representatives of private sector on energy efficiency issues;
- Lack of expertise in preparing bankable proposals;
- Lack of dedicated sources of financing.
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It will help to establish strategic partnerships between private and public sectors and the civil society. The Project will provide a platform for potential partnership between the governments of participating countries and the governments in other countries.

The Project will accomplish the following:

- Identify investment projects and provide training (business development course) for national experts in both private and public sectors to strengthen capacities for the development of such projects;
- Provide assistance to national governments and local authorities in the participating countries to introduce economic, institutional and regulatory reforms for the support of investments projects;
- Support banks and commercial companies to invest in these projects through professionally managed investment funds.

The UNECE has several other activities focused on financing climate change activities. For example, we are currently managing a project in the Central Asian region, which attempts to ease the take-up of technology for climate change adaptation and mitigation, often slowed by financial constraints. And, we are working with a wide group of stakeholders including the private sector, to identify how to move forward green infrastructure investment in its region.

At the most general level, the current failure of the international community to establish an adequate long-run regulatory framework involving carbon emissions and energy use has created excessive uncertainty about the future price of carbon; this has retarded both public and private sector investment in the sectors that will require significant adjustment. Therefore a priority is the need to establish a clear, transparent and forward-looking regulatory structure that will encourage firms to begin to make the necessary investments.

Mr.Chairman,

This Summit, which brings together both policy makers and corporate leaders from the financial sphere, provides an important platform to consider both the general issues involved in creating a stable global financial system as well as those in addressing specific market failures. I hope our experiences in the UNECE region can assist you in designing your own policies and perhaps this region with its surplus of savings may be able to assist our region with its financing needs.

With this I would like to wish you fruitful discussions and a successful outcome of this meeting.