INTERDEPENDENCE AND GLOBAL ECONOMIC ISSUES FROM A TRADE AND DEVELOPMENT PERSPECTIVE: CAPITAL ACCUMULATION, ECONOMIC GROWTH AND STRUCTURAL CHANGE

Chairperson's summary

1. The debate addressed the implications of the current situation in the world economy and the short-term outlook. There was agreement that, although weakening export demand and falling commodity process prices have affected income growth in a large number of developing countries, the current situation shows that there are considerable variations among developing countries with regard to their vulnerability to different types of shocks and in their capability to respond to such shocks.

2. While the developing countries in Asia and countries with economies in transition have been able to maintain relatively high growth rates thanks to an expansion of domestic demand and other successful policy measures, the Latin America and Caribbean region has been most affected by the recent global economic slowdown, which has led to a deteriorating social and political climate in several countries of the region. It is now necessary to find a durable solution to the balance-of-payments and external debt problems of a number of countries in the region.

3. Although Africa has been somewhat less affected by the global slowdown since 2001, the HIV/AIDS pandemic, political instability and armed conflict, in addition to weak commodity prices and insufficient inflows of official and private capital, have contributed to a real development crisis. It was suggested that improving growth prospects for Africa
require more growth-oriented policies and a solid recovery in the world economy. Strengthened international financial cooperation, as agreed in the Monterrey Consensus, and a world trading and financial system that is more supportive of development, were also considered essential. The New Partnership for Africa’s Development (NEPAD) was seen as a reason for optimism.

4. The SARS pandemic, although rapidly contained, has slowed down growth in several economies in Asia. Nevertheless, Asia has been the fastest-growing region and is gaining increasing importance for global growth dynamics. Several delegations noted that in East Asia the strength of macroeconomic fundamentals and balance-of-payments positions have allowed considerable room for domestic demand expansion to support growth, which has been reinforced by strong intraregional trade linkages, with China as the most rapidly growing export market for the region. The resilience of the Asian economies and their fast growth were considered to be the result of successful policies over many years, which have fostered capital accumulation, growth and structural change.

5. There was agreement that short-term prospects for global growth, although they might be more positive than suggested in the Trade and Development Report 2003 (TDR), continued to be troubled by a number of uncertainties and imbalances, with negative consequences for the developing countries. Quite a number of delegations underlined the need for firm action on the part of the developed countries to stimulate growth and to ensure a smooth and orderly rebalancing of the world economy in order to avoid any further disruption of the recovery.

6. Very serious concerns were expressed regarding the uncertainties about whether the Millennium Development Goals, especially the goal of halving poverty by the year 2015, will be met. Some delegations believed that, even under the most optimistic scenario, it will be impossible to meet these Goals, especially in Africa.

7. Another major theme of the discussion under item 2 was capital accumulation, economic growth and structural change. Here, the debate was enriched by the analytical work contained in the TDR and a panel discussion with experts. Although some doubts were raised on parts of the analysis contained in the TDR, the Report was seen as a great contribution to the international development policy debate.

8. Delegations agreed that the economic and policy reforms undertaken in many countries of Latin America and Africa during the 1990s, with their emphasis on trade and financial liberalization, deregulation, privatization, foreign direct investment (FDI) and reducing State intervention, have not delivered the desired results in terms of growth and creating an appropriate macroeconomic setting for the creation and expansion of productive capacity and the improvement of productivity. There was also agreement that growth and poverty reduction cannot be sustained without an adequate level of capital accumulation, and the East Asian experience shows that the structure and quality of private and public investment matter for successful industrialization, productivity growth and structural change.
9. In the light of these experiences, a majority of delegations agreed on the need to rethink the design of reform programmes and development strategies. One delegation suggested that, while the Washington Consensus continues to be valid and countries attempting to achieve stable growth in the current world economy still need to pay attention to its precepts, it has become clearer over time that, in order to establish strong, equitable and sustained growth, it is also essential to ensure good governance, transparency and broad-based institutional development. Some delegations believed that some policy latitude for developing countries is necessary to enable Governments to react when the international economic environment turns unfavourable.

10. Many other delegations believed that a more profound revision of development strategies is required, with an important role not only for market forces but also for the state. Such a strategy should rely on both exports and domestic markets, and take into account each country’s specific structures and capacity for social and economic change. There was a lively debate on the extent to which the East Asian experience over the past two decades might be successfully replicated by other developing regions. It was argued that, while a high investment ratio has been the engine of growth in many of the most successful economies, other elements are also relevant for a viable development strategy, including regional integration and improved technology inflows, which may or may not be linked to FDI.

11. The issue of policy space was addressed by many delegations, arguing that trade liberalization alone is not sufficient to boost development and prosperity and to accelerate income convergence. For quite a number of delegations, an important lesson from recent experience is that developing countries require sufficient policy space to develop local industries and to manage their integration into the world economy in a more balanced manner. There was agreement that such policies need to be linked to an outward-oriented development strategy, albeit with recognition of the constraints imposed by international arrangements. As the consequences of liberalization have to be socially acceptable, more attention has to be paid to income distribution, social programmes, land reform, and education. The negative consequences on macroeconomic stability in most developing countries resulting from premature financial and capital account liberalization without an effective regulatory framework were also emphasized. In the absence of international arrangements to attain greater financial stability, it is important for developing countries to retain policy autonomy to limit their exposure to volatile international capital markets. Some delegations also drew attention to the importance of enhancing capacity building in developing countries and creating mechanisms to protect them against the impact of volatile international markets.

12. It was also stated that, while a more favourable global environment is required to accelerate development, developing countries themselves should engage actively in market-oriented reforms and the formulation of proactive monetary, financial and industrial policies. They should open to the world economy gradually and reduce their dependence on primary commodities.

13. The debate on interdependence frequently referred to the negative outcome of the Cancún Ministerial Meeting, which is of great concern to all member countries. Renewed
protectionism and unilateral action are not the way forward, not least because these would damage the developing countries the most. Representatives from developing countries deplored in particular the lack of progress in the areas of agriculture and improved market access, which is considered to be crucial for the viability of their emerging industrial sectors. Many delegations believed that the failure of Cancún was due to the existing imbalances in the multilateral trading system, which, in their view, have contributed to the widening gap between the rich and the poor.

14. There was agreement about the need to resume the multilateral trade negotiations as soon as possible. Further progress in reforming the international trading system is clearly desirable for the entire international community. A majority of delegations, in particular from developing countries, stressed the urgency of strengthening the development dimension in the multilateral trading system, if globalization is to generate benefits for all countries. Several delegations expressed the view that, so far, the benefits of globalization have been concentrated in a small number of countries, while it has contributed to increased poverty and continued underdevelopment in many others, thereby accentuating global disparities and jeopardizing peace and stability in the world.

15. In order to put the Doha round back on track, it is now necessary that the negotiations take fully into account the particular needs and interests of the developing countries, in particular in the area of agriculture. Developed countries were called upon to do more to liberalize their trade regimes, while the developing countries were encouraged to increasingly open their markets for each other's exports. In addition, systematic efforts were considered to be necessary to achieve greater coherence between the international trading and financial systems. There is a need for an integrated approach to global economic governance and for concrete and sufficiently funded programmes to protect developing countries, in particular the least developed, landlocked and island economies, and economies and transition against the impact of external shocks and to bridge the widening gap that separates them from those who are better off.

16. Many delegations also reiterated their support for the Monterrey Consensus. All developing countries and some developed countries felt that more effort was needed from developed countries to provide technical and financial assistance, and especially to live up to the internationally agreed targets for official development assistance.

17. A large number of delegations stated that UNCTAD remains the best forum to discuss the challenges of global economic interdependence from a development perspective, to explore better ways of enhancing the economic development of developing countries, and to forge consensus on all issues related to trade and development. These challenges were considered more complex and interrelated today than at any time in UNCTAD’s history. Several delegations suggested that UNCTAD is more relevant today than ever before as a think tank of developing countries, and its role should be strengthened in the future. The institution can make an important contribution in the process towards an impartial and more predictable trading system, and to overcoming the crisis in the multilateral negotiations after Cancún. It should continue to remind the international community that the global economic
system must ensure the delivery of welfare gains to all. UNCTAD XI was considered as an important opportunity to strengthen the role of the institution.