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INTERDEPENDENCE AND GLOBAL ECONOMIC ISSUES FROM A TRADE AND DEVELOPMENT PERSPECTIVE: POLICY COHERENCE, DEVELOPMENT STRATEGIES AND INTEGRATION INTO THE WORLD ECONOMY

Chairperson's summary

1. The debate addressed current trends and prospects in the world economy, and especially the situation in developing countries. Delegations pointed to the beneficial effects of the current recovery for the developing world as a whole, for example through increased demand for primary commodities, but also expressed concern that the recovery has been uneven and that per capita income growth is still very low in LDCs and countries in sub-Saharan African countries, fuelling doubts about these countries' ability to attain the international development goals.

2. A number of other developing countries also remain very vulnerable with respect to commodity price developments and access to international financial markets. Recent improvements in their economic situation should not obscure the fact that many structural problems, such as unemployment, unequal income distribution, foreign debt and low levels of investment, remain to be solved in many countries.

3. Many delegations expressed doubts about the sustainability of the current pattern of growth of the world economy, particularly its dependence on a further expansion in the United States, but recent development in Asia might help to redress this imbalance to some extent. The rise in oil prices and uncertainties about exchange rates are also reasons for remaining cautious with regard to short-term growth prospects. If the oil price situation is not reversed soon, oil-importing developing countries, especially the least developed ones, would face additional difficulties and might require assistance.

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4. While increased interdependence can benefit the global economy, a simultaneous slowdown in the United States and Asia, if not counterbalanced by growth in other major economic centres, would seriously threaten global growth. Recent developments in the world market for oil are an example of the negative reverberations that actions or events in one country can have in a highly interdependent world economy. It was also suggested that oil price fluctuations, like fluctuations in the prices of other primary commodities, could have negative implications for the exporting countries as well.

5. The economic and social transformations unleashed by globalization remain a major challenge for many developing countries, which do not always have the capability to handle their consequences. Many of them continue to suffer from a host of problems, including poverty, lack of financial resources, a heavy debt burden and, in some cases, even a net outflow of resources. Deteriorating terms of trade, increasing financial risks and low levels of technological development were also considered major obstacles.

6. Improvements in national governance are important to remedy this situation, but the present set of global rules could reduce the options for developing countries to manage the processes of liberalization and integration effectively.

7. Sustained growth in all parts of the developing world is in the mutual interest of all countries. In the longer term, economic growth and the trading opportunities of the more advanced economies also depend on the expansion of industrial capacity and markets in the poorer countries. New ways may need to be explored at the international level to ensure that the low-income countries, especially in sub-Saharan Africa, and all groups of their populations, can reap greater benefits from the expansion of international trade, faster growth in the developed and other parts of the developing world, and globalization more generally.

8. Multilateral as well as domestic policy solutions are required to ensure that the trading environment is made truly supportive of rapid development. The international community should further enhance the coordination of development policy aimed at facilitating development financing, enhancing technical and financial support for the developing countries, and improving the international economic environment for developing countries to undertake effective economic reforms according to their national conditions.

9. A comprehensive approach to the present challenges of development should be people-centered, respect the need for adequate economic policy space at the national level, and comprise good governance of globalization with inclusive and transparent structures of international economic decision-making. It should aim at improving access to knowledge and technology; strengthening corporate social responsibility, including by transnational corporations; and ensuring adequate and innovative financing for development. With respect to the latter, recent new proposals for further debt relief for developing countries, especially LDCs and African countries, and further efforts to increase the quantity, quality, and effectiveness of aid are welcome.

10. A sense of shared responsibility was considered essential not only in development cooperation and in efforts to attain the objectives of human development, but also in the fight against poverty, terrorism and corruption. In an interdependent world, this could contribute considerably to global security.

11. Another major theme of the debate was "Policy coherence, development strategies and the integration of developing countries into the world economy". The debate was enriched by the analytical work contained in the *Trade and Development Report 2004 (TDR)* and a panel discussion with experts around the theme "Exchange rate effects on trade and implications for the international trading and financial systems".

12. Many delegations agreed that, in the absence of a coherent approach to international economic relations, the unrestricted flow of capital, through its impact on exchange rates, can compromise the international competitiveness of companies and productive investment in developing countries, and thus have a profound impact on their trade and growth prospects.

13. The call for improved systemic coherence in support of development is one that goes back to the creation of the post-War international economic system. In today's interdependent world, all countries must take even more account of the potential effects of their actions on others. The leading economies have a particular responsibility in this regard, since their policies impact on the entire global economic system and its stability.

14. For developing countries it is imperative to design policies at the national level that improve the climate for private investment and entrepreneurial risk taking, but only in a coherent international economic system can greater openness to trade and to international financial flows help developing countries to establish a virtuous circle between external finance, domestic investment and exports.

15. Greater coherence between international processes and negotiations in the areas of trade, investment, finance and technology, on the one hand, and the different national development strategies, on the other, can also contribute to efforts to achieve the international development goals.

16. There are great hopes that the negotiations towards the conclusion of the Doha Work Programme will lead to an equitable multilateral trading system, strengthen international economic and trade cooperation, and create the conditions for sustained development, including fair rules for trade in goods and services and non-distorted access to all markets. The developed countries were invited to face up to the need for structural reform in their economies and to abandon protectionism.

17. Macroeconomic factors can affect the competitiveness of companies in developing countries. This is especially the case for interest rates, a key factor for domestic investment, and exchange rates, a key factor for trade performance. Some delegations warned in this context that even if some more advanced developing countries used their policy space to maintain their exchanges rates at deliberately low levels, such a use of policy space could not be recommended for all developing countries, and in particular not for LDCs.

18. It became clear that sharp currency depreciations, which typically occur in crisis situations, might not bring about the desired increase in cost competitiveness of domestic firms and might even lead to pressures for protectionism and competitive devaluation, with attendant risks for the world economy. It may therefore be useful to search for solutions at regional and global levels to reduce currency volatility.

19. During the informal session, panellists considered that in developing countries the impact of real exchange rate volatility is generally much stronger than in developed countries, and confirmed that it is difficult to cope with exchange rate volatility at the country level. It has to be recognized, though, that the effects of overvaluation within regional integration agreements could be particularly severe. There are also some reservations about the possibility in most of the developing world of entering into regional monetary integration arrangements, because these require resources and the willingness to use them for the purpose of regional exchange rate stabilization.

20. Some delegations suggested that policy coherence in the governance of globalization in favour of development also requires broader and stronger participation of developing countries in international economic decision-making and norm setting.

21. The current situation in the oil market can also be looked at from the point of view of coherence, as it might call for closer cooperation between producers and consumers to stabilize prices, while such cooperation has become unpopular as a possibility of dealing with price volatility in the markets of other commodities. It was suggested that international mechanisms to ensure greater stability of commodity prices should be considered.

22. The *TDR 2004* was perceived as providing useful data, analyses and ideas with regard to the interplay between trade, monetary and financial factors shaping trade performance. However, both the *TDR* and the panel discussion left open the question of what a "better international financial architecture" would be and how it could be achieved. The proposal for a new multilateral exchange-rate arrangement requires a stronger conceptual foundation, and for a number of reasons it may be difficult to implement. It is also not clear if it would lead to net improvements over existing exchange rate regimes.

23. An assessment of how the GATT balance-of-payments provision could be used to address problems associated with the instability in financial flows may deserve further attention, although this provision is subject to stringent conditions which have made it difficult for developing countries to invoke it.

24. It has become clear again that a collective approach is needed to foster coherence between the international trading, monetary and financial systems. Although the protagonists in matters related to international policy coherence are the WTO and the Bretton Woods institutions, UNCTAD can also contribute to the debate on how to achieve greater coherence thanks to its unique position, in which it is mandated to deal with all economic, commercial and social aspects of development in an integrated manner.

25. However, UNCTAD should not only examine which strategies have been successful in certain parts of the world and at certain times, but also present alternative scenarios, including concerted action the international community might take. UNCTAD should continue to sharpen its analytical work, and to broaden its technical assistance programmes to help developing countries meet the complex challenges arising from trade liberalization and globalization.

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