## **Strengthening Financial Markets for Development**

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(Outline of remarks for session on strengthening financial markets through enhanced international cooperation for ECOSOC high-level meeting with international financial and trade institutions, 0804141500)

Promotion of financial markets in recent period has involved greater financial liberalization à financial interests more influential

- à deflationary pressures on macro-economic policy
- à reduced growth in last quarter century, except in Asia, with heterodox econ, including financial policies.
- Fin. liberalization has undermined earlier financial policies, institutions instruments for development
- e.g. to invest in desired economic activities, capacities (i.e. tension between Wall St vs Main St/City vs High St) IMF research has found:
- both capital flows + macro-economic policies *pro-cyclical* à undermining financial markets' ability to avoid/manage crises. Financial globalization is not contri

Developmental financial instruments + institutions weakened Inclusive financial initiatives undermined except foreign-sponsored 'micro-credit', but 'missing middle' poorly served.

# 6 major issues in 'emerging markets', other developing countries

- 1. Fin. crisis prevention mechanisms + institutions inadequate
- 2. Fin. crisis management mechanisms + institutions inadequate
- 3. Development finance has declined drastically
- 4. Need more equitable governance of IFIs for credibility, legitimacy
- 5. *National* economic authority, ownership + *policy space* essential for more effective macro-management + sustainable devt
- 6. Regional monetary + financial cooperation

### Enhanced capital inflows has mainly led to:

- 1. asset price bubbles
- 2. sterilization K additionality
- 3. consumer binge

#### **Current Financial Turmoil**

IMF should lead international response

Most inclusive despite 'democratic deficit', unlike G7, G20, etc. Financial Stability Forum, other such fora exclude most emerging mkts World economy has undoubtedly changed

But 'decoupling' claim unwarranted due to greater globalization

Short-term tools needed to contain crisis and stimulate recovery Monetary à fiscal à other -- all Keynesians again?