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Contents

President's summary

High-level segment: Volatile capital flows and development

(Agenda item 3)

1. According to participants, the global economic crisis revealed that the international monetary system had become obsolete in the face of new developments and reality on the ground. Governments were faced with the mutually impossible task of reconciling inflation, exchange rate and interest rate goals, and some of the strategies through which they had tried to resolve this "trilemma" had in turn created fresh problems. For example, holding large foreign exchange reserves helped create a safety net or protection against exchange rate volatility or disequilibrium, but it was also costly and wasteful. Similarly, the lack of an international coordination mechanism for exchange rates meant that countries could not put in place sounder measures to manage the liquidity crisis.

2. There was some debate about the optimal level of exchange rate flexibility, and also about the extent to which current large-scale capital flows into emerging and developing economies were investment-related or were only aiming at seeking short-term speculative gains. There appeared to be consensus, however, that very-short-term capital flows created instability in all markets, a problem which needed to be tackled. The experiences of Argentina and Brazil showed some of the challenges involved in maintaining macroeconomic stability in the face of large-scale capital inflows and, even more importantly, their abrupt unwindings and reversals.

3. G-20 efforts to deal with the "burning issue" of developing a more effective collective and cooperative approach were also described. Several speakers supported the view that more international coordination was needed so that national governments did not have to rely only on the imperfect mechanisms of unilateral policies or controls. UNCTAD's work in this respect was cited as having made a good contribution to the debate. The *Trade and Development Report 2011* was cited as providing a valuable and detailed analysis of causes and effects of destabilizing currency fluctuations and the recommendations to manage floating exchange rates. UNCTAD was viewed as a more inclusive forum where those issues could be addressed.

4. Some delegates questioned the effect of the renewed stimulus efforts in the United States on the economic recovery, raising concerns that they could provoke further uncertainty and impact negatively on the real economy. For example, exchange rate misalignments could wipe out vulnerable sectors of national economies that could not compete, and when exchange rates returned to normal levels, it would be too late to resurrect the sector. The Brazilian and the Swiss cases were cited as examples where such "wrong prices" were affecting the real economy, forcing authorities to act.

5. Speakers included the Ambassador of France and the Ambassador of the Dominican Republic, in addition to the panellists: Mr. Gilbert Terrier of the International Monetary Fund; Mr. Carlos Cozendey, Secretary for International Affairs for Brazil's Ministry of Finance; Dr. Sergio Chodos, Director of the Central Bank of the Argentine Republic; UNCTAD Secretary-General Mr. Supachai Panitchpakdi; and Mr. Heiner Flassbeck, Director of UNCTAD's Division on Globalization and Development Strategies.