REPORT ON THE MEETING OF THE EXPERT GROUP

ON THE WORLD ECONOMIC SITUATION AND PROSPECTS

(PROJECT LINK)

United Nations Headquarters, New York

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Economic Assessment and Outlook Branch

Development Policy Analysis Division

Department of Economic and Social Affairs

1. Introduction

The Spring 2002 meeting of the Expert Group on the World Economic Situation and Prospects (Project LINK) was held at United Nations Headquarters, New York, from 24 to 26 April 2002. The Development Policy Analysis Division of the Department for Economic and Social Affairs (DESA) hosted the meeting, and over 80 participants from approximately 50 countries, as well as several representatives from international agencies and the United Nations Secretariat, attended the meeting. This report summarizes the key issues discussed in the meeting.

The agenda of the meeting covered three broad topics: (1) the global economic outlook, including the LINK global forecast prepared by the Economic Assessment and Outlook Branch (EAOB) of the United Nations Secretariat, and the global outlook as assessed by other international institutions; (2) regional economic outlooks presented by LINK country participants and United Nations regional commissions; (3) other economic issues, such as the growing synchronicity among the world's economies, the post-Doha world trade agenda, and new methodologies for constructing African development indicators.

The LINK *Global Economic Outlook*, and *Regional Outlook*, prepared by EAOB for the meeting, LINK *Country Reports* prepared by country participants, and other documents presented at the meeting are available on both the United Nations' website (http://www.un.org/esa/analysis/link) and the Project LINK Research Center website at the Institute for Policy Analysis at the University of Toronto (http://www.chass.utoronto.ca/link). The deliberations held during the LINK meeting on the global and regional economic outlook were used as background material for Part I of the *World Economic and Social Survey 2002* prepared by the United Nations Secretariat.

A press conference was held on 25 April, where Messrs. Klein, Pauly, and Kinniburgh presented the summary of the LINK Global Economic Outlook and answered questions. The event was covered by many news agencies.

Mr. Ian Kinniburgh, Director of Development Policy Analysis Division, delivered an opening statement, on behalf of Mr. Nitin Desai, Under-Secretary-General for Economic and Social Affairs. First, he welcomed the participants to the meeting and expressed his appreciation to Nobel Laureate Professor Lawrence Klein, Professor Peter Pauly, and the other participants for their contribution to the work of the United Nations. He then briefed the audience on some of the latest developments within the United Nations system regarding international cooperation on economic issues. He emphasized the importance of the successful Ministerial Conference of the World Trade Organization at Doha, which initiated a new round of trade liberalization earmarked for promoting development. He also highlighted the achievements made by the United Nations Conference on Financing for Development held in Monterrey, Mexico in March 2002, and the importance that the UN attaches to the World Summit on Sustainable Development in Johannesburg, South Africa in August 2002. He finalized his remarks by expressing his hope that the three-day LINK meeting would provide thoughtful insights on the world economic outlook, in particular that the meeting would shed light on the strength, breadth and sustainability of the global economic recovery.

2. Global Economic Outlook

Representatives from five international institutions presented their global economic outlook at the meeting: Mr. Kinniburgh on behalf of the United Nations/LINK, Mr. Torsten Sloek on behalf of International Monetary Fund (IMF), Mr. Hans Timmer on behalf of the World

Bank, Mr. Peter Richardson on behalf of the Organization for Economic Co-operation and Development (OECD), and Mr. Ray Barrell on behalf of the National Institute of Economic and Social Research (NIESR). In addition, two experts presented outlooks for international commodity markets: Mr. Robert Young from the Food and Agriculture Policy Research Institute (FAPRI) of the University of Missouri on agricultural commodities, and Mr. Robert Kaufmann, from Boston University, on oil markets.

All the speakers on the global outlook indicated that, after a noticeable worldwide economic slowdown, a recovery had commenced, although there were variations between speakers regarding the strength, depth, and sustainability of global economic growth for 2002-2003. However, on aggregate, the speakers agreed that the growth of gross world product (GWP) was expected to be modest in 2002 and a full recovery of the world economy to its potential growth would not be seen until 2003.

Most speakers acknowledged that the turning point of the economic recovery had arrived earlier than they had expected. Six months previously, in the aftermath of the September 11th terrorist attacks on the United States, most forecasts released from these agencies were pessimistic and did not foresee a turnaround in the global economy, particularly in the United States, until the second half of 2002.[1] As indicated by various statistical data, output made an upturn in a number of economies at the end of 2001 and the beginning of 2002.

Mr. Kinniburgh named a number of factors as driving forces behind the recovery. First, he believed that accommodative monetary policy adopted by central banks in many economies during the course of 2001 had had some stimulatory effects. The substantial reduction in interest

[1] A UN Expert Group Meeting in November 2001 was less pessimistic and predicted the possibility of a recovery in early spring of 2002.

rates in many economies had injected significant liquidity into the global economy. He stated that, although the phase of global monetary easing was largely over, with some central banks already raising rates, the effects of low interest rates would continue to support economic recovery in the months ahead.

Second, Mr. Kinniburgh stressed that many economies had also adopted various fiscal measures to stimulate demand. For example, fiscal stimuli were especially strong in the United States, as tax cuts were combined with growth in spending on military and homeland security, as well as increases in other expenditures.

Third, he mentioned that resilient household spending in many economies had played an important role in the economic turnaround. Robust household spending not only prevented many economies from sliding into a much deeper contraction, but also provided important support for the recovery.

Fourth, he believed that the decline in the price of oil in 2001 and in the first two months of 2002 had provided an important impetus for the initial recovery. However, he warned of the risks of potentially higher oil prices in the future.

The fifth factor Mr. Kinniburgh addressed was the replenishment of inventories, or a reversal of the protracted and deep inventory-shedding, in many industrial countries over the previous two years. Though a marked change, Mr. Kinniburgh emphasized that this factor alone would provide only short-term support to the recovery.

The speakers were split regarding their assessments of the depth of the global slowdown in 2001. Mr. Sloek and Mr. Richardson considered the slowdown “mild”, as the growth of aggregate GWP remained positive, even if several individual economies had fallen into recession. In contrast, Mr. Timmer considered the slowdown “severe”, as the deceleration in the growth rate of GWP was very sharp. Mr. Timmer supported his claim by observing that a negative swing in growth as large as that which occurred between 2000 and 2001—about 3 per cent—had not been seen since the global oil crisis in the early 1970s. Other speakers suggested that the most apt term for the slowdown might be “growth recession”, namely, a period of growth at a much lower pace than the potential of the world economy. All speakers agreed that a recession in global industrial production was unambiguous, and, especially in developed economies, the contraction in business capital spending and the decline in corporate profits were particularly severe compared with past business cycles.

Further, all speakers noted the synchronization in the global downturn among most world economies; this synchronicity was particularly evident among developed economies, as well as a number of developing economies that had large trade shares and high degree of dependence on ICT products. However, several presenters had different views on the implications of increased synchronicity for global economic recovery. While Mr. Sloek and Mr. Timmer believed that the upturn in the world economy would also be simultaneous, other speakers had reservations, warning that diversity would remain in regard to both the timing and strength of recovery among world economies.

Many speakers referred to the economic impact of the September 11 terrorist attacks on the United States. They noted that the incident provided a major adverse shock to the world economy in 2001 as it aggravated already weak economic growth. However, some speakers, as well as several participants in the audience, raised some new questions regarding the attacks' impact on the global economy. For example, Mr. Pauly asked if, in addition to the damages from the destruction, disruption, and loss of confidence, any of these speakers, or their agencies, had estimated the impact on transaction costs and the subsequent loss in international trade. No speakers responded affirmatively to this question. Mr. Barrell commented that the Enron scandal in the United States might have a much larger impact than the September 11 incident on the world economy: because it had fundamentally altered people's views on the intrinsic value of equity stocks.

Regarding the cyclical features in the current world economy, most speakers stressed the role of the ICT sector in different phases of the global economic cycle. Based on historical data, Mr. Timmer pointed out the severe volatility in the price of semiconductors. While the speakers linked the sharp consolidation in ICT spending closely to the pervasive global slowdown of 2001, they admitted that no solid evidence had indicated an upturn in this sector yet, posing uncertainties for the strength of the recovery in the absence of robust support from this critical driving force.

Most presentations on the global economic outlook paid special attention to the analyses of the international economic environment facing developing countries and economies in transition, namely, international trade, the prices of primary commodities, capital flows and external financing conditions. With these factors in mind, most presenters predicted only a mild improvement in the international economic environment for developing economies in 2002.

Several speakers expressed their concerns about the decline in both the volume and value of international trade in 2001, the first such decline in decades. They were also pessimistic about the prospects for the growth of trade in 2002. For example, Mr. Barrell said he would not expect a return in the growth of international trade to its trend growth until 2005. Moreover, some speakers were concerned by the rise of international protectionism, as indicated, for example, by the action of the United States in increasing tariffs and imposing quotas on certain steel products in order to protect domestic producers. In the opinion of a few speakers, the consequent international retaliation, and a general escalation in protectionism, could further hinder the growth of trade and thus jeopardize the recovery of the world economy. Some speakers also addressed the long-term trade issues facing developing countries. Mr. Timmer pointed out that, even though the share of manufactured goods in total exports from developing countries had increased manyfold in the past four decades, the high tariffs imposed by developed countries on developing countries' exports, particularly agricultural products and textiles, posed serious barriers to further trade growth.

Despite a broad rebound in the prices of many commodities in March 2002, the outlook for the prices of most non-oil commodities—many of which are at historic lows—remains less clear. In his presentation, Mr. Young listed a number of uncertainties for the prices of agricultural commodities, such as the new farm bill in the United States, the impact of China's entry into the WTO (primarily relating to China's agricultural production and trade), the currency effects of the Argentine debt crisis, and the current expansion of Brazil's agricultural production areas. He highlighted the possible price movements for a group of agricultural products, based on analysis of the interaction among supply, demand, and inventory. For example, he mentioned that lower stocks-to-use ratios in recent years—partly due to many national Governments lowering their stocks—and tighter markets, would mean higher price volatility for wheat in the near future. Finally, he predicted low prices for soybeans, as continued expansion of production in Brazil would likely put downside pressure on prices. Further, Mr. Young emphasized the significant impact that China's entry into WTO would have on the outlook for the prices of cotton.

In his presentation on the outlook for oil, Mr. Kaufman predicted a slight rise in the price of oil over the next two years, emphasizing that there were no real market fundamentals that would support a substantial rise in price. In his opinion, the surge in the price of oil during March-April 2002 was due mainly to production restraints by oil producers, the temporary suspension of oil exports by Iraq, and increased uncertainties in the Middle East and Venezuela. He explained that the latest agreement among the members of the Organization of Petroleum Exporting Countries (OPEC)—which had implemented curbs on production—combined with the cooperation of some non-OPEC countries (Angola, Mexico, Norway and Russia) to implement similar limits on production, served to support oil prices. Regarding the temporary suspension of Iraqi oil exports, he believed that Saudi Arabia could easily compensate for any shortfall.

Mr. Kaufman stressed that OPEC's market power came from its control over the *marginal* supply of world oil, rather than its total supply to the global market. Because, unlike several OPEC members, most non-OPEC oil producers are already producing near capacity, the world's marginal oil supply is controlled almost completely by the cartel. This fact gives OPEC significantly more market power than would be suggested by the proportion of global oil supplied by the group—about 35 per cent.

In discussing the global economic outlook, every speaker listed a number of uncertainties and risks to the global economic outlook. Mr. Kinniburgh emphasized the new uncertainties brought by the terrorist attacks on the United States and subsequent military and political actions. He expressed special concern about the recent escalation of conflict in the Middle East. Both Mr. Sloek and Mr. Richardson reiterated the dilemma concerning the large external deficits of the United States and the downside risks associated with them. As they pointed out, if the United States continued to be the sole engine of the world economy in the recovery, it would imply that the country's already large imbalances would widen further. But it would also portend an increasing risk for a more abrupt adjustment in the future; when that occurred, the consequences for the world economy would be serious. Highly related to this risk, as emphasized by a few speakers, would be the risk of a large devaluation of the United States dollar. Mr. Timmer underscored the fragilities in the global banking and financial sectors: the Argentine debt crisis, the bad-loans and unsustainable public debt in Japan, the Enron bankruptcy in the United States, and other financial problems elsewhere. The speakers also noted the possibility of higher oil prices, and Mr. Barrell presented some scenarios to demonstrate the highly determinative impact that different assumptions regarding the of oil price had for global growth.

3. Regional Economic Outlooks

Several sessions during the meeting were devoted to the outlook for different regional groups in the world economy. Mr. Klein (University of Pennsylvania) presented his view on the outlook for the *United States*. He stated that the economy of the United States was on the mend following a decline in the second half of 2001. His general assessments on the economy were in line with the LINK baseline outlook, namely growth for 2002 at an annual rate of about 3 per cent. In reviewing developments in the early stage of the recovery, he noted that the seemingly high growth of private consumption was due mainly to the deep discounts and zero-financing measures offered by auto and other retailers, which were too advantageous for households to ignore. He also mentioned that a repositioning of households' savings portfolios—consisting primarily of households' reallocating assets from the equity markets to real estate—was behind the boom of the housing sector. He believed that the strength in the housing sector would continue, at least in 2002. However, he stressed that a few sectors were lagging in the recovery, including corporate profits, business investment, and employment. Commenting on macroeconomic policies, he was concerned about a reversal of the “peace dividend” of the

1990s, which saw a decline in military spending lead to a more productive use of resources in the economy and a consequent rise in productivity. Such a reversal may come about due to the Government of the United States' increased spending on military and security—in the wake of the September 11 attacks—thus, eroding the budget surplus. In analyzing some downside risks for the economy, he believed that, as long as the price of oil stayed between $22-28 per barrel, the impact on the economy would not be harmful. But he emphasized that the baseline outlook was built on the assumptions that no new terrorist attacks would occur, and there would be no commencement of sizable military campaigns.

In response to some questions, Mr. Klein addressed the issue of high debt levels in the private sector. In his opinion, this issue was worrisome, but he believed that the personal saving ratio could improve—in Mr. Klein's opinion the ratio should rise to about 10 per cent from the prevailing level of near zero, particularly in the light of the disappearing government surplus. On the question of the possibility of a growing bubble in the real estate market and the consequent peril in which this would place the economy, Mr. Klein remarked that although the price of real estates in the United States had appreciated by an average annual rate of 7-8 per cent in the last two years, this increase was not as exuberant as the appreciation of equity prices in the late 1990s. Further, historically the price of real estates had been much less volatile than the price of stocks. Mr. Klein agreed that relying on the United States to pull up the global economy might not be possible as the United States economy may not have enough strength. He pointed out that more business capital formation was needed in the United States, and that, while productivity growth would likely continue it might not return to the strong pace witnessed in the late 1990s. In response to a question about the possible policy actions of the Federal Reserve Bank of the

United States in the outlook, Mr. Klein believed that the Bank would hold steady until the second half of 2002.

Mr. Kanemi Ban (Osaka University) presented the outlook for the *Japanese economy.* His first observation was that the LINK baseline outlook for Japan, in terms of GDP growth for 2002, was more optimistic than his own outlook. In reviewing the most recent developments in the economy, he reminded the audience that the Japanese economy had shrunk for three consecutive quarters in 2001, with real GDP contracting by 0.5 percent and nominal GDP dropping by 1.9 percent. He attributed the weakness mainly to the plunge in corporate fixed investment, which was associated with the global slump in the IT sector, which led to a drop in industrial production. In his outlook, he mentioned that exports had already shown some rebound due to the recovery in the United States and some other economies, but he did not expect positive annual growth for real exports in 2002. Yet, net exports would improve because of an even weaker import demand. He predicted a continued decline in real GDP for 2002, due to persistent weak domestic demand and difficulties in the financial sector, including mounting bad loans. Remarking on macroeconomic policies, he did not expect any full-scale fiscal stimulus in the outlook because of the large government debt. Mr. Ban also commented that there would be considerable uncertainties regarding the implementation of the programmes of structural reform recently initiated by the Government, including the disposal of non-performing loans, the resolution of excess indebtedness, regulatory reform, and the reform of special public corporations.

In responding to questions about the reason for the decoupling between M0 and M2 in Japan, Mr. Ban explained that bad loans constrained the intermediating function of the financial system, blocking the transmission channel between monetary policy and the real economic sector. Some participants commented on the Government's likely reluctance for fiscal consolidation because of the inevitable short-run pain the Government would suffer if it were to implement such measures.

In presenting the outlook for *Western Europe*, Mr. Barrell noted that GDP for the region declined in the 4th quarter of 2001, the first time since 1993, and Germany and Austria fell into technical recessions. Analyzing convergence and divergence within the EU, he noted that the output gap for the EU had narrowed from -1.9 in 1997 to -0.5 in 2001, while that in the UK had gone from -0.4 to -0.1. Those countries that had entered the EMU at undervalued real exchange rates—Spain, Ireland and the Netherlands—saw higher growth rates, but inflation was also higher in these countries, limiting the benefits from under-valuation.

He argued that sharply reduced investment and inventories in the Eurozone were the main reason behind the fall in GDP. In some countries, such as France and Spain, this was offset successfully by robust consumption expenditure, in contrast with Germany where consumption was weak. He also noted that net exports contributed positively to growth as the sharp decline in exports was matched by a decline in imports.

In his outlook, investment was projected to pick up in the 2002-06 period, due to low real interest rates, and a combination of accommodative monetary policy and higher inflation expectations. He also expected an increase in external demand. He believed that consumption demand should pick up moderately, but would be constrained by higher unemployment, although lower inflation would provide support. He predicted that unemployment would continue to rise for a few quarters before a reversal. He forewarned that government deficits, which had increased, would require consolidation in the future. He analyzed the reasons behind the rise of inflation, such as the weakness of the Euro, and an increase in the price of fruits and vegetables due to adverse weather.

Mr. Barrell also provided a detailed outlook for the UK, whose economic situation had been quite different from other Western European economies: in the UK the slowdown in 2001 was mild, unemployment continued to decline, and inflation remained low. But, he warned of a possible downside risk due to an unsustainable high real exchange rate.

Mr. Grigor Agabekian (United Nations) presented the LINK outlook for *Central and Eastern Europe (CEE).* He emphasized that resilient exports and robust domestic demand in most of these economies had allowed them to weather the impact of the slowdown in their major trading partner – the EU. He listed a number of factors that had contributed to their continued growth, including diversification of exports, increase in trade with the Commonwealth of Independent States countries (CIS), and a shift in production to higher value-added products, all of which had increased the competitiveness of CEE exports.

He singled out Poland as an exception to the regional trend, as the country experienced a second consecutive year of economic stagnation. In his opinion, since the share of exports in Polish GDP was smaller than that of many other economies of the region, the slowdown was mainly attributable to domestic problems, such as a corrective monetary policy accompanied by lax fiscal policies.

In discussing the outlook for the region, he noted that many central banks had reduced key interest rates at the beginning of 2002 to stimulate growth, but he also commented that high budget deficits would constrain the scope for monetary easing in the future.

He also addressed the issue of EU enlargement and noted that several CEE countries were approaching the final stages in their negotiations with the EU, but the process remained difficult and a number of controversies needed to be resolved.

Commenting on the presentation, Mr. Wladyslaw Welfe (University of Lodz, Poland) stressed the effects of high real interest rates in the Polish economy and that high budget deficits put a cap on possible monetary loosening. He also suggested that Poland had its own business cycles, not correlated with that of the EU. Mr. Franjo Stiblar (University of Ljubljana, Slovenia) stated that increased foreign ownership in the financial sector in the region called for a faster pace of EU enlargement.

Ms. Dominika Halka (United Nations/DESA/DPAD/EAOB) presented the outlook for the CIS region. She said that in 2001 economic growth in the region was resilient to the global slowdown; although it fell, it remained almost 6 per cent. She believed that growth would continue in 2002, although at a lower pace of about 4 per cent. She warned that the two factors that were initially driving the recovery—import substitution caused by the devaluation of currencies after the Russian crisis, and high oil prices—had both been petering out.

The emphasis of her presentation was on the Russian Federation, the largest CIS economy and the region's engine of growth. She attributed the country's recovery to macroeconomic stabilization and the cumulative effect of reforms. She enumerated some of the improvements in the economy: improved external debt servicing; accelerated structural reforms; and an overall improvement in the business climate which had led to a 600 basis point decline in the yield on the Russian Federation's bond.

She also briefly covered the outlook for the other countries in the group. Growth in Ukraine would moderate compared to its record performance in 2001, but would remain robust.

Kazakhstan and Azerbaijan would continue expanding at high rates due to ongoing FDI in the oil sector and increased export capacities. Another energy exporter, Turkmenistan, would likely continue growing at a fast pace, provided Russian and Ukrainian demand for its gas exports continued. Economic prospects had improved even for small, highly indebted, non-oil exporting countries like Armenia, Georgia, Kyrgyzstan, and the Republic of Moldova, as they enjoyed relative macroeconomic stability, some progress in debt restructuring, and, more importantly, strong demand from the Russian Federation. Belarus and Uzbekistan were, however, set to grow at rates substantially lower than the region's average due to a lack of structural reforms.

Mr. Carl Gray (United Nations/DESA) presented a summary of the outlook for *Africa*. He mentioned that many African economies were unfavorably affected by the global slowdown in 2001. Some improvement was expected in 2002, but overall economic performance would still be far from what was required to achieve the long-run development goals endorsed by the United Nations Millennium Declaration, such as halving abject poverty by 2015.

Mr. Gray also noted the diversity among African economies in both their domestic economic situations and their responses to change in international conditions. He mentioned that, in the large and relatively diversified economies of North Africa, the anticipated recovery in the EU would improve their exports, tourism and capital inflows. For Africa in general, tourism receipts, which fell sharply in the aftermath of the terrorist attacks on the United States, were expected to recover further. He highlighted possible improvements in external conditions for many economies in the region, including more progress on debt relief, additional preferential trade arrangements with developed countries for the exports from the region—such as the European Union's 'Everything but Arms' Initiative and the United States' African Growth and

Opportunity Act (AGOA)—and an increase in official financial aid, which was recently promised by some developed countries.

He stressed that domestic factors, such as political stability, macroeconomic policies, and weather conditions, remained the main determinants of performance in most African economies. For example, the recent moderation of political instability or the cessation of violence in a number of countries would improve their economic prospects. In contrast, he mentioned that the social and political turmoil in Zimbabwe might deepen, with negative consequences for its neighbors, as well as for the country itself.

In the discussion, Ms. Reneé Koekemoer (University of Pretoria, South Africa) commented that South Africa had been the hardest hit among the economies in the region by the global economic downturn, with growth declining in 2001, due to lower domestic and international demand. A mild and gradual recovery in growth was expected in 2002-2003, but high unemployment (30%) would remain a serious problem. The rise in inflation was also a policy concern. Ms. Koekemoer also stressed other problems facing the economy: regional instability caused by the situation in neighbouring Zimbabwe, the perception of higher emerging market risk caused by "Argentina contagion", the HIV/AIDS pandemic, and high crime rates.

Mr. Sam Olofin (University of Ibadan, Nigeria) commented on two major developments in Nigeria that he believed would have important implications for the economy. First in March 2002, the Government of Nigeria abrogated the June 2001 agreement between itself and the IMF. The problem, in his opinion, was that GDP growth, job creation, poverty reduction, stable exchange rates, stable prices and increased attraction for FDI were not occurring under the IMF agreement. The Government stated that it would still follow targets set by the IMF, but would do so in its own way. Second, he considered the New Partnership for African's Development

(NEPAD) a very positive development for Nigeria and Africa as a whole. He believed that Nigeria would have a major role in the project, and he hoped the country would lead the initiative in developing coordinated policies, attracting more FDI/ODA, and minimizing conflicts.

Mr. Kodjo Evlo (Université de Lomé, Togo) commented that the LINK baseline forecasts were consistent with his forecasts. He saw a renewed optimism for the economy of Togo, as the economy had become more stable over the past couple of years and the Government had shown more discipline, especially in the fiscal realm, partly due to the IMF requirements and partly due to Togo's membership in various regional organizations that imposed strict convergence requirements, such as UEMOA and ECOWAS.

Mr. Cletus Dordunoo (Ghana) reported on the economic performance of Ghana. He expected growth of 4.5 per cent in 2002 for Ghana, above the average growth rate of Africa. He attributed the strength to the agricultural and services sectors, but noted that the manufacturing sector remained weak. He also expected that the tightening of fiscal policy would continue in 2002, reducing the government deficit from 8 percent of GDP in 2000 to 4.5 per cent of GDP in 2002. He linked the growing trade deficit to the appreciation of the real exchange rate and expected that the currency would depreciate later in 2002, which would reverse the deficit.

Mr. Pauly (University of Toronto) presented a consensus overview of the economic outlook for Asia. He believed that the sharp deceleration in many economies in the region during 2001 was in large measure a response to the bursting of the ICT bubble in North America. He mentioned that the speed and breadth of the slowdown was due to the enormous amount of intra-firm trade, particularly in the ICT sector. He also pointed out the diversity among the economies in the region: those economies having production inter-linkages with North America and a large share in electronics exports were affected the most, while in other economies the impact of the North American slowdown was mitigated by domestic factors.

In the outlook, Mr. Pauly mentioned a number of encouraging signs for Asia's economies: overall growth in the region was gaining strength, although the pace was a bit below the historical trend; the rising price of semiconductors was conducive to growth; and, finally, China had maintained robust growth, despite some loss in the contribution from its external sector. He remained concerned that some countries would still face instability in their financial sectors: for example, the ratio of non-performing loans (NPLs) to total bank debt in the Philippines had risen to 17 per cent, and China was in need of significant structural reforms in order to strengthen its financial and corporate sectors.

He commented that economic growth in India, Pakistan and Bangladesh was better than their respective historical averages. In his opinion, the significant growth pick-up in India since the 1990s was the result of a number of years of structural reforms, the deregulation of the financial sector, and a broad opening up of the economy.

During the discussion, Mr. Krishnamurthy Sundaram (University of Delhi, India) commented that the short-term prospect for India was constrained by a poor investment climate, particularly in manufacturing--real interest rates were high. He also mentioned that structural problems would remain impediments to growth. Ms. Scholastica (Gay) Cororaton (National Economic and Development Authority of the Philippines) mentioned that, in the Philippines, the negative impact from the 2001 decline in ICT exports was buffered by strong growth in private consumption and services. She warned that NPLs in the banking system had increased and banks were cautious in lending, so the Philippines would need to improve its financial system. Ms. Win-Lin Chou (The Chinese University of Hong Kong) expressed concern about high unemployment, which would continue to weigh on domestic demand in Hong Kong SAR. Mr. Xu Hongyuan (State Information Center of China) remarked that growth in China would continue to be supported by FDI and fiscal spending in 2002. He also commented that China's statistics, showing high growth of GDP, were reliable (a special paper was presented on this subject—see below); an enormous expansion in the consumer durables sector, including colour TVs and refrigerators, had supported high GDP growth. Mr. Dilli Raj Khanal (Institute for Policy Research & Development, Nepal) commented that Professor Pauly's outlook for South Asia was slightly too rosy as it skipped some poorly performing countries, such as Nepal. He said that Nepal was adversely affected by its domestic political and security problems and the September 11 attacks. In his view, the setback was broad-based, and impacted not only tourism but also other sectors. He expected weak growth in Nepal in 2002 and a fiscal deficit that would be unsustainable.

Mr. Alfredo Calcagno (ECLAC) presented an overview of the outlook for Latin America and Caribbean. He mentioned that the region suffered heavily in 2001 from external shocks, albeit in different forms for different economies: reduced export volumes for Mexico and Central America, a drop in commodity prices for South America, and restricted access to external finance for Brazil and Argentina. He said that internal factors were also relevant, including scarce availability of credit, sluggish domestic demand, high rates of unemployment and inequality, and a persistent dependency on foreign resources. All of these factors increased the external vulnerability of the region.

Regarding the Argentine debt crisis, Mr. Calcagno summarized a number of important lessons: first, a fixed exchange rate would not, by itself, guarantee the substantial productivity gains that would be essential to compensate for the initial trade deficits; second, in a currency board arrangement, broad money supply would not be backed just by international reserves; and third, fiscal tightening in the midst of a recession would not bring about fiscal balance or a return of confidence. Instead, it would deepen the recession and exacerbate the confidence problem.

His outlook for GDP growth in the region in 2002 was gloomy: only 0.3 per cent. He enumerated a number of challenges facing the region: some traditional instruments of economic policy might not be available—such as raising funds through privatizations —and consequently many countries were facing a high level of external indebtedness and an external constraint on growth, reflected in a structural deficit on the current accounts. With the exception of Mexico, the region had not succeeded in generating a sustained process of productive transformation, and productivity remained very low; employment in the informal sector accounted for 50 per cent of the total workforce.

During the discussion, participants from the region expressed their views on individual economies. Mr. Pedro Palma (Venezuela) emphasized the political instability in Venezuela and the difficulties for the central bank in face of the large devaluation. Even with some support from the petroleum sector, he expected a contraction of 1 per cent in GDP in 2002. He also commented on the effectiveness of currency board arrangements, pointing out that, as Argentina had proved, in order for these schemes to be sustainable, certain conditions should be in place, notably internal and external confidence, and a sound fiscal balance.

Mr. Eustaquio Reis (Brazil) stated that Brazil had managed to withstand a series of shocks: an energy crisis caused by persistent under-investment, a drought, and the Argentine crisis. He expected growth of 2.5 per cent at most in 2002, but significantly higher (above-target) inflation.

Mr. Alfredo Coutiño (CIEMEX-WEFA) named two major factors that had prevented economic contagion from Argentina to Mexico: a weak transmission mechanism, in terms of both trade and financial flows; and a sound macroeconomic situation in Mexico. The recession in Mexico in 2001 was, in his opinion, caused by the slowdown in the United States and the restrictive macroeconomic policies put in place during 2001. He believed that Mexico would benefit from a recovery in the United States, although the consistency of domestic macroeconomic policies would be equally important to sustain the recovery in Mexico.

Mr. Luis Garcia (Colombia) said that the economy of Colombia was still recovering from the 1999 recession, with exports and oil prices as the major driving forces. He stressed the difficult fiscal situation in the economy. The major downside risks for Colombia, in his view, included an escalation of the internal conflict and its implications for the fiscal situation, as well as further economic deterioration in Venezuela, Colombia's main manufactures client.

Mr. Juan Rafael Vargas (Costa Rica) briefly commented on the outlook for Central America, pointing out that GDP growth in the region had been very close to population growth. He remarked that trade agreements recently concluded between countries in the sub-region and Canada, as well as between some Central American States and the relatively fast-growing economies of the Dominican Republic and Chile, would provide some dynamism in the future.

4. Special Economic Issues

Mr. Pauly (University of Toronto) made a presentation on *Growth Poles and the Current Economic Cycle*. Hr argued that the surprising synchronicity among the world economies displayed in the global slowdown of 2000-2001 had important implications for global economic policies and for predicting the pattern of the world economic recovery. Mr. Pauly opened by comparing the current global business cycle with the previous one, when the slowdown of the United States in 1990-1991 coincided with strong growth in EU and Japan, but later on, as the US recovered, the EU and Japan slowed down sharply. He then did a brief review of several issues under investigation, such as synchronization versus common shocks, channels of synchronization, convergence of structures, and engines of growth in the current cycle.

Using the latest data, he showed that output gap dispersion among developed economies had declined significantly in recent years. He believed that one major reason behind the synchronicity was because these economies had a few overwhelmingly common shocks: the deflation of the ICT bubble, the initial oil price increase, some early-stage monetary tightening, and the September 11th terrorist attack. These common shocks were accompanied by a general reduction in national cyclical movements in industrial countries in the same period (as a result of a structural shift to services), improved macro policies (largely based on the increased role of rule-based policies), a reduction of inventory cycles, financial liberalization, and new financial tools to facilitate inter-temporal smoothing.

In addressing the issue of growing global interdependency, he named a list of causes, such as regional integration (EU, NAFTA, etc.), the changing composition of trade flows (intra-firm trade), localized transmission (ICT), and increasing financial market linkages. He also mentioned that cost-of-capital and wealth effects had become common shocks rather than country-specific disturbances. With the growing interdependency, he argued that international policy consistency (or coordination) became increasingly important, and common international monitoring and information-sharing essential.

After elaborating on the role of trade linkages and international financial linkages, Mr. Pauly made several points regarding the implications of synchronization for the outlook of the world economy. He believed the synchronicity in trade fall-off was a worrisome sign. Absent new trade creation, the growth of trade in the medium term would be slow. He suggested that the potential for other growth poles had increased, but was unlikely to be realized in the EU and Japan. There would be some scope for increased policy coordination within developed economies, but this would likely be overshadowed by trade frictions. He also noted that new trade initiatives were needed with developing countries in such areas as agriculture and textiles.

In conclusion, he warned that increased interdependence and stronger linkages would imply an increased potential for bigger and faster economic swings, both real and monetary, worldwide. He also predicted that the synchronized slowdown might be followed by an asynchronous upturn as regional idiosyncrasies become relatively more important, suggesting weaker recovery with greater regional disparity.

Ms. Debra Steger (University of Toronto, Canada) made a presentation on the Doha Development Agenda (DDA) launched at the fourth WTO ministerial meeting in Doha, November 2001. She considered the launch of the new round a major accomplishment, particularly after the debacle of the Seattle ministerial meeting in 1999.

After reviewing the major changes in the multilateral trading system in recent years, she emphasized that the access of developing countries to the markets of developed countries in agriculture, services and non-agriculture was a major issue in the DDA. She commented that, although negotiations in the agricultural sector had been going on for two years, not much progress had been made, and nor would progress be likely until the EU changed its common agricultural policy.

Regarding negotiations on trade in services, which were incorporated into the DDA as part of the built-in agenda, Ms. Steger said enthusiasm for greater liberalization in services had noticeably diminished in developed countries. Developing countries, on the other hand, felt that they had already committed themselves to a great deal in the Uruguay Round (UR). Therefore, she did not expect major new agreements on trade in services in this round.

After mentioning some issues concerning Trade-Related Intellectual Property rights (TRIPs) and public health, she reviewed some new issues covered by the DDA, including trade and investment, competition policy, government procurement, and trade facilitation. However, she believed that negotiations on these issues would commence formally only if the next ministerial meeting in 2003 decided to do so. She considered it important for the WTO to provide technical assistance to developing countries so as to ensure full participation of all members in the negotiations, particularly the poorest member States.

Ms. Steger considered it a major accomplishment that the United States agreed to include a revision of anti-dumping rules in the agenda for the new round. Most developing and developed countries, except for the United States and the EU, have long viewed anti-dumping as protectionist measures. A growing number of developing countries, including Brazil, Mexico and South Africa, however, have also developed anti-dumping laws and investigative methods. Many countries are under heightened pressures from their domestic industries to retain the anti-dumping laws.

Having explained the WTO's position on environment and labour issues, she also remarked on strategies needed to be undertaken in order to improve the institutional mechanisms of the WTO. The dispute settlement system had been revised and reformed significantly in the UR, but she believed that, in order to counterbalance the strong dispute settlement system (the judicial part of the WTO), the decision-making apparatus of the WTO would need to be strengthened.

In response to a question on the possible conflicts between the proliferation of regional trade arrangements and the WTO, and the possibility of the existence of multiple objectives for countries in joining regional arrangements, she commented that measures based on regional agreements might actually violate WTO rules. This potential was manifest in the recent trade dispute between Turkey and India, during which Turkey imposed quantitative restrictions against textile imports from India, based on its customs union agreement with the EU. By taking this measure, Turkey violated its WTO commitment. On the other hand, as illustrated by NAFTA and many other bilateral and regional arrangements, broader and deeper progress in trade and investment liberalization could be made within a much shorter time with bilateral/regional agreements, compared with the slower multilateral system.

In answering a question on the possibility of making the WTO strictly focus on trade and nothing else, leaving all other issues to bilateral and regional agreements, Ms. Steger believed that this could be done and argued that such issues as competition and FDI could be better dealt with in the regional context because taking them into the broader multilateral context involved numerous problems. Although countries agreed at Doha to start talking about FDI and competition, they had not yet agreed to formally launch negotiations on these issues.

Ms. Steger also argued that Governments should think about how to improve the rule-making and decision-making system in the WTO in order to make it more inclusive and transparent and thereby improve its credibility and effectiveness. She thought that there was a need to take the views of civil society into account in WTO discussions and negotiations but she did not have an answer for how best to do so.

Asked if there was enough commonality of purposes among developing countries to make them really matter as a unified group, she agreed that developing countries were not homogeneous and had different interests, a factor that makes the WTO much more complex. In the DDA, various issues are included and developing countries will not act uniformly on all these issues. This factor will slow progress in the DDA and Ms. Steger remained skeptical that members could reach agreement on the DDA by January 1, 2005, the announced date of conclusion.

Mr. S. Ozmucur (University of Pennsylvania) presented a paper jointly written with Mr. Klein (University of Pennsylvania) on “The Estimation of China’s Economic Growth Rate”. In response to various recent critiques on China's officially-reported growth rates, their study focused on estimating the annual growth rate of China’s GDP.

After reviewing different methods of estimating GDP, the authors mentioned that China, at the time of its early reform, 1978-1980, was shifting its economic measurement from "net material product" to "gross domestic product", i.e. China moved from Marxist to Western accounting. With 15 variables covering energy, transport, communications, labor, agriculture, trade, public sector, wage, and inflation, they estimated principal components (PC_{it}) from annual data, 1980-2000. They explained that one motivation for using principal component analysis was their general view that a country’s (any country’s) economic growth was highly multivariate. No single economic activity could account for anything as complex as a modern economy, especially one as large as China’s. The authors used this argument to rebut a specific critic who based his claim that China's reported GDP was too high on the analysis of a single variable.

Their study showed that the movements of their summary indicators—the principal components—were consistent with the movements of real GDP_t as officially estimated. They did not claim that they had proven that GDP_t as officially measured was correct. In their opinion, no one would know the correct estimate, and that was a prime rationale behind why they showed how divergent the estimate could be. Such estimates are dependent primarily on the intricacies of how they are calculated, a fact that bedevils GDP estimation the world over. The authors also mentioned that, if one were to take into account improvement in quality, GDP growth in China would be *higher*, rather than lower, than government estimates.

Mr. Patrick Asea (ECA) presented some of ECA's current methodological work on the development of social and economic indicators. These indicators ranged from simple weighted averages of standard statistical data to more complicated composite indicators derived from the combination of continuous data, and qualitative, polychotomous information. Some variables such as an indicator for good governance, were often unobservable. The ECA published analytical results based on composite indicators such an Economic Policy Stance Index, an Expanded Economic Stance Index and an Economic Sustainability Index. Various other indices measuring the strength of regional integration, governance and human development in African countries are also used by ECA in its assessment of progress and performance of African economies.

Mr. Asea outlined some of the methodological approaches to developing the composite indicators. These techniques were Bayesian estimation procedures, factor analysis and the Gibbs sampling technique that allowed for joint estimation of models based on continuous and polychotomous data. These techniques are of greater precision and computational efficiency than standard econometric techniques, and they also improve the statistical foundation for the determination of causality, interdependence and correlation among the variables. The robustness of the estimation procedures and statistical tests allowed for better interpretation of the results for policy analysis and other analytical work undertaken by ECA.

In the discussion, some participants questioned the feasibility and sustainability of this type of analysis in African countries that lacked the capacity to carry out sophisticated statistical and survey research. It was felt that a better understanding of social and economic factors that contributed to economic growth performance in most African countries would be gained by strengthening existing statistics-gathering capacities in those countries. An extension of this observation was that the widespread use of ”non-economic”, polychotomous data sets would not be useful in identifying the causes and consequences of economic performance in African countries. Other participants felt that several of the methodological procedures outlined, such as the determination of causal relationships and the identification problem in factor analysis modelling, were extremely difficult to implement, based on unsuccessful attempts in their own modeling exercises.