Statement by

Mr. Rubens Ricupero
Secretary-General of UNCTAD
Mr. Chairman,

Global economic recovery continues to be dominated by the performance of the United States economy and is proving a good deal slower than was forecast during the first half of the year. The decline of interest rates in industrial countries since 2001 has failed to revive private spending in an environment of plunging share prices, volatile exchange rates and unpredictable oil prices. As forecasts for 2003 have also been adjusted downwards, there may be need for additional macroeconomic stimuli to accelerate growth and economic activity.

The present state of the global economy brings to mind Tolstoy's remark that, while most happy families are much alike, unhappy ones tend to be so for very different reasons. In the United States, the current mood reflects a growing realization that the bursting of the high-tech bubble is proving more difficult to manage than had originally been hoped. The inventory adjustment that boosted growth in the first quarter of this year has not been sustained. With labour market conditions weakening, a savings rate still close to zero and high levels of household indebtedness, recovery is unlikely to be sustained by private consumption. The overall growth rate of the United States economy seems likely to remain at around 2 to 2.5 per cent. Rising oil and falling equity prices may depress that growth even further. The economic situation could worsen even more should the dollar slide.

Expectations of a strong recovery have also been disappointed in the Eurozone and beyond. Growth forecasts for this year have been consistently revised downwards in the face of renewed negative business and consumer sentiment. Hopes that exports might take the lead have been dampened by sluggish global demand and the rise of the euro. Despite recent signs of a turnaround, Japan is finding it difficult to shake off deflation. Although price declines have sustained real wages despite falling nominal wages, because of consumer caution, recovery in domestic demand still looks fragile, and hopes for an export-led growth through a weaker currency may be dashed.

The mood is more mixed among developing countries. Growth has been relatively strong in a number of Asian economies despite their dependence on exports to the United States. Indeed, Asian exports of IT goods to that country improved sharply in the first half of 2002. Many countries in the region have benefited from the ability to use macroeconomic policy in a counter-cyclical manner due to relatively low levels of external indebtedness and low dependence on external financing. With India and China continuing their robust performance, regional growth looks set to remain vigorous this year.

Amidst increasing concern over the strength of the global recovery, particular attention is being focused on Latin America. Although recent reforms in that region have brought inflation under control, export performance has been disappointing. Growth is still sluggish by comparison with past levels, and relies heavily on capital inflows. Latin America's pattern of integration into the global economy is demonstrating its vulnerability, and the growth forecasts for 2002 seem likely to be revised downwards.
Mr. Chairman,

Persistent disparities among the leading industrial economies are putting further strains on an increasingly interdependent world economy. The United States' position as "consumer of last resort" has generated sizeable current-account deficits which have persisted despite economic slowdown and the depreciation of the dollar. How long foreign capital inflows will continue to finance such deficits is an unanswered question. A more secure global economic environment depends on a more balanced distribution of demand amongst the major industrial countries. If Europe and Japan are able to join the United States as demand locomotives for the world economy, then recovery will be on more solid ground. A broad-based recovery would help to stem the rising tide of protectionism and provide a favourable context for the negotiations initiated at Doha for an open, stable and development-oriented multilateral trading system.

The halting recovery not only points to the need for greater macroeconomic policy convergence among the major industrial economies, but also reveals the difficulties involved in the choice of monetary and financial policies during speculative booms in asset prices. Both the sustainability of consumption levels fuelled by the wealth effect of the speculative boom in the United States, and the excess production capacity generated, are now major sources of policy concern.

Capital inflows to emerging markets have also been characterized by large swings. However, the international community has tended to underestimate the systemic nature of financial instability. Uncertainty continues to surround international intervention in crisis situations. In particular, the lack of orderly procedures for the resolution of the international debt problem is again being exposed in the current round of financial turmoil in Latin America. Conditions for financial support continue to entail pro-cyclical fiscal retrenchment in the face of declining economic activity and increasing poverty, which worsens the strain on the already precarious living conditions of the continent's population.

Recent events in the United States corporate sector have serious implications for the financial organization of emerging economies. The contribution of stock markets to allocative efficiency and growth depends on the observance and enforcement of standards of transparency and on the rational use of information by investors. Investor behaviour during the boom in the United States and recent revelations of corporate misconduct point to the difficulty of maintaining such standards even in the country held up as a model to the rest of the world.

Mr. Chairman,

Various aspects of the record of managing global interdependence came under close scrutiny at the recent Summit in Johannesburg. While it is still premature to evaluate the outcome of the Summit, there are widespread concerns over whether the existing multilateral arrangements can handle the complex interplay of social and economic issues taken up in Johannesburg. What seems certain is that, in a weak and unstable global economy, it will be difficult to meet the target dates for many of the Summit's stated goals of poverty alleviation.
The recent emphasis on poverty alleviation needs to inform the policy recipes of international financial institutions aimed at tackling macroeconomic imbalances and market distortions in developing countries. This is particularly evident in sub-Saharan Africa, where economic growth has barely kept pace with that of the population and where per capita income at the turn of the millennium is still 10 per cent below the level reached 20 years earlier.

There is now a broad consensus that faster economic growth is the key to poverty alleviation in Africa. However, it is also recognized that the benefits of growth may not automatically trickle down to the poor. And the policies chosen to stimulate growth may lead to economic disruptions which hurt the poorest communities, at least in the short run. The new approach to combating poverty also emphasizes the importance of broader-based participation by national policy makers, civil society organizations and the poor themselves in designing anti-poverty programmes.

While these are certainly welcome elements in this renewed effort to address poverty, some questions need to be addressed. First, in light of the inability of adjustment programmes to overcome major impediments to rapid and sustained growth, any new emphasis on poverty alleviation should be founded on a careful, frank and independent assessment of the effects of those reforms on economic growth and income distribution. Much more attention also needs to be given to social-impact analysis in designing poverty strategies.

Secondly, the approach adopted in the key areas of education and health is a source of concern. Market principles, relying on across-the-board user fees except for primary education and basic health care, cannot be the sole criteria. Greater emphasis should instead be placed on more differentiated user fees and progressive tax systems.

Finally, the coupling of the emphasis on ownership and participation in the design of anti-poverty programmes with strict conditionalities for multilateral lending and debt relief considerably limits the freedom of action of recipient governments. While there is almost universal agreement on the importance of institutions and good governance in economic, social and political development, improvements in these areas can be made only if the specific conditions of the countries involved are fully taken into account. Imposing a common institutional standard and sequence on all countries, regardless of their respective problems and weaknesses, is likely to be counterproductive.

It should never be forgotten that, even if improvements can be made in policies and governance in the countries of SSA, successful development will still depend crucially on better external conditions. Increased aid, debt relief and greater market access all have their part to play in this respect. UNCTAD has been in the vanguard of those calling for bolder measures in each of these areas. In the last resort, greater domestic policy effort, even of the right kind, and good governance cannot make up for inadequate external financing and the adverse effects of protectionism in industrialized countries.