

Trade and Development Board, fifty-third session

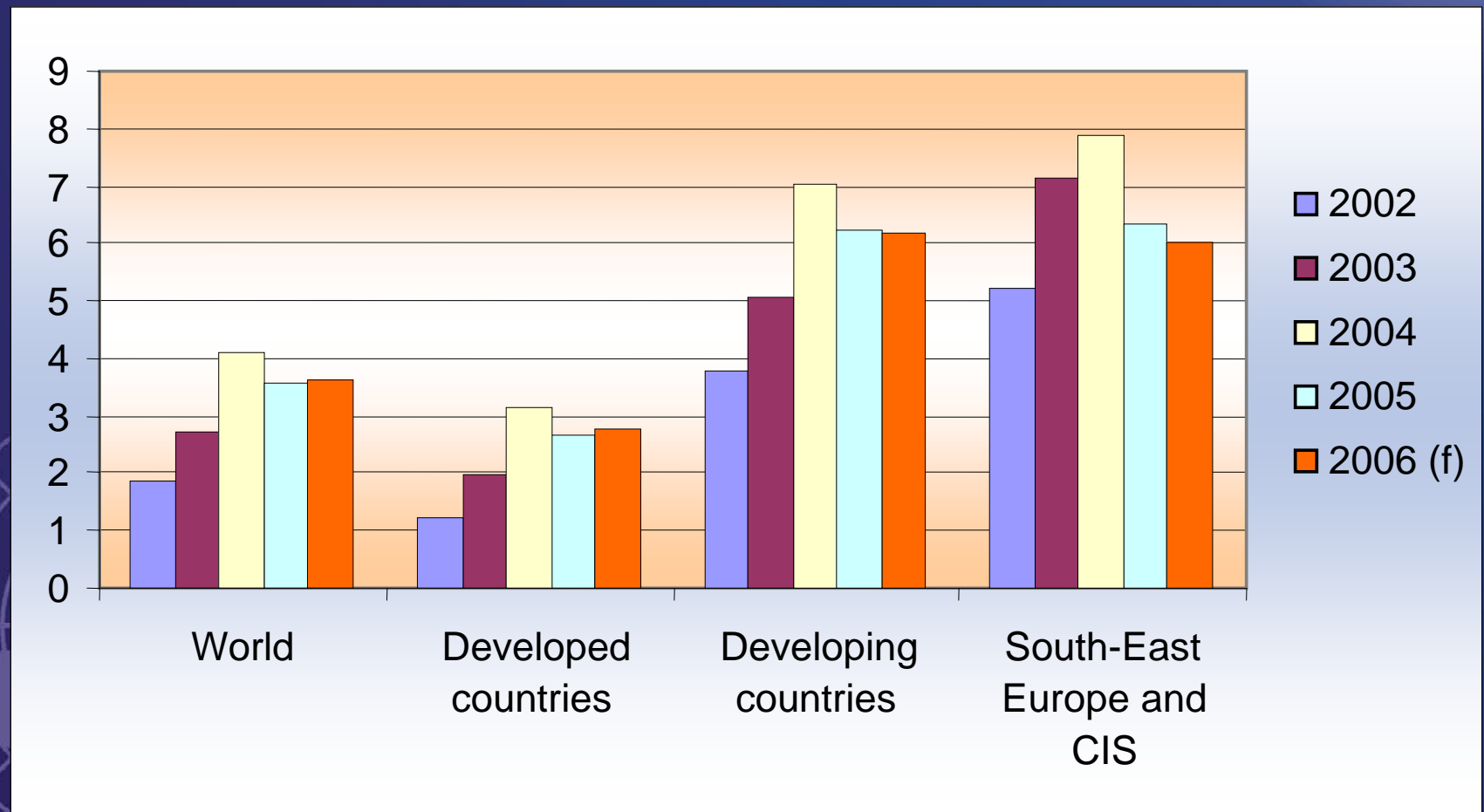
Item 2: Interdependence (*Trade and Development Report, 2006*)

**Geneva
28 September 2006**

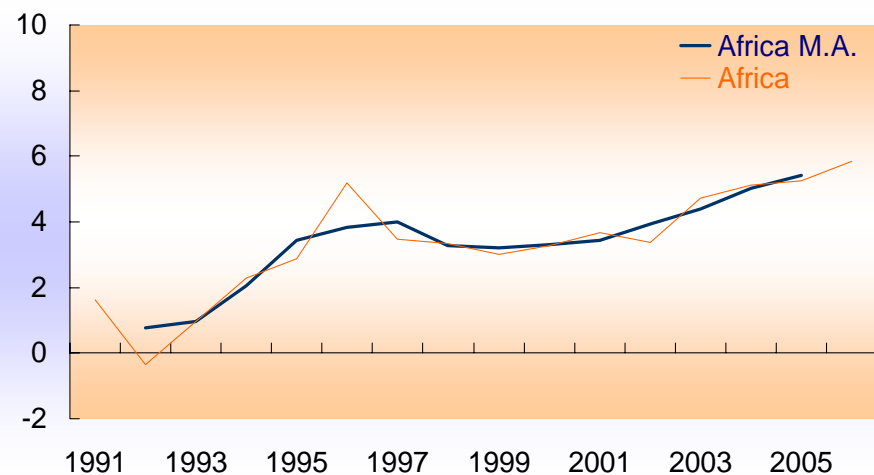
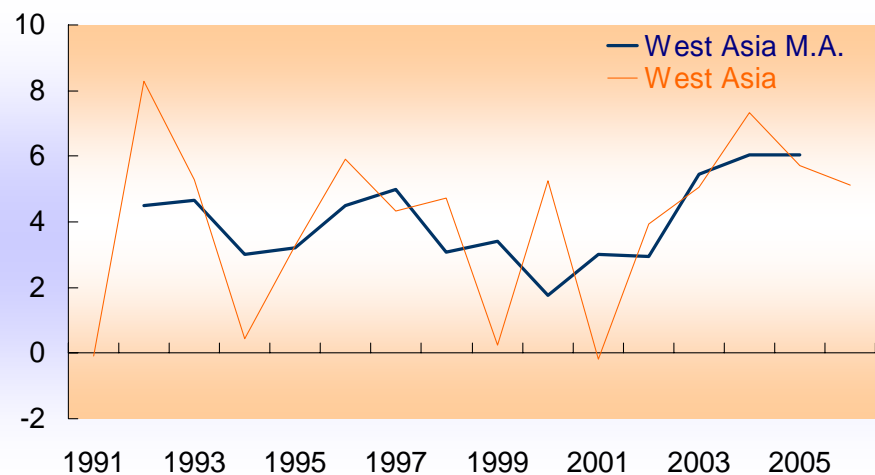
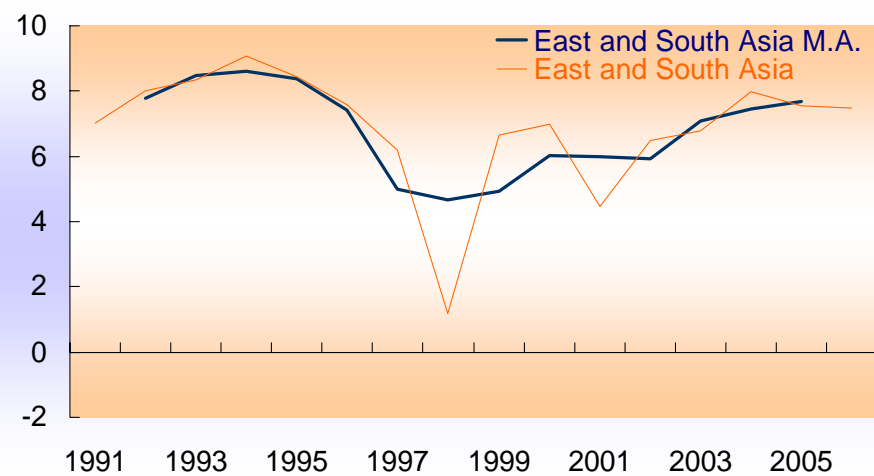
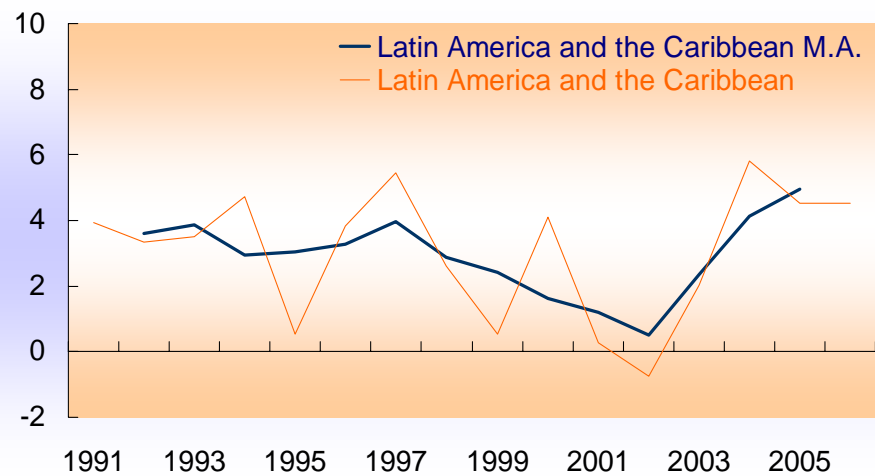
**Presentation by Heiner Flassbeck
Officer-in-Charge, Division on Globalization and
Development Strategies**

Global economic expansion continues in all the main regions

Growth of world output, 2002 to 2006 (forecast)

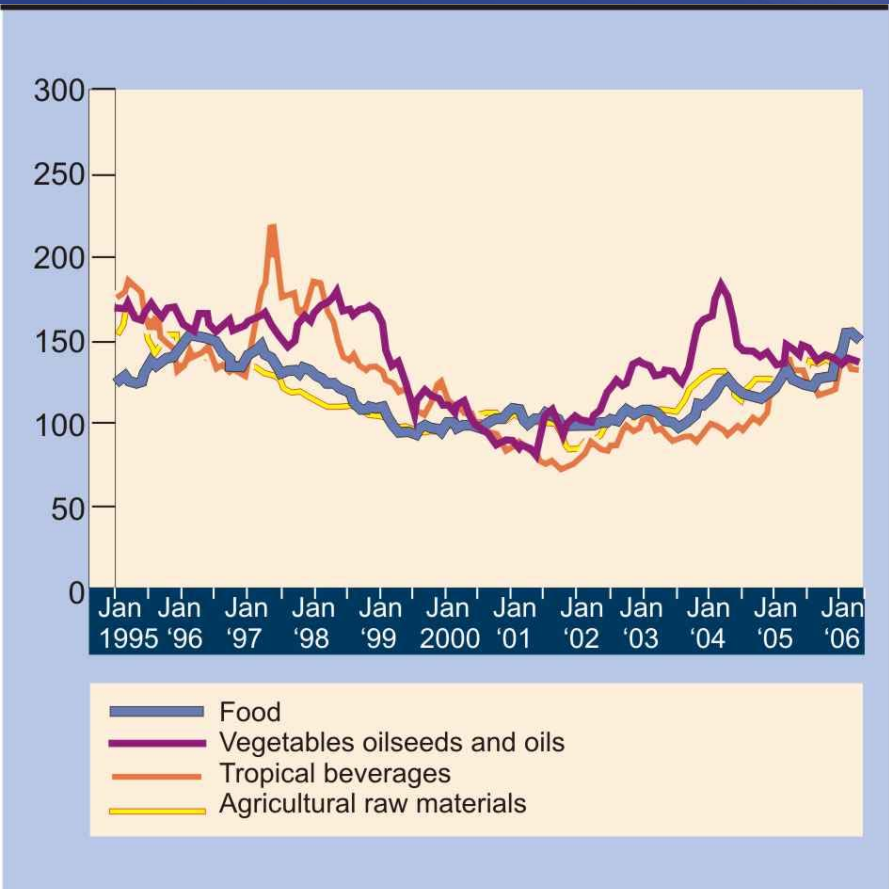


Growth in developing countries is accelerating since the turn of the century

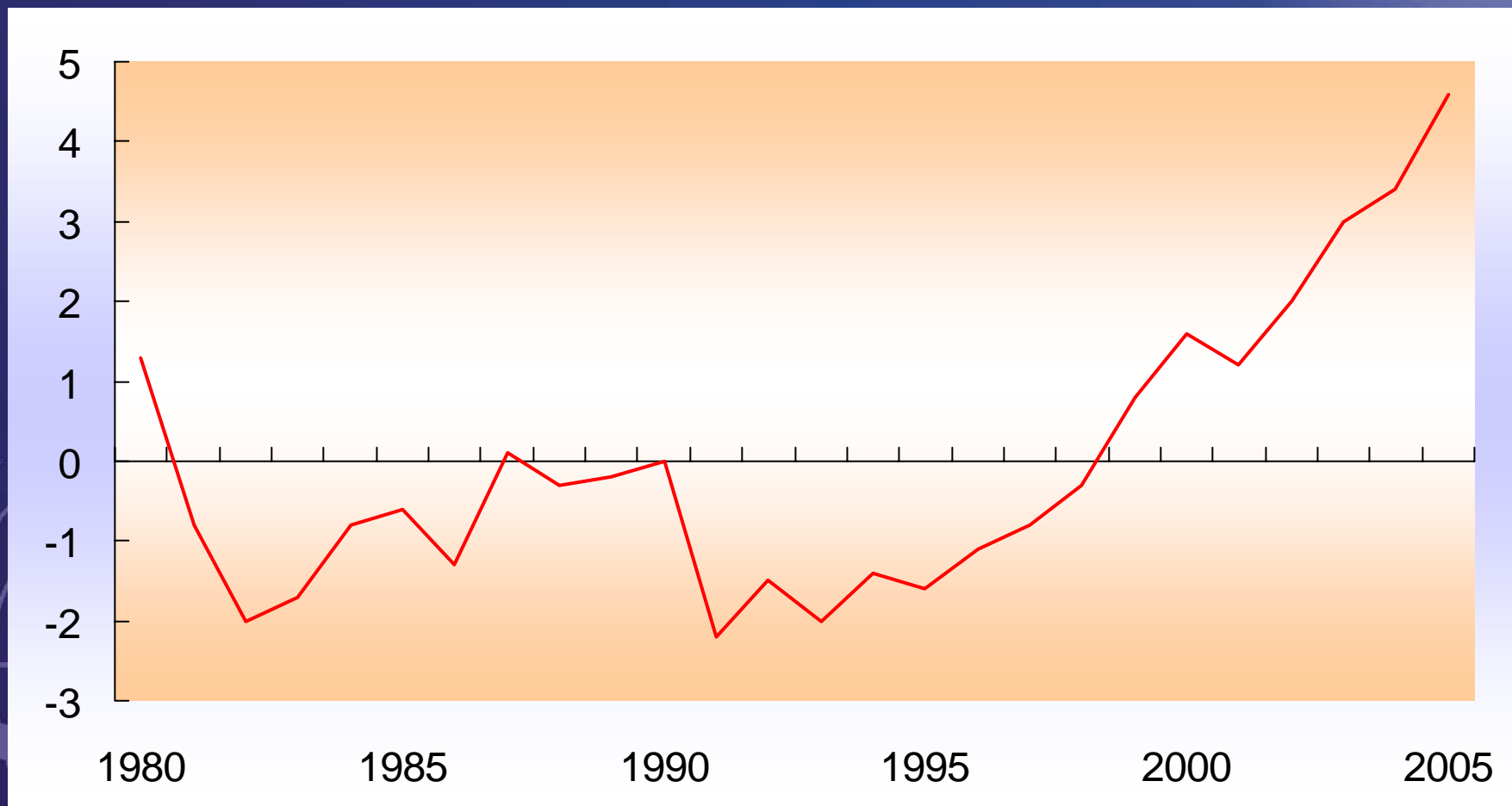


Most commodity prices kept growing in 2005 and 2006, owing to sustained demand of Asian countries and the US, supply constraints and speculation.

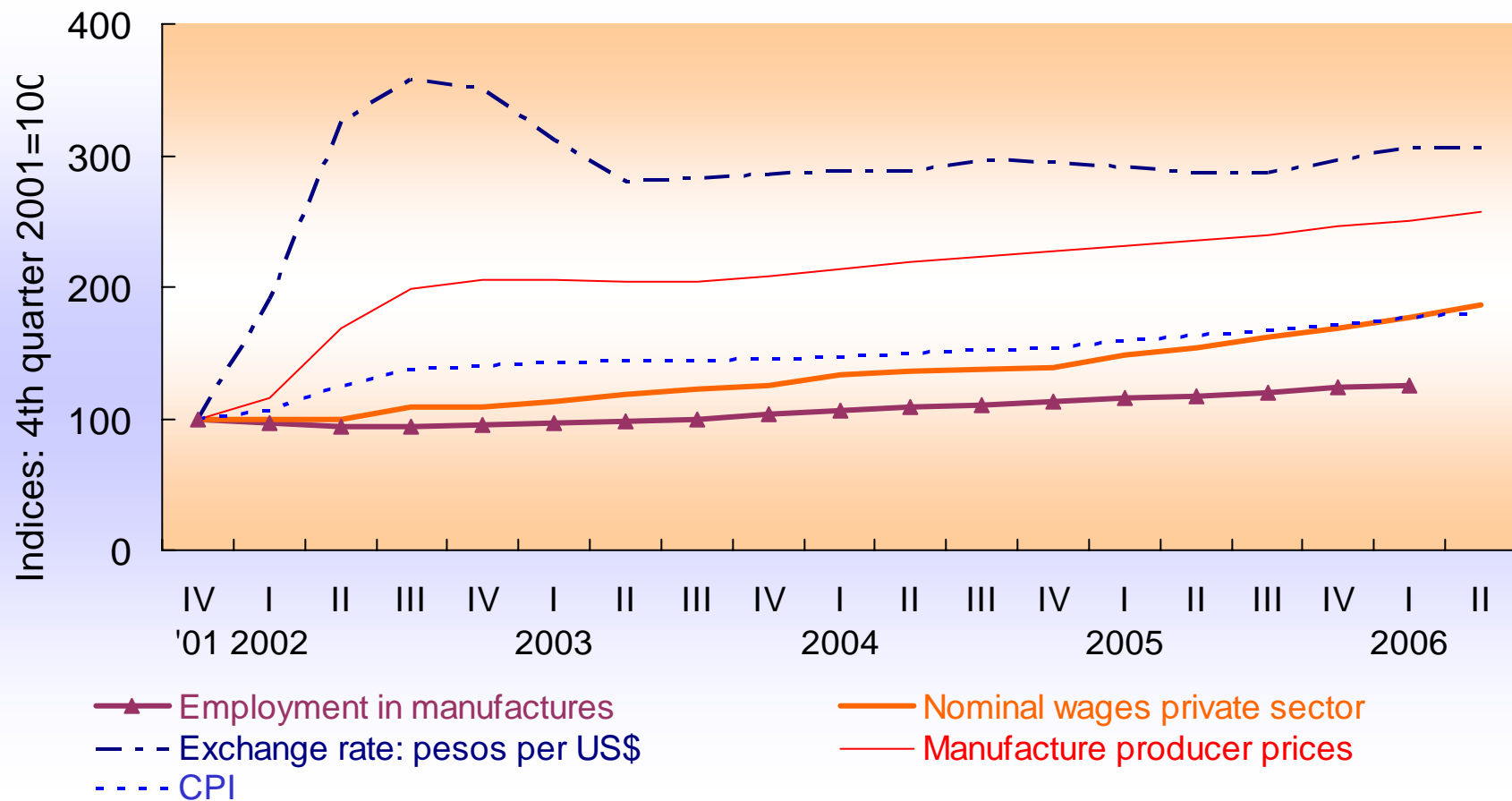
Monthly commodity price indices by commodity group, 1995-2006
(Index numbers, 2000 = 100)



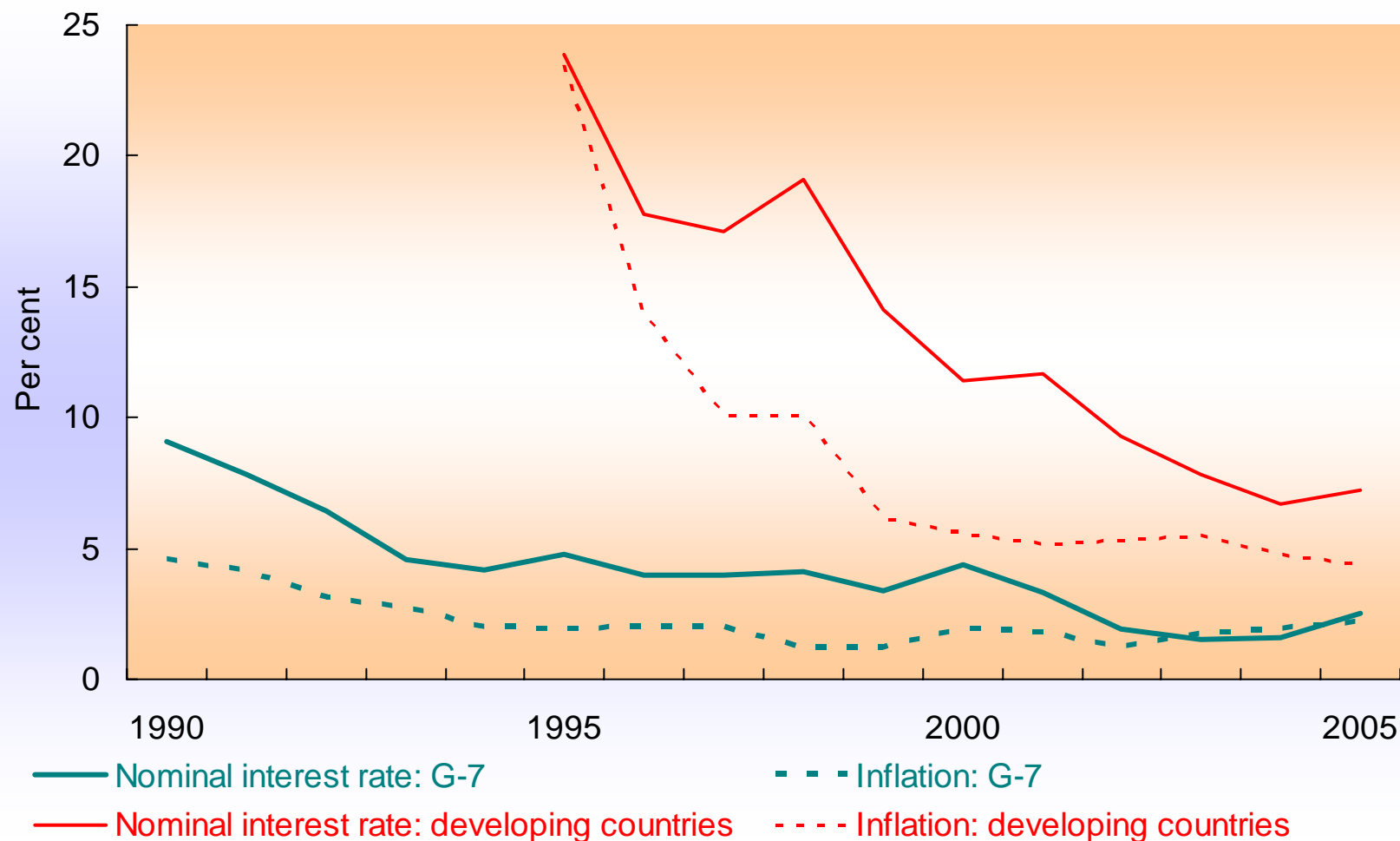
Current account balance of developing countries in per cent of GDP (1980-2005)



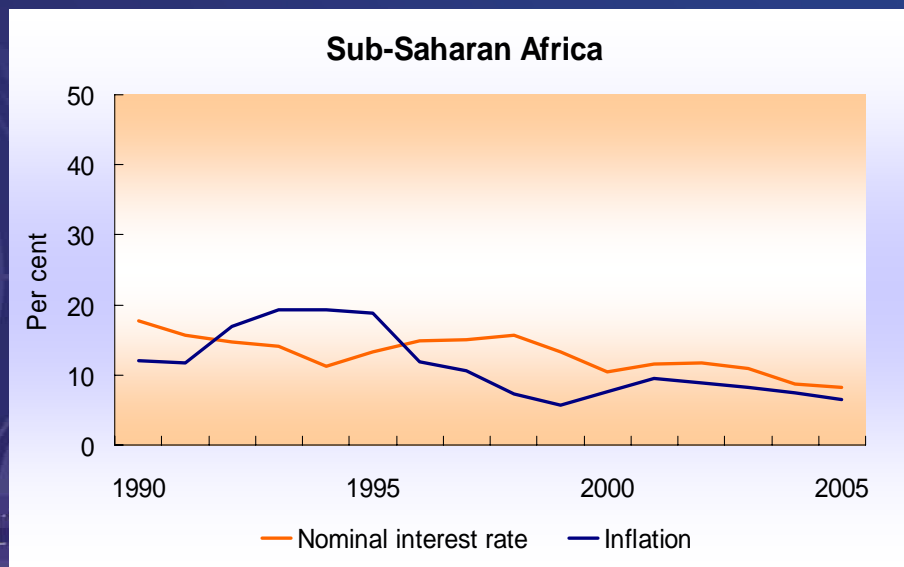
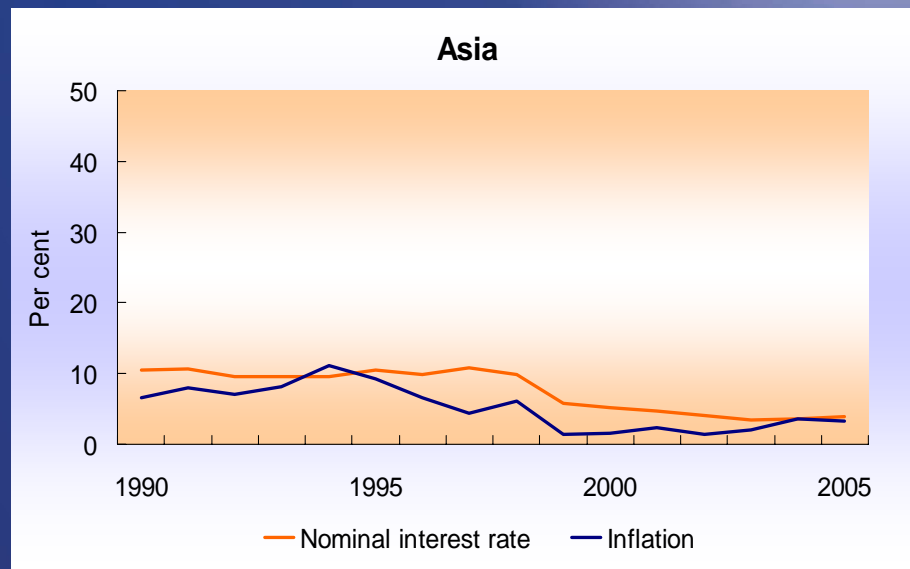
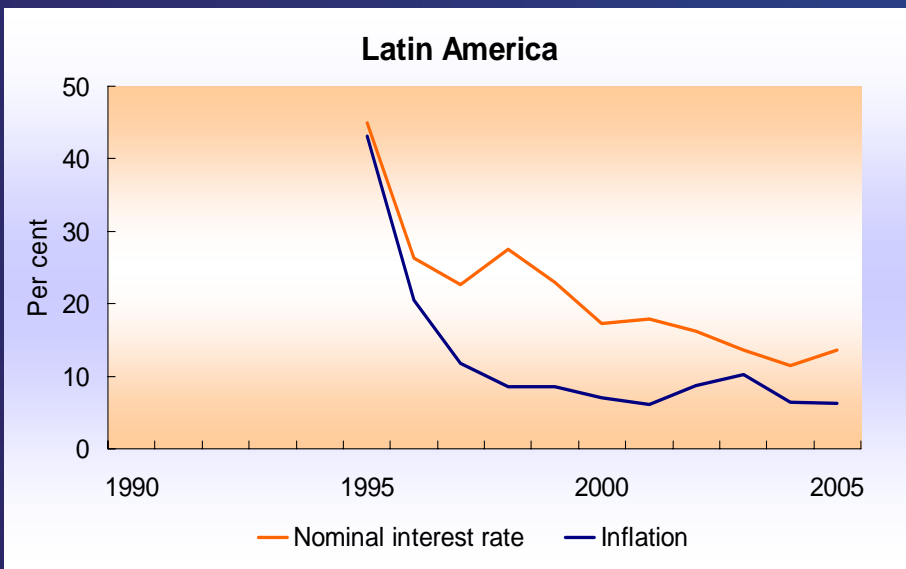
Argentina: the shock of a devaluation and the positive response of the economy



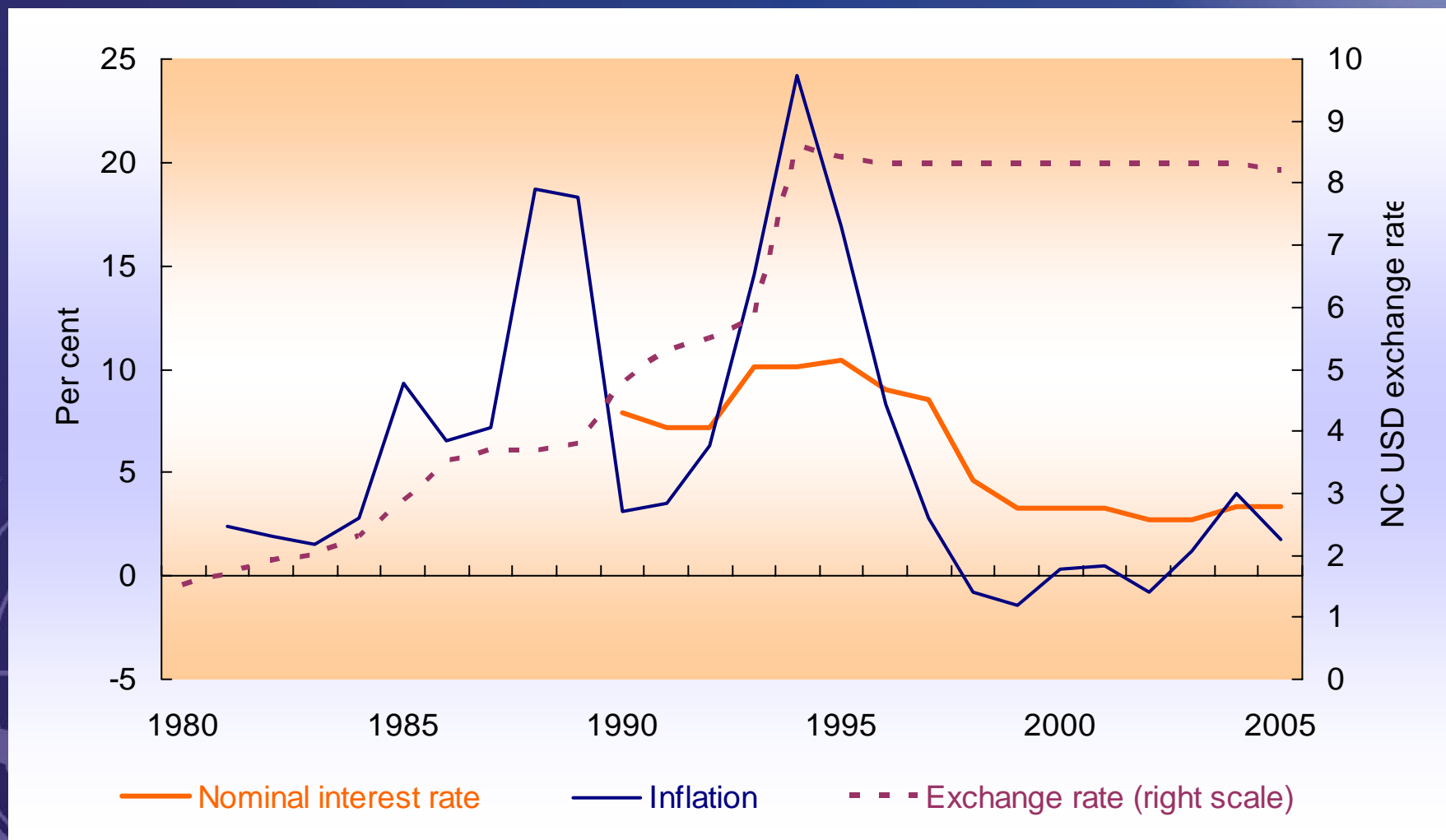
Nominal interest rates and inflation, G-7 and developing countries



Nominal interest rates and inflation are at very low levels in developing countries



Nominal interest rate, exchange rate and inflation in China, 1980-2005



A more flexible and pro-active macroeconomic policy should:

- **Put the monetary policy at the service of investment and growth, not only price stability. This would require the use of non-monetary instruments to control inflation;**
- **Target a real exchange rate consistent with external competitiveness. This would require the pragmatic use of “intermediary” exchange rate regimes;**
- **Additional policy space may also be gained through temporary capital controls.**

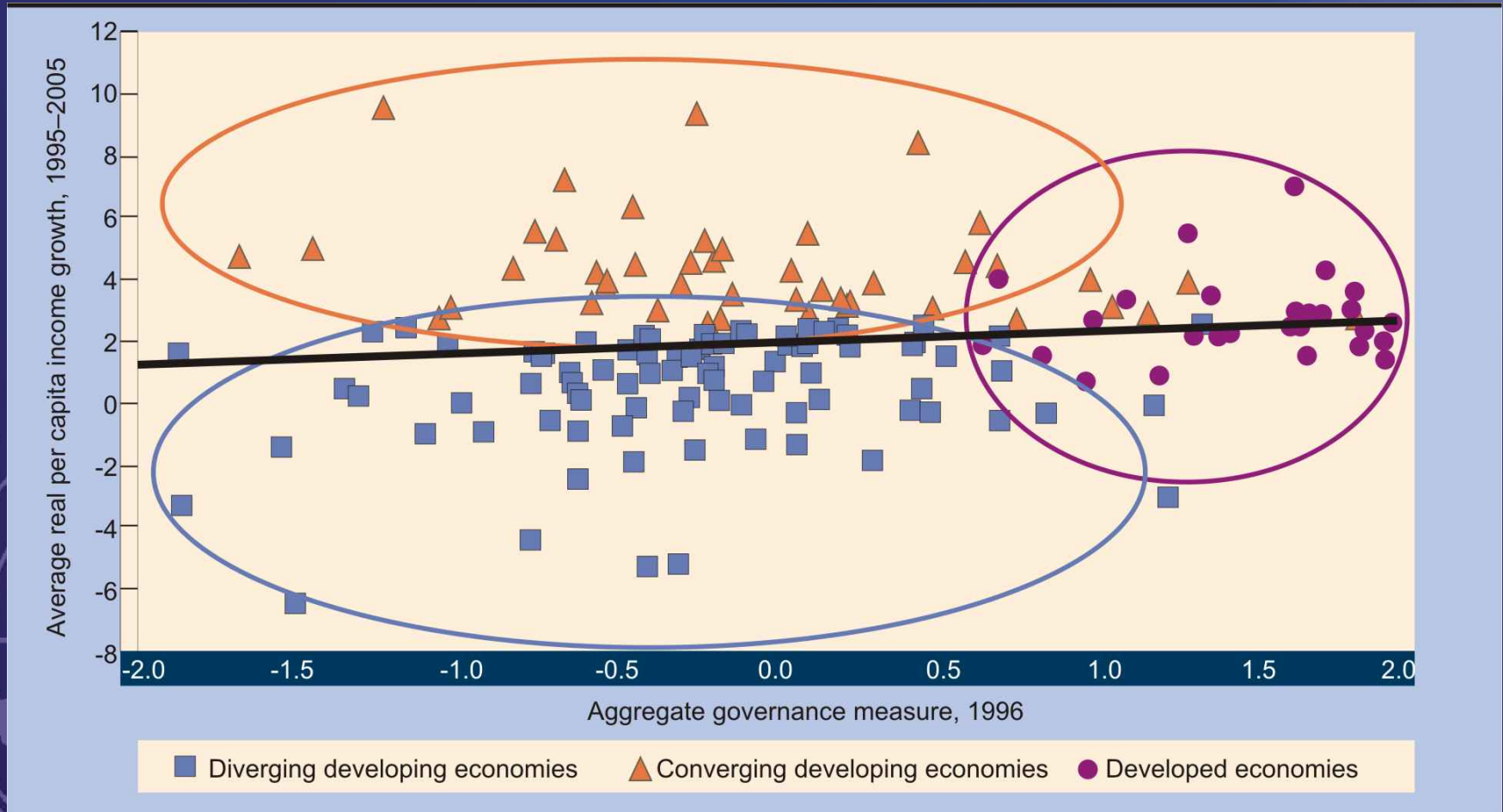
The need for proactive development policies



The need for a re-orientation of development policy

- Market-oriented reforms over the past 25 years did not deliver the expected results;
- More attention has to be given to enhancing productive capacity and technological change;
- This requires a reform of macroeconomic and industrial policies;
- At the same time, developing countries have lost policy autonomy.

Good governance is not enough: per capita income growth, selected groups of economies, 1995–2005 and governance indicators



Open-economy industrial policies support innovative entrepreneurs

- Industrial policies should aim at:
 - solving information and coordination problems in the investment process;
 - ensuring that production experience is translated into productivity gains;
- Complementary trade policies aim to achieve international competitiveness in increasingly more sophisticated products;
- This is not an inward-oriented protectionist approach but an element of strategic trade integration.

There is no “one-size-fits-all” industrial policy but there are some general principles

- Innovative private enterprises have lead role;
- Policy support should stimulate innovative investment and should not be a protectionist defence mechanism;
- Support should not be open-ended but based on operational goals, observable monitoring criteria and specific time horizons;
- Policy measures should result from dialogue between the government, enterprises and research institutions.

Need for more coherence in multilateral rules and disciplines

The bottom line is:

- More multilateral disciplines needed in monetary and financial relations, but more flexibility needed in the multilateral trading system;
- Multilateral rules and disciplines must be strengthened in the area of macroeconomic, capital account and exchange rate policies to avoid ever growing imbalances;
- Anne O. Krueger: ... "the absence of a multilateral, non-discriminatory framework governing international capital flows (and exchange control mechanisms) is an important and potentially costly gap in the multilateral economic system" (Singapore 2006)