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**Assessment of the current global situation:
what the international community and Bulgaria can do**

Distinguished Guests,
Ladies and Gentlemen:

Thank you for this opportunity to share some of the recent thinking of the United Nations Conference on Trade and Development on the current global crisis and the immediate and post-crisis scenario. In this context, I will also try to reflect on the implications for Bulgaria.

Today, at the start of a new decade, our predicament appears to be the convergence of at least three crises: in global finance and economics; in development; and in the environment. UNCTAD's view is that these crises should not be viewed as distinct events that erupted independently or spontaneously on an otherwise cloudless economic horizon. Rather, the crises should be considered as systemic problems arising from a deeper structural imbalance in the global economic system. Finance, development and the environment may seem on the surface to be disparate areas; but they actually interact with each other in forceful ways. This means that a very different approach is needed – or as I like to call it, **business unusual**.

I would like this morning to highlight four new and interrelated trends connected to these crises that are likely to change the development debate over the coming decade. *The first* is the new and emerging paradigm in the post-crisis era, with economic power shifting towards regions in the so-called 'global South'. *The second* is our awareness of the urgency of moving away from dependence on fossil fuels and outdated methods of production towards a more renewable energy-based 'green' economy. *The third* is the renewed recognition of the important developmental role of the State in working with markets and the private sector, fostering the transformations needed to make the world economy more sustainable and inclusive. *Finally*, there is the growing role of new donor countries, including those that have been affected by the crisis and those that until recently saw themselves rather as recipients of aid.

Bringing together all of these themes, I should perhaps begin by pointing out UNCTAD's role as the focal point within the UN system for the integrated treatment of trade, development, finance and technological issues. We are a knowledge-based organization, a technical cooperation agency and a forum for consensus-building, all rolled into one. UNCTAD's staff includes lawyers, economists, and experts on trade, investment, finance, debt management, energy and commodities, agriculture, transport and technology.

The role of UNCTAD is as relevant now as it was when the organization was established more than 45 years ago – perhaps even more so, given the increasing complexity and interrelatedness of the global economy. From its earliest days, UNCTAD was noted for its unconventional thinking and the bold policy proposals deriving from its “big picture” approach. I am proud to say that this has continued to be the case during the crisis and am confident that it will remain so in the post-crisis phase. These days, we are encouraged to see our views being treated as 'mainstream', as policymakers and politicians around the globe apply 'heterodox' alternatives to the prevailing neoliberal constructions of the past. As the economist J.K. Galbraith once wrote, “[ideas] yield not to the attack of other ideas, but [...] to the massive onslaught of circumstances with which they cannot contend”....

1. The post-crisis global economy – new geographical 'growth poles'

Let me begin with a comment on the state of the global economy. Many commentators are saying that the economic crisis is over, and that the 'green shoots' starting to emerge in many markets spell the end of the bad times and the start of a recovery, perhaps even another boom. UNCTAD is much more cautious.

Our assessment is that it is too early to predict a full recovery, despite some promising signs. The potential for a 'double dip' recession in developed countries is still high, especially if policymakers prematurely withdraw their stimulus measures. This will have an impact on trade, which will in turn diminish the prospects for sustainable economic recovery – especially for developed countries, where the growth estimates are considerably lower than for developing ones. The latest forecasts are that trade will grow at 1.3% for developed countries and 1.6% for transition economies, compared to much faster growth of 4% for Africa, 5% for the LDCs and 6% for East and South Asia. UNCTAD's assessment of FDI flows is also down sharply, including in developed countries – which will in turn depress production, consumption and trade.

These messages should spell caution for some countries, including Bulgaria, whose recent growth has depended heavily on FDI. UNCTAD research indicates that Bulgaria now has the highest levels of FDI in the region, in relation to the size of the economy. Around 90% of its inward FDI originated in the EU and went mostly into the services sector, associated with the privatization of formerly State-owned institutions. Bulgaria's external trade – which accounts for 60% of GDP – is also highly dependent on the EU. There is minimal trade with the developing countries and other regions that are proving to be more resilient to the crisis and its after-effects.

While it is understandable that, as an EU member, most of Bulgaria's investment and trade links are with other EU members, it is clear that with the emergence of new 'growth poles' the country will have to evaluate the potential benefits of establishing bilateral economic relations with fast-growing economies in Asia, Latin America and Africa.

Also as an EU member, Bulgaria is a party to free trade and economic partnerships agreements that are being negotiated with many developing countries and groupings (including with the ACP Group of States; India; MERCOSUR; and ASEAN). These agreements will open new trade and investment opportunities for Bulgaria. An important strategy in the future is South-South trade, which has been growing rapidly in the past decade and become one of the most important sources of dynamism for the global economy. In 1995 it was worth about US\$ 577 billion and accounted for 11% of world trade; by 2007, that figure had reached US\$ 2.4 trillion, or 20% of world trade. It has remained robust despite the

crisis – especially compared to developed countries’ trade – and is expected to pick up even more quickly once a true global recovery sets in.

2. New 'technological growth poles' and the green economy

My second point is an UNCTAD message that lies particularly close to my heart. Much has been said about climate change – the growing concerns about the costs of climate change mitigation, and the need to 'cut the cord' and leave the fossil age behind. There is no refuting this imperative: development for the future means 'sustainable development' or 'green development'. Even if global warming did not force us to rethink our reliance on the fuels of the last century, the fall-out caused by price volatility and speculation should encourage a broader approach, one that seeks new and better sources of energy for the next century. Oil prices rocketed to US\$ 145 per barrel in mid-2008 before plummeting to US\$ 40 just six months later and then rising again to US\$80, which wreaked havoc on household budgets and national balances of payments and exchange rates around the world. The general direction of prices is upward, and fuel-importing countries that rely on a narrow base of suppliers are questioning the strategic implications of their vulnerability. On many levels, it is clear that we need to do things very differently from now on.

We at UNCTAD are linking these issues with the need for more inclusive development and with the potential to bring about profound structural and economic transformation. For example, the energy sector as a whole is responsible for 61.5% of total greenhouse emissions and is a major cause of climate change; we clearly need to take concrete steps to de-carbonize our current energy systems. Moreover, current patterns of energy use, with their reliance on massive network systems and costly infrastructures on top of the underlying costs of oil, coal and gas, can also entrench poverty. UNCTAD argues that the 'electricity divide' is one of the major problems of development today; 92% of rural households in sub-Saharan Africa, for example, have no access to electricity.

It is clear that a systemic transformation is necessary within national energy sectors if the disastrous impact of climate change is to be reversed and a more sustainable and equitable development path found. In developing countries, it may be possible to 'leapfrog' over the carbon-intensive development trajectory by embracing low-carbon pathways. One of the arguments often made against this view is that it is costly. The average cost of one kilowatt-hour of electricity coming from any coal plant in the world is about two US cents, compared to seven cents in a solar power plant. Considered in isolation, this might look like an insurmountable obstacle to countries wishing to use environmentally friendly solar power.

I would argue differently. First, we should acknowledge that there is no going back, even if the costs today of shedding the old ways appear expensive. Not least, prices of oil and gas are likely to increase in the future, if only because the reserves that were cheapest to reach have already been exploited, and the scarce reserves that remain must become increasingly expensive to tap, technology improvements notwithstanding. Light, wind, waves and the like are, on the other hand, free. “*Sol omnibus lucet*”, as Petronius aptly put it – “the sun shines on us all”....We can take better advantage of its beneficence!

Second, focusing purely on apparent costs is too narrow. A true cost-benefit analysis would also factor in the true costs of fossil fuel: the costs of imported inputs used in the construction of conventional power stations, the strategic costs of relying on coal imported from other countries, and the environmental costs of added pollution and global warming. If we are talking about nuclear power, we would also need to factor in the costs of maintenance and disposal of radioactive waste, security risks, and so forth. And on the other side of the ledger we would also factor in the likelihood of the technology improving, the costs coming down, the social and political benefits that can be gained from using an energy source that does not require costly infrastructure to support it, or the independence that can be gained by being energy-self-sufficient at the level of small villages or even households. Remember the seemingly high prices of early calculator, which soon became so cheap they were practically given away. Remember also the weight and size and price of the first mobile telephones. I am convinced that the cost of solar power will not stay at seven cents per kilowatt-hour for very long, and especially for countries like Bulgaria, which is described as a 'summer paradise' in the world travel press, with an average 5.6 hours of sunlight per day, even in December. In the snow-covered alps near Lausanne, a Swiss entrepreneur has just made the first experimental flight by solar-powered airplane. What could a sun-fuelled Bulgaria do, I wonder?

There is also a double dividend for countries that can make the switch to a new way of thinking. Investment in the new 'clean and green' energy sectors can create jobs and produce entirely new national and international markets – not only for the equipment to produce these new sources of energy, but also for the associated products that use it, such as cars, buildings, lighting sources and appliances. The overall size of this market is hard to gauge, given that many environmental goods can also be used for purposes other than environmental protection. According to some estimates, the global market for environmental products and services may amount to as much as US\$ 1,400 billion [UNEP], and equipment that helps achieve climate change mitigation represents a significant share of this market. Compare this to the latest figures for Bulgaria's annual GDP, which stands at approximately 39.5 billion in US Dollar terms or \$86 billion in Purchasing Power Parity terms. Just as the invention of the steam engine, of electricity and of the telegraph heralded a revolutionary new leap forward for humankind in those countries that were early innovators, so too will the creation in the early 21st century of new, clean and green technologies. This is a time to leap, not a time for incremental shuffling.

There is already investment interest in this new opportunity: Recent UNCTAD research suggests that private investment in energy efficiency and renewables has already risen from US\$ 33.2 billion in 2004 to US\$ 148.8 billion in 2007. Evidence from the United Nations Environment Programme presents a similar picture: New fixed investments in clean energy in 2007 were estimated to be already equivalent to almost 10% of global energy infrastructure investment.

So for countries that participate in this market, there are many opportunities for income generation. Early participation in the production of equipment based on such technologies will confer "first-mover advantages" that could be highly profitable, given that sooner or later most countries will eventually need to adopt these technologies as well.

Moreover – to reiterate my earlier message – those who are succeeding in this new and growing market are not only the traditional major economic Powers. Yes, at present, more than 80% of world trade in environmental goods is still dominated by developed

countries; and Europe has contributed significantly to growth in the sector, as one might imagine. Trade and investment in Europe's renewable sector is expected to continue to rise following the recently adopted EU strategy of switching to 20% renewable energy sources by the year 2020. However, very significant amounts are also invested in developing and emerging countries, especially China, India and Brazil.

China is already the second largest producer of wind power in the world (after the USA, having overtaken Germany and Spain). It could potentially use wind power to meet its entire demand for electricity by 2030, contributing in a big way to the country's energy security and to its efforts for a cleaner environment. It is also creating jobs and local markets: Chinese turbine manufacturers closed the technological gap with European and American manufacturers, and now more than 70% of the country's newly installed capacity was accounted for by domestic manufacturers, rather than by imports. Other new players in this growing market include Brazil – the second largest producer of biofuels – and India, whose photovoltaic production capacity has expanded rapidly in recent years.

I mention these examples to show how new and emerging economies can 'leapfrog' into these new and advanced technologies. I wish also to encourage Bulgaria to continue on its path of improving energy efficiency. You have recently made considerable headway, even if, as indicated in the latest data, energy use remains twice as high as the core EU (15) average. In part, Bulgaria's energy use remains high because it reflects the economic structures of former years, favouring heavy industry and other inherently energy-intensive manufacturing processes. This will no doubt change naturally, as other economic activities come to the fore. Between 1990 and 2006, for example, Bulgaria's energy use fell by over 40% (from a factor of 3.5 to 2), whereas the core EU countries declined by only 20% (from a factor of 1.5 to 1.2). What is needed now is to build on these improvements – to encourage more efficient uses of energy and a more diversified and renewable portfolio of energy sources. The evidence of Bulgaria's performance so far – and of what has been achieved in record time in this sector by some of the new and emerging economies – is an example that encourages continued efforts.

3. The role of an enabling State

This leads to my third point. Success in these 'sunrise' industries will profoundly transform the prospects for growth, employment creation, methods of industry ... what the cities and countryside look like. However, an important UNCTAD argument is that a successful transformation of this nature rarely starts automatically. The market can be a very dynamic and powerful way of achieving structural change and economic growth, but it is usually stimulated in the first place by targeted government policies.

Why is this? One reason is that there is usually insufficient information and some uncertainty associated with moving to such new modes of production. This is likely to discourage investment in the new low-carbon production modes. Supportive industrial and development policies are necessary at the national level in order to become the basis for corporate decision-making and help attract the necessary investment flows. Our research indicates that it will be a very slow, expensive and uphill battle if left entirely to free-market forces. The successful examples I cited earlier have also benefited from a concerted policy effort to promote the new sector. Returning to the Chinese example, the government invested US\$ 1.5 billion in research subsidies to bolster the transformation of its automobile industry to electric vehicles. More detailed discussions of the policy environments used in many

countries to promote this sector are described in UNCTAD flagship reports. Our research and analysis culminates in a number of evidence-based, practical, policy recommendations to national and regional governments, and also at the international level. I will not go into detail here, other than to urge governments to work with the private sector to ensure that such profound transformations occur more swiftly and smoothly.

4. ODA

My final message today concerns ODA, or official development assistance. In the international community, one often hears that some of the countries of Eastern Europe are now passing from the 'aid recipient' phase into a new phase, one in which they are becoming donors in their own right. Some are playing this role through the EU donor platform, as sources both of finance and of new ideas that are injecting new vigour into the EU's thinking.

The Eastern European countries have a huge potential to do this, and I suggest they embrace the role rather than shy away from it, in part because it will benefit them in the long run, as well as benefiting the recipients. In the same way that the business sector sees the bottom-line benefits of 'corporate social responsibility', there can also be long-run benefits to donor countries from helping countries that are less well off than themselves – in addition of course to more philanthropic aims. The historical linkages of the Eastern European States with some developing countries may offer opportunities to usher in a new era of development cooperation. In some cases, these linkages include parallels in technological development, or special knowledge of the particular situations in some countries, which could help ensure that each dollar of donor aid has the most far-reaching benefits for the recipient countries, including through the transfer of technologies, skills and knowledge.

On this important point of technology, infrastructure, investment and knowledge – or as it is often called, “productive capacities” – UNCTAD research shows that ODA has actually been increasingly directed to critical social or humanitarian needs and away from the investments in productive capacities and job-creating activities that are essential to long-term sustainable development. We are concerned that this trend is undermining donors' efforts to help countries attain the Millennium Development Goals by the 2015 deadline. To illustrate these concerns, one could use the metaphor of ‘running on two legs’ – meaning that achieving these goals requires linking policies for productive capacities and employment creation with policies for social-sector development. Focusing only on social sectors is like trying to reach the finish line on one single leg.

Following this spirit, some commentators have high hopes of a renewed development partnership between Eastern European countries and 'the South', to build upon historical relationships with the aim of promoting the structural transformation that the developing countries need. The Eastern European countries can offer their experience and knowledge, as well as financial assistance. Moreover, this can be a win-win partnership. Such initiatives can help not only to improve the quality of life for the world's poorest, it can also create new markets that will in turn benefit donor countries. It may be necessary to spread this message more widely at the national level in countries that are relatively recent donors – to explain to electorates why it is important to help other countries, and to show that by helping others, one also helps oneself.

Countries such as Bulgaria can of course contribute to these efforts through the traditional multi-lateral fora but they can also potentially play a very interesting dual role

through the new forms of "triangular co-operation" that are emerging. These modalities have been described as the "third generation" of development co-operation. They occur when South-South co-operation is supported by Northern donors, who provide financial and or technical assistance. A current example includes a Japanese sponsored partnership that is transferring expertise and technology in the growing of rice, between Brazil and countries in Africa. Economies such as Bulgaria can participate in the conventional developed-country role as donor, sponsoring the south-south collaboration -- but they could also play a different and more active role, sharing directly with a southern partner the knowledge and expertise it has in sectors where the developing country needs assistance. Some developing countries that are playing a similar south-south role include Brazil, which is helping in agricultural research, training and development in a number of African countries, and Egypt, which is helping transfer knowledge of irrigation and water-management systems.

UNCTAD is involved in many activities in developing countries where there is a partner country, in the role of donor, or provider of technical expertise and knowledge, and we would be happy to assist Bulgaria in taking on similar roles. These projects tend to be practical and pragmatic, and are aimed at boosting long-term economic sustainability and growth. Among the many examples I could cite include several that relate to my environmental message today, and the need to transfer technologies for a cleaner greener environment. One project matched a 'Northern'-based multinational electrical goods corporation with a small, landlocked LDC – Lesotho. UNCTAD worked with the Lesotho government and other countries in the region to create an enabling environment in which the corporation could invest in a new factory producing innovative, energy-efficient lightbulbs, aimed at markets throughout Africa. This represents a significant investment in a new and experimental sector that is generating jobs and incomes and helping the continent to move to more 'green' energy uses. At the same time, of course, it will create substantial revenues for the investor.

UNCTAD has also helped host a partnership with the International Federation of Organic Agricultural Movements, and small-scale farmers in East Africa, with sponsorship from the government of Switzerland. The project has significantly boosted farmers' incomes and reduced their dependency on expensive imported inputs, including petrochemicals. It has also involved created a certification process and a branding and marketing strategy that is helping farmers reach customers both within the region and internationally.

Cooperation can also be about ideas, rather than the practical assistance I have mentioned so far – e.g. UNCTAD's Virtual Institute has created a network of universities and research centres with partners in developing and transition economies, to share research and training and to promote exchanges between students and senior academic staff.

These examples are all relatively small in scale and give just a brief indication of the total portfolio of UNCTAD's work. However, they have yielded tangible and useful outcomes, and I present them to you to encourage you to think about ways in which you might, potentially, help to support our work.

Ladies and Gentlemen:

To sum up, I have highlighted a number of new and interrelated trends that are likely to change the development debate over the coming decade.

First, the emerging paradigm in the post-crisis era, which sees economic power shift towards regions in the ‘global South’ and unleashes new sources of economic growth.

Second, the new consensus that we need to move away from our dependence on fossil fuels and outmoded technological methods of production and to transform the economy into one that is more sustainable and green. The benefits will ultimately outweigh the costs, especially for those countries that grasp the challenge most swiftly.

Third, we note that the days of ‘business as usual’ are behind us; there is renewed recognition that government should play a supporting, developmental role, guiding the market and stepping in when the market is unable to bring about the necessary transformations.

Finally, I emphasized the critical role of donor countries, including countries that until recently saw themselves rather as recipients.

On all of these themes, UNCTAD’s message is forward-looking and positive: These changes, we believe, are inevitable, but much good can come of them if we embrace them as an opportunity and not a setback. I am proud to be here with you today, as a representative of the United Nations and the international development community, and at this significant point in history. It is no exaggeration to say that we are at an important crossroads. When we look back on this decade, say in 20 years’ time, the start of this new decade will likely be seen as a formative moment – a moment when the world struggled to respond to the economic crisis, sought new and better models of human and economic development, strived to improve the lives of the poorest millions of people and attain the MDGs. This new decade, we will see, marked a very real attempt to wean ourselves off the ‘sunset’ habits of fossil fuel dependence and to sustain and nurture the environment.

The United Nations, representing the voice of 192 Member States, has an important role to play in this regard. We have no agenda of our own other than to protect the people, their homes, and the planet. The UN Charter opens with the phrase, “*We the peoples of the United Nations, determined to save succeeding generations....*” I believe these words are as resounding today as they were in 1945, and if there is one overarching message I hope you will take away with you this morning, it is that we all have a part to play – through our various institutional affiliations and forums, and even through our ideas and our personal actions.

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