

**REPORT ON THE MEETING OF THE EXPERT GROUP
ON THE WORLD ECONOMIC SITUATION AND PROSPECTS
(PROJECT LINK)**

14-16 April 2004

United Nations Headquarters

New York

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INTRODUCTION

The Spring 2004 meeting of the Expert Group on the World Economic Situation and Prospects (Project LINK) was held at United Nations Headquarters, New York, from 14 to 16 April 2004. The Economic Monitoring and Assessment Unit (EMAU) of the Department for Economic and Social Affairs (DESA) hosted the meeting, and some 90 participants from about 50 countries, as well as several representatives from international agencies and the United Nations regional commissions, attended. This report summarizes presentations and discussions during the meeting.

The agenda of the meeting covered three broad topics: (1) the global economic outlook, including the LINK global outlook prepared by EMAU, 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 stability and growth in Europe, the role of China in the global economy, trade issues for Africa and trade and exchange rate issues for Latin America.

The LINK *Global Economic Outlook*, prepared by EMAU for the meeting, LINK *Country Reports* prepared by country participants and other documents presented at the meeting were 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 meeting are being used as inputs for the forthcoming *World Economic and Social Survey 2004*, prepared by the United Nations Secretariat.

Mr. Ian Kinniburgh, Director, Development Policy and Planning Office, United Nations, delivered an opening statement on behalf of Mr. José Antonio Ocampo, Under-Secretary-General for Economic and Social Affairs. First, he welcomed the participants and thanked those who submitted model solutions and country reports. He then raised issues and questions, which he hoped would be addressed during the meeting. He expressed the view that while one year ago we had been facing uncertainty about the turning point for the world economic recovery, today we all agreed that the world economy was recovering. The challenge now lies in determining the turning point for macroeconomic policies in the world economies. Policymakers will need to move from an expansionary policy stance to a more neutral position. The timing of this move is critical - if it is done prematurely, the recovery could be chocked off, if too late, the desired economic effect will not be achieved.

Mr. Kinniburgh also mentioned a few more specific issues to be discussed during the meeting, such as the reasons for the delay in employment growth despite strong recovery in the global output, reasons and consequences of the recent surge in the prices of commodities in the past year, large differentials in the economic performance across regions and countries, including the marked rise in the economic weight of China, the issue of the global imbalance and the corresponding movement in the exchange rates among major currencies.

Professor Lawrence Klein, University of Pennsylvania, chaired the opening session. He reinforced the points made by Mr. Kinniburgh, especially those related to the differentials across countries. He also expressed the view, that the case of India (and perhaps even the

Russian Federation) should be mentioned along with the case of China in the context of increasing economic importance for the global economy.

Mr. José Antonio Ocampo, Under-Secretary-General for Economic and Social Affairs, United Nations (UN/DESA), addressed LINK participants in the course of the meeting. At the outset he announced that UN/DESA was currently restructuring its flagship publication, which involved changes in its timing. This is likely to result in a corresponding change in the timing of the main LINK meeting, which might in the future take place in November.

Mr. Ocampo reminded the participants that development issues and in particular the convergence of developing countries to the developed ones were the main area of interest of UN/DESA. In light of that, he emphasized the importance of the LINK exercise and its usefulness in addressing such issues and concerns. Among short-term concerns, Mr. Ocampo noted growing imbalances and divergent macroeconomic policies among developed countries, which posed risks to exchange rates; the rising role of China and recently also of India as engines of growth and their effect on other developing countries. He also mentioned interest in long-term development issues having to do with national as well as international factors, such as capital and commodity market performance.

GLOBAL ECONOMIC OUTLOOK

Representatives from four international institutions presented their global economic outlooks at the meeting: Mr. Ian Kinniburgh on behalf of United Nations/LINK; Mr. Tim Callen, on behalf of the International Monetary Fund (IMF); Mr. Hans Timmer, on behalf of the World Bank; and Mr. Ray Barrell, on behalf of the National Institute of Economic and Social Research (NIESR). Three experts presented outlooks for international commodity markets: Professor Gerard Adams of Northeastern University and Mr. Patrick Westhoff of the University of Missouri-Columbia, on non-oil commodities, and Professor Robert Kaufmann of Boston University, on oil markets.

All speakers on the global outlook noted the global economic recovery had strengthened and become broadly based. They all expected this recovery to continue in 2004, although their views differed slightly on the strength and pattern of the recovery across nations.

Mr. Kinniburgh presented the highlights of the outlook as documented in the *LINK Global Economic Outlook*. He argued that the momentum of the world economic recovery gathered in the second half of 2003 had extended into 2004. As projected and delineated in the previous LINK forecasting exercise,¹ the global economic recovery has indeed broadened to a growing number of economies and strengthened across various sectors. The growth of world gross product (WGP) is forecast to be 3.6 per cent for 2004, revised upward slightly from the previous projection. The accelerating phase of the expansion in most economies is however expected to end gradually in the second half of 2004, with the growth of WGP moderating to 3.2 per cent in 2005. The key challenge for policymakers worldwide is to accommodate to a

¹ Due to some constraints, the 2003 Fall LINK Meeting did not take place, but an abridged forecast was made based on inputs from a number of national LINK centres in November 2003. Reviewed by a small-scale expert group meeting, the outlook was published in *World Economic Situation and Prospects 2004* (United Nations publication, Sales No. E.04.II.C.2).

maximum extent a more balanced global growth and, at the same time, to harness the downside risks so as to avoid a “hard landing”.

Among the developed countries, the United States is leading the recovery. The recovery in Japan has been stronger and more tenacious than expected by most analysts, auguring the higher probability of a turning point and eventually the extrication of the economy from its decade-long stagnation and deflation. Economic activity in most Western European economies has undoubtedly been largely anaemic, but signs for a gradual improvement are gathering. Meanwhile, most economies in transition, which managed to fare relatively well in the past global downturn, seem to be in position for benefiting from a global upturn. At the same time, developing economies in Asia have been further strengthening their performance, as the dynamism of trade has generated growing synergies for the region, enhancing its role as a locomotive for global growth, although the emerging signs of overheating for some sectors and areas in China, the engine of growth in the region, has led to more policy concerns. A noticeable increase both in the demand for and in the prices of commodities has been auspicious for nurturing a lift in the growth of more and more economies in both Latin America and Africa, while further improvement in economic policy as well as structural reforms in these economies remain crucial for the sustainability of economic growth in these regions. Conversely, however, the economic prospects for many economies in Western Asia are still vulnerably subject to political instability and geopolitical tensions, which to some extent also remain the main sources of uncertainty for the global economy as whole.

Mr. Tim Callen presented the outlook for the global economy. Due to the fact that the IMF's *Global Economic Outlook* had been embargoed until the week following the LINK meeting, he based his presentation on the private consensus forecasts rather than the official IMF forecast. According to him, the global economic recovery had strengthened as evidenced by an upturn in global industrial production and global trade, buoyancy of financial markets, improved business confidence in the United States and Japan and solid growth in investment. He reviewed the factors responsible for the global recovery: there had been a surge in the United States private consumption in the third quarter, related to tax cuts and mortgage refinancing; Asian economies had rebounded from the slowdown related to severe acute respiratory syndrome (SARS); macroeconomic policies in major countries had remained stimulative; geopolitical uncertainties had eased, although they had not disappeared; and the consequences of the burst of the equity bubble had dissipated.

Mr. Callen also presented some highlights of the outlook for regions and for commodity prices. Recovery in the United States has been more robust than was initially expected with a strong growth of industrial production. Nevertheless, employment growth remains weak, although the recent numbers are a bit more optimistic. The impact of the fiscal stimulus related to tax refunds will end in the second quarter, and investment will need to pick up to support the growth. Recovery in the euro area remains subdued. Domestic demand is constrained by high unemployment and interest rates remain high in most countries. Uncertainties remain about corporate recovery in these countries. Also, in the near future there is much less policy stimulus in the pipeline for Europe than for some other countries. On the other hand, growth in Japan exceeded expectations. It was led by exports and business investment and also more recently by private consumption. The question remains whether this recovery could be sustained. Asia recorded exceptionally strong growth. The most impressive was the performance of China due to

growth of investment and exports. The situation in Latin America improved, but performance varied across countries.

The speaker warned of a few downside risks for the world economy: the continuing geopolitical uncertainties; higher than expected oil prices; continuing global current-account imbalances, with the uncertainty about whether the adjustment would take place through further depreciation of the dollar or through a rebalancing of domestic demand in the United States and its trading partners; a reversal of housing prices, which have appreciated substantially in several developed countries; the levels of public debt in developing countries are much higher than would be justified by fiscal and economic fundamentals, which poses risk, especially in the light of a possible increase in interest rates and a slowdown in capital flows.

Mr. Hans Timmer presented an outlook based on the latest *Global Development Finance* (GDF) publication of the World Bank. In his presentation he raised three broad issues: the global recovery is now largely driven by the rebound in investment; developing countries are growing faster than industrialized countries thanks to structural reforms and improved macroeconomic policies; global growth will pick up this year and slow down next year.

World GDP growth reached a rate of 2.6 per cent in 2003 and is likely to reach 3.7 per cent in 2004. The contribution of investment is increasing, making the recovery broadly based. Inflation has remained subdued, despite the rise in commodity prices. The speaker cited the following reasons for this: a lower share of commodities in production; productivity gains; and improving macroeconomic policies in developing countries in the 1990s.

Developing countries as a group have outperformed industrialized countries. The speaker pointed to trade performance in 2003, when 50 per cent of growth in total trade was due to growth of imports into developing countries. Industrial production in developing economies, excluding China, is growing faster than in high-income countries, and fiscal deficits and inflation have come down. The upward trend in GDP growth has transformed into per capita income growth. Developing countries are also becoming more integrated into the world economy, as is evident from the fact that an increasing part of the current-account deficit in the United States is financed by official flows from developing countries, mostly from Asia. According to the speaker, two major areas of concern for developing countries are: aid flows, which are still insufficient despite the promises made in Monterrey; and investment in infrastructure, which has been declining recently and has to increase substantially in order to support growth and achieve the MDGs in these countries.

Since the growth is likely to moderate in 2005, the countries should take advantage of this year's strong growth to make the necessary policy adjustments. According to the speaker, the major policy challenges include: a macroeconomic turnaround in the United States to a more neutral stance, which has to be made this year to prevent overshooting and to create room for a reaction to adverse shocks later on; fiscal adjustments, which are necessary in other high-income countries; a transition to higher interest rates; fiscal balance consolidation and avoidance of excessive accumulation of short-term debt in developing countries; avoidance of overheating in Asia.

During the ensuing discussion, the issue of foreign direct investment (FDI) in African countries was raised. Mr. Timmer responded that FDI could be divided into three categories:

targeting the extraction sector; searching for domestic markets; and searching for cheap factor inputs for export production. Since many African countries are characterized by a small domestic market lacking rapid growth and, at the same time, exports from African countries are hampered by lack of liberalization of the developed economies' commodities and agricultural markets, FDI continues to flow mainly to the extraction sector.

Also the issue of the impact of the weak United States dollar on trade of developing countries, especially those whose currencies are pegged to the dollar was raised. Mr. Timmer remarked that there had been a change in relative export prices (e.g. Latin American exports vs. East Asian exports – although this was also due to productivity growth). At some point, a change of the exchange-rate regime would seem wise – perhaps by pegging to a currency basket instead of pegging only to the United States dollar. Such a change should be undertaken during a phase of rapid reserve accumulation.

Mr. Ray Barrell focused his presentation on two major issues: the large differential in economic performance between the United States and Europe and the exchange-rate realignment in light of the United States twin deficits. According to the speaker, growth in the United States and United Kingdom has been more robust than in France and Germany due to fortunate timing of fiscal stimulus. In the United States and United Kingdom, the fiscal stance has been loose for the last three years. In the past 6 months, government spending in both countries had increased due to a “war economy”, and the United States had also witnessed tax cuts. In France and Germany, however, due to the Growth and Stability Pact, there has been a tightening of the fiscal stance during the recession, it having been loose during the boom. He also spoke about the relation between house prices growth and consumption growth.

Mr. Barrell's forecast for the euro area was more optimistic than forecasts made by other institutions, while at the same time, it was less optimistic for the United States. He gave the following reasons: employment has been lagging behind output growth which according to a structural model will result in subdued consumption; inflation risks remain high in light of possible further depreciation of the dollar; the rise in the dollar prices of crude oil will have a negative impact on inflation and output, although not as strong as has been forecast by the IMF.

In discussing the issue of the realignment in the exchange rates among the major currencies, especially between the United States dollar and the euro, in the light of the United States twin deficits, Mr. Barrell thought that the only promising way to realign the exchange rate and turn around the United States current-account deficit would be through a rise in the risk premium, which might be brought about by a perceived unsustainability of the twin deficits. However, neither the fiscal nor current-account deficit has reached that point yet; therefore, the United States current-account imbalance is more likely to be corrected through a significant domestic adjustment.

In remarks from the floor, participants addressed several issues, a prime topic being the United States current-account deficit adjustment. There was a consensus among several participants that it was unclear how the United States current-account deficit will unwind and how soon. Professor Klein remarked that when analyzing the United States twin deficits, one should bear in mind that the United States economy was now a war economy, which affected the risk premium and the ability of the United States to cover the current-account deficit. Also, according to him it was somewhat misleading to measure the deficits as percentages of GDP,

since this masked the large absolute amounts which would have to continue to be financed by foreign investment.

Several participants wondered about a possible increase in the United States interest rates and its impact on capital flows, exchange rates and growth. Professor Klein and Mr. Barrell agreed that the Federal Reserve was not going to raise interest rates until around election day. In addition, Mr. Barrell was of the view that European short-term rates would rise shortly after the United States rates, towards the end of the year.

A question was raised from the floor about the United Nations forecast of the United States deficits for 2004 and 2005. The UN forecasts a narrowing of the twin deficits: the current account will stabilize due to growing exports, which in turn are due to the continuing dollar weakness and the worldwide economic recovery, the latter creating additional demand for United States products. The fiscal deficit will decline given the economic recovery. Also, the tax cut is not assumed to be permanent. Overall, however, fiscal policies are difficult to forecast because of the upcoming elections in the United States.

COMMODITIES

The world oil market

Mr. Robert Kaufmann, Boston University, began his presentation on the world oil market by stating that his forecast presented in fall 2003 was different than his spring 2004 forecast. He also recognized that many forecasting agencies were wrong as most of them had predicted a deep slide in oil prices during the first two quarters of 2004. Oil prices (West Texas Intermediate (WTI)) had actually increased in early March, reaching a thirteen-year high. The speaker raised the question of why most of the oil market analysts had been wrong.

Rising oil prices have been driven largely by speculation and, to a lesser degree, by such market fundamentals as unanticipated growth in oil demand, sharp drops in private oil stocks and increases in the United States Strategic Petroleum Reserve. Speculative demand has raised prices several dollars per barrel relative to levels that most analysts believed were consistent with markets fundamentals. Speculators were expecting oil prices to reach \$40.0 per barrel and this helped them in building up long-term positions. Despite the fact that oil prices did reach that level, speculators did not massively wind down their long positions; on the contrary the selling has been orderly, so prices have not collapsed.

Contrary to initial expectations, oil demand increased during the last quarter of 2003 and strengthened further throughout the first quarter of 2004. Most leading market analyst agencies revised upward their forecast for oil demand. Global oil demand has been driven by China and the United States. Surprisingly, the rapid growth in Chinese oil demand has been relatively insensitive to price (the Yuan is pegged to the United States dollar so that the weakening of the United States dollar has not damped the increase in dollar-denominated oil contracts). Private oil inventories in the Organization for Economic Cooperation and Development (OECD) countries increased and reached 82 days of forward consumption in November 2003. But, in December 2003, OECD stocks fell to 77 days. In the United States crude oil inventory dropped below 270 million barrels (the minimum required for the efficient operation of the United States refining

system). Meanwhile, government stocks have been increasing in the United States, mainly through the filling of the Strategic Petroleum Reserve (SPR). A low level of OECD stocks contributed in part to the recent price hike.

Non-oil commodity markets

Mr. Gerard Adams, Northeastern University, gave a presentation on non-oil commodity markets. At the outset, he observed that non-oil commodity prices had been on the rise since last year although the pace of this increase varied among commodities. In this regard, he reported that the prices for metals, fats, oils and industrial raw materials were increasing substantially while those for beverages and foods crops, other than fats and oils, were recording more modest growths.

He then underlined the driving forces behind this upward trend. First was the spectacular industrial growth in China, which had become a net importer of many commodities. Second, some supply developments that had explained prices movements for specific products, such as soybean, coffee and copper. Third was the movement of exchange rates, especially the depreciation of the United States dollar.

Mr. Patrick Westhoff, University Missouri-Columbia, focused on agricultural commodities. He also observed that prices of these commodities had recently increased for a variety of reasons, including the strong demand in China and supply shocks in some major commodity-producing countries. He predicted rises in the prices of grains, driven by relatively tight markets, and possible demand shocks and falls in the prices of oilseed and cotton. Finally, he alluded to the moderate United States consumer food price inflation, which he linked to the fact that farm-gate crop prices accounted for the declining share of the total cost of producing United States consumer-ready products.

In the ensuing discussion, serious concern was raised about the potential translation of higher commodity prices into higher prices for finished products and, therefore, into inflation.

REGIONAL ECONOMIC OUTLOOK

Several sessions were devoted to the outlook for different regions in the world economy.

United States

Professor Klein, University of Pennsylvania, presented his view on the short-term outlook for *the United States*, partly based on the High Frequency Model maintained at the University of Pennsylvania. He started with a comment on the global economic outlook by quoting the acronym “BRIC”, coined by a large international investment company for the four rising developing countries: Brazil, Russia, India, and China. He was uncertain about Brazil, but the other three economies were growing robustly and had become more and more important for the world economy.

Professor Klein pointed out that his forecast for the United States was on the lower side, particularly for the first half of 2004, with a GDP growth rate of 3-4 per cent, compared with the

consensus of 4-5 per cent. He went through all major economic sectors, presenting a thorough analysis of the strengths and weaknesses of the economy. He also mentioned some statistical issues, including the discrepancy between expenditure-based GDP and income-based GDP—the former used to be larger than the latter by 0.5 of a percentage point but it had recently reversed—and the difference between the two labour surveys. He noted a few weaknesses, including slow growth in the manufacturing sector and weak recovery of employment, stating that the recent significant improvement in payroll employment statistics was partly a result of the settlement of a large number of workers on strike. The labour market has been improving, as indicated by the downward drift in the number of initial unemployment claims, but the improvement is not strong enough to support the strong GDP growth as forecast by the consensus.

In his presentation, he made two points that he considered to be significantly different from many other economists/analysts. First, he did not like the concept of the non-accelerating-inflation rate of unemployment (NAIRU), but as many other economists believed NAIRU should be at about 5.5 per cent, he would consider a full-employment unemployment rate to be 3.9 per cent. Second, he had been sceptical about the concerns for deflation in the United States over the past two years. According to him, the United States is in a “war economy” and therefore cannot experience deflation.

Another problem in the United States, he mentioned, was the twin deficits. The uncertainty about the costs of the continued war and rebuilding in Iraq continues to weigh on the fiscal position. In this sense, China and Japan are helping the United States by buying United States bonds to finance the deficit. Commenting on monetary policy, the speaker was of the view that the United States Federal Reserve (Fed) was under constraint because of the presidential election in 2004.

Professor Klein also briefly summarized the issue of the impact of outsourcing on the United States, based on the most recent study he co-authored. The basic conclusion is that free trade pays, at least in the long run. Outsourcing of software and services may have some adverse impact on employment in the United States in the short run, but as the model-based simulation indicates, in a period of two years, the benefits will outweigh the costs.

A question was asked from the floor whether the United States fiscal deficit would improve, provided the next administration of the United States took a tightening fiscal policy. Professor Klein responded that something would have to be given up. In the Clinton administration, the improvement in the fiscal deficit had been achieved through the cutting of military spending. Since this option is not available, something else would have to be reduced.

Japan

Professor Kanemi Ban, Osaka University, presented the outlook for the Japanese economy. The main message was that the economy would continue to recover in 2004, with GDP expected to grow at a rate of 3 per cent, but a notable deceleration to only a 1 per cent growth rate in 2005 is expected. This was a much more pessimistic outlook than the 2 per cent growth in 2005 presented by the UN LINK *Global Economic Outlook* (the LINK number was based on the input from Professor Ban, but it was adjusted upward through the LINK exercise mostly due to the assumption of higher Japanese exports and the weaker exchange rate of the yen vis-à-vis the United States dollar in 2005).

In analyzing the recovery of the Japanese economy, Mr. Ban pointed out that the driving forces had been business investment and exports. Figures in the fourth quarter of 2003 confirmed that the recovery was rather solid, as GDP had increased by 6.4 per cent, the highest since the second quarter of 1990. Meanwhile, household consumption has also been recovering, as has employment. Even non-performing loans have shown some sign of declining. On the other hand, the weaknesses he mentioned included the notable appreciation of the yen, despite frequent government interventions in the foreign exchange market and a deterioration in the investment-saving balance, the saving rate having dropped significantly. One reason behind his pessimistic outlook for 2005 was his belief that the government will have to raise taxes in the future in order to cope with the ever-expanding public debt—currently standing at 130 per cent of GDP. Fragility in the banking sector also remains a downside risk for the economy, and a cyclical downturn in business investment is expected in 2005.

Australia

Mr. Ian Manning, National Institute for Economics and Industry Research, Australia, made a brief presentation on the outlook for the economy of *Australia*. He forecast a continued strong growth for 2004, at a rate of about 4 per cent, but a “soft landing” in 2005. The housing sector will play a key role in the outlook. Dwelling investment, which had grown robustly in the past few years, has now peaked and a downturn is expected in 2004-2006. After mid-2004, the stabilization of house prices, high debt levels and high debt-service costs will force consumption expenditure to be financed out of income. This will constrain the growth in household consumption expenditure to a rate of 2–3 per cent. Exports are expected to grow at strong rate, driven by recovery in the United States and rapid increases in demand from China, but the substantial appreciation of the Australia dollar against all major currencies may pose some uncertainties. While the government fiscal position is in healthy condition, political demand for improvement in infrastructure is growing, leading to an increase in government spending in the outlook.

Western Europe

Mr. Andre Dramais, European Commission, discussed the economic situation in Western Europe. The region is experiencing a mild recovery after two bad years, with the turnaround occurring in the third quarter of 2003. The rebound was led by net exports driven by the increase in global demand. In the fourth quarter, domestic demand had been main driver, especially investment, while private consumption remained subdued.

Survey evidence is encouraging. Confidence was good in manufacturing, but low in services although demand expectations have increased. Factors supporting an improved outlook are the rise in consumer confidence and higher equity prices. But negative factors include geopolitical risks, such as the war in Iraq and the Madrid bombing, as well as ageing and pension worries. After the collapse of the bubble, people realized that funded pensions were vulnerable. The forecast for the EU15 is for 2.0 per cent growth in 2004, after only 0.8 per cent in 2003, and 2.4 per cent in 2005. The euro zone is expected to be weaker.

The slowdown in 2001/02 was unusual in terms of unemployment. The unemployment rate rose from 8.0 to 8.8 per cent. The slowdown of 92/93 had been very similar and

unemployment had increased by 2 percentage points. In addition there has been no net job loss versus the 2.5 million lost in 92/93. The labour markets are more resilient, a sign that the reforms are working. However this resilience in the downturn may mean less employment creation in the upturn. The inflation picture is less favourable. Despite the strong appreciation of the euro (less in effective terms), inflation remains relatively high (greater than 2 per cent for most of last year) and is moving downward very slowly. This is true for both HICP and core inflation. HICP inflation is expected to register 1.8 per cent in 2004 and 1.6 per cent in 2005. Inflation in the service sector is very sluggish, as there is less competition and low productivity. But unit labour costs are decreasing as labour productivity picks up, putting downward pressure on prices. On the fiscal side, six countries are expected to have deficits in excess of 3 per cent in 2004, Greece Italy and Portugal joining the group. Fiscal situations have deteriorated everywhere, however some countries are in surplus.

The risks to the outlook include the exchange rate. Using the ecu as a guide, its value against the United States dollar over the past 20 years had ranged anywhere from 0.76 to 1.4, so anything is possible. This is especially relevant to those countries most exposed to extra-EU trade. So far, however, world demand growth has outweighed the effects of the appreciation so exports have increased. Another risk is personal consumption, which has yet to show signs of vigour. This means that the burden will be on investment spending; however, it is not clear if balance-sheet adjustments are completed.

Central and Eastern Europe and Commonwealth of Independent States

Mr. Rumen Dobrinsky, United Nations Economic Commission for Europe (ECE), presented the outlook for the countries of Central and Eastern Europe (CEE) and the Commonwealth of Independent States (CIS). According to him, economic growth strengthened in both regions in 2003. Average GDP growth accelerated to 3.8 per cent in Eastern Europe, driven by domestic demand and increasing exports to the EU. Improved financial intermediation and booming credit markets also supported growth. In CIS countries, GDP grew on average by 7.7 per cent, as the largest economies of the region performed strongly. Favourable external conditions (oil prices) and improved domestic demand played an important role, as economic reforms brought results. More extensive restructuring of the Russian economy is currently taking place. The speaker also presented the dynamics of quarterly growth in the region.

Further acceleration of growth is expected in 2004. For Eastern Europe, this assumption is based on an expected recovery in the EU, a shift towards export-led growth, expected positive effects of the EU accession on business and consumer sentiment and improvement in competitiveness for Hungary and the Czech Republic. The supportive policy stance in Poland should also contribute to economic expansion. The restructuring under way in Southeastern Europe is expected to continue.

This outlook is, however, subject to a number of downside risks. The most important is delayed recovery and weak import demand in the EU. Besides, there is increased competition from Asian products, and the strong euro may affect exports outside the euro zone. The current growth pattern is not sustainable, since in the future there will be less reliance on domestic demand, as macroeconomic imbalances need corrective action. Compliance with EU fiscal rules may also be restraining and growing short-term capital inflows may also prompt policy response.

The speaker then turned to FDI in Eastern Europe. FDI related to privatization diminished, and rising wages led to lower greenfield investment; at the same time, local investors often purchase production facilities from foreign owners. Reinvested earnings declined, and profit repatriation increased. Outward FDI by local investors also increased.

In the CIS, strong growth is expected to continue in 2004. Domestic demand will continue to provide strong support to economic activity, and for energy exporters high prices of oil will be helpful. Macroeconomic policies in the region will be generally supportive. Russia will continue to act as an engine of growth for the region and expanding CIS economies will be mutually reinforcing.

This outlook is also subject to a number of risks, one of them related to world commodity markets. In addition, macroeconomic imbalances may prompt policy action in some countries, and a number of indebted economies are acting under a balance-of-payment constraint. Any slowdown of the Russian economy may affect others.

Eastern and Southern Asia

Mr. Hiren Sarkar, United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), presented the outlook for Eastern and Southern Asia. According to him the region experienced strong growth in 2003 and is expected to grow even faster in 2004. Despite this solid growth performance, inflation will remain benign.

A major challenge for countries in the region is to strengthen regional development cooperation. This extends to different arrangements, which can be rule-based, activities-based or driven by transnational corporations (TNCs). There is room for improved regional cooperation in the areas of trade harmonization, improvements in transport infrastructure, development and use of information and communication technologies (ICT) and in building a safer financial structure. A major challenge for policymakers will be to identify and assess the numerous and interconnected implications of each policy option.

Western Asia

Mr. Edouard Nsimba, United Nations, presented outlook for the Middle East on behalf of **Mr. Fadhil Mahdi, Economic and Social Commission for Western Asia (ESCWA)**, who was unable to attend the meeting. Mr. Nsimba started his presentation by stating that the ESCWA region had been affected by conflicts, insecurity and war. These factors have distorted resource allocation and trade flows. Turmoil and conflict have also encouraged the private sector to seek safety in capital flight and have effectively reduced investment, economic growth and employment. Military-related security has increased at the expense of productive investment.

The US-led invasion of Iraq in 2003 had mixed economic consequences. On the one hand, the region suffered as tourism revenues collapsed, and consumer and investment confidence declined owing to uncertainties associated with the geopolitical climate that prevailed in the region in 2003. On the other hand, oil-exporting countries benefited from soaring oil prices, and oil production increased in the Gulf Cooperation Council countries (GCC) (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates).

The region's average growth increased from 1.3 in 2002 to 5.0 per cent in 2003, mainly reflecting the strong acceleration of growth in the GCC countries due to the oil price hike and the increase in production of oil. This figure does not include Iraq. In March-May 2003, Iraq was confronted with a war that compounded the difficulties of a country that had already been crippled by the 1991 Gulf war and international sanctions. Oil production and exports were suspended during the war. There is no consensus on GDP loss in Iraq owing to the war, although ESCWA estimated that Iraqi GDP contracted by 22.0 per cent in 2003.

In 2004, ESCWA expects a downturn in the region to about 3.2 per cent, mostly due to the deceleration by some of the GCC countries, whose oil production will be constrained by OPEC countries. The More Diversified Economies (MDE) are expected to do a bit better than in 2003. The big uncertainty is Iraq. Contrary to initial expectations, the declared end of the war in Iraq on 1 May 2003 did not remove the business and consumer confidence crises that have negatively affected the region. Iraqi oil production and exports have resumed but remain below pre-war levels, while the establishment of economic normalcy in the country remains inhibited by military and political instability and lack of resources.

Mr. Suleyman Ozmucur, University of Pennsylvania, presented the economic outlook for Turkey. The growth rate has been volatile over the past 25 years (in the past five years, for example, it varied from -7 per cent in 2001 to 7 per cent in 2000). The Turkish economy grew by 5.8 per cent in 2003, and the growth rate is expected to be 5 per cent in 2004 and 4.7 per cent in 2005.

As a result of the 2000 and 2001 crises, the rate of unemployment in Turkey is now very high (above 10 per cent in 2003) and is expected to decrease only after 2005. The inflation rate is at historically low levels. In 2003, the inflation rate was 23 per cent, and it is expected to be a little over 10 per cent in 2004 and 2005. These are very low levels considering it has been over 100 per cent in three of the past twenty years.

Both exports and imports of goods and services were strong, with about a 14 per cent real increase in 2003. Merchandise exports were \$47 billion, and merchandise imports were \$69 billion in 2003. The trade deficit of \$22 billion was partially offset by other revenues, primarily tourism, and resulted in a current-account deficit of \$7 billion. This trend is expected to change slightly in 2004 and 2005. In 2004, exports are expected to be \$47 billion, and imports to be \$62 billion, yielding a deficit of \$15 billion.

These relatively favourable forecasts are based on very favourable world economic conditions: an 8-12 per cent growth in real world trade, modest increases (1-2 per cent) in commodity prices and crude oil prices of \$27 per barrel (pb). These forecasts are subject to downside risks, the biggest of which being the war in neighbouring Iraq. Trade relations and oil pipeline revenues may be affected adversely, and security concerns may increase budgetary expenditures and negatively affect tourist revenues, which account for about 30 per cent of export revenues and about 7 per cent of GDP. Also, Turkey has a very high level of public debt, and its burden will increase if the United States dollar depreciates further.

Accession to the European Union (EU) is a major goal, especially after the customs union of 1996. There were many reforms undertaken to satisfy criteria set by the EU, but there is a lot

more to be done. Relations with the United States were strained because of the war in Iraq, but seem to have normalized.

Mr. Yacov Sheinin, Economic Models Ltd., presented the outlook for Israel. The Israeli economy regained stability in 2003 after two years of contraction. Nevertheless, due to the long recession, GDP per capita remains at the level of 1995. Although most macroeconomic indicators are now showing improvement, the unemployment level remains high. GDP growth will decelerate to 2 per cent in 2004 due to fiscal restraint.

Interest rate cuts will continue in the latter part of the year, bringing the interest rates to 3.5 per cent by year-end. The government has succeeded in imposing wage cuts, allowance reductions, pension conditions and other structural changes. Despite fiscal restraint, the budget deficit will remain high in 2004, reaching 4.8 per cent of GDP.

Consumer Price Index (CPI) inflation fell by 1.9 per cent in 2003 due to the appreciation of the Shekel (6.5 per cent in 2003). Inflation will rise to 1.4 per cent in 2004. External market factors remain positive and show great fundamental stability.

During the discussion, a question about the importance of the twin deficits in Turkey was raised in the context of meeting Maastricht criteria in the event of EU accession. Mr. Ozmucur answered that the current-account deficit was likely to decrease or even turn into a surplus in 2004 and 2005, given an expected increase in tourism revenues. Another question was raised about the impact of high oil prices on the inflation rate in Israel, which is an energy importer. Mr. Sheinin explained that tax accounts for about 70 per cent of the gasoline price in Israel. The amount of this tax is expressed in terms of United States dollars per gallon rather than as a percentage of the price; therefore, changes in oil prices do not affect the CPI inflation rate that much.

Africa

Ms. Shamika Sirimanne, United Nations Economic Commission for Africa (ECA), presented the regional outlook for Africa, which was based on the forthcoming Economic Report on Africa, 2004, that will be published by the ECA in July 2004. According to her, real GDP growth in Africa in 2003 was 3.6 per cent, which was an improvement over 2.9 per cent in 2002, but not high enough to assure that the Millennium Development Goals (MDGs) will be achieved.

The main factors contributing to growth in 2003 were the following: good macroeconomic policies evidenced by prudent monetary policies; widespread fiscal deficit consolidation, which presented challenges in meeting the objectives of Poverty Reduction Strategy Papers (PRSPs) and MDG goals; low inflation, except in a few countries, such as Angola, Nigeria and Zimbabwe; commodity price increases since mid-2003; the receipt of debt relief by several heavily indebted poor countries (HIPC); and good weather, which accounted for a recovery in agriculture in North Africa, although several countries in eastern and southern Africa suffered from drought. Political uncertainties however, held back growth in several countries. The most seriously affected were Cote d'Ivoire (with negative contagion effects in neighbouring countries, such as Mali and Burkina Faso) and Zimbabwe, where GDP growth contracted by a further 11 per cent.

Ms. Sirimanne then talked about improvement in Africa's external accounts. The current-account deficit as a percentage of GDP dropped to half of the level registered in 2002. This result was mainly due to stronger export earnings from high oil prices, recovery in non-oil commodity prices (including gold and other precious metals) and growth in demand from African exports as a result of stronger global economic growth. Official Development Assistance (ODA) flows increased in 2001 (the latest year for which data were available) compared to 2000. The International Development Association (IDA) was the largest donor to Africa. There continued to be lags between commitments and disbursements. Approximately 50 per cent of ODA flows to Africa were committed to MDG goals but there were large disparities between flows to different targets. Most MDG-targeted flows went to MDG 6 (HIV/AIDS, malaria and other communicable diseases). Significantly less was committed to MDG 3 (gender equality). An additional \$50 billion per year of aid is needed to satisfy MDG targets in developing countries, of which, \$25 billion would be required in Africa.

FDI flows to Africa rebounded in 2003. There were large flows to natural resource sectors (mostly to oil economies), large emerging economies (South Africa and Tunisia) and a few smaller countries (Ethiopia and Uganda). Results of a survey of TNCs on FDI flows to Africa confirmed that the most attractive destinations for FDI in Africa were larger countries such as Egypt, Morocco, South Africa and Tunisia and smaller countries that have managed to improve the investment climate through better policies and improved governance. The biggest FDI potential in Africa was in service sectors such as tourism, telecommunications, finance and insurance. The biggest obstacles to FDI in Africa were corrupt practices, such as extortion and bribery, poor access to global markets, lack of political and economic stability and limited access to global finance.

At the end of her presentation, Ms. Sirimanne expressed the view that Africa's medium-term outlook was positive. GDP is expected to increase to 4.4 per cent in 2004 based on increases in agricultural production, continuation of reform policies and improvement in macroeconomic fundamentals, continued global economic recovery and additional commodity price increases. The main downside risk is the potential for political instability in some countries.

In response to questions from the floor, Ms. Sirimanne made several additional comments. Answering the question about the impact of the New Partnership for Africa's Development (NEPAD) on Africa's economic performance, she said that, although there was no detectable short-term impact of the NEPAD framework on Africa's economic performance in 2003, the initiative was expected to contribute to economic developments in the future, especially in raising FDI and other resource flows to Africa. Asked about the spill-over effects from Zimbabwe's economic crisis in neighbouring countries, she said that they were minimal.

Mr. Cletus Dordunoo, ClayDord Consult, talked about current developments in Ghana. According to him, despite the negative contagion effects of the crisis in Cote d'Ivoire, Ghana benefited from increased cocoa sales and higher world market prices. Ghana also benefited from increased use of its ports for trans-shipment of international cargo to and from neighbouring landlocked countries as more of this activity was diverted from the port of Abidjan during the crisis.

On the other hand, the Ghanaian economy suffered the burden of additional administrative costs of handling the influx of refugees from the Cote d'Ivoire crisis (as well as

refugees from earlier crises in Liberia and Nigeria) and increased levels of crime and social unrest associated with the growing refugee population. Higher prices of petroleum products resulting from supply shortages caused by increased smuggling to more lucrative markets in Cote d'Ivoire (where production of those products was disrupted by the crisis) also had a negative impact on the Ghanaian economy.

Special topic on Africa:

Impact of dollar depreciation on developing countries: the South African case

Mr. Walter de Wet, University of Pretoria, outlined economic developments in South Africa from the perspective of the impact of recent exchange-rate movements on the South African economy. The speaker began his presentation by reviewing the South African currency movements. He said that the rand had generally depreciated since South Africa adopted floating exchange rates. Therefore, the sharp appreciation of the rand in the last two years is a new experience for South Africa. Movements of the rand significantly affect monetary policy since the South African central bank, the Reserve Bank of South Africa, has implemented an inflation targeting policy which seeks to maintain an inflation target of 4-6 per cent. South Africa's two largest employers, the mining and manufacturing sectors, are very sensitive to exchange-rate movements; employment is therefore also quite sensitive to movements in the currency.

Between 1998 and 2001 the rand appreciated against currencies of South Africa's four biggest trading partners (the dollar, pound, euro and yen). After 11 September 2001, the rand depreciated sharply against all four currencies. In 2001, the rand depreciated by 43 per cent against the dollar and 30-40 per cent against the other currencies. Since the beginning of 2002, the rand has been appreciating more strongly against the dollar (partly because of the weak dollar) than against the other major currencies. The appreciation has also been substantial in real effective terms. Even with the substantial appreciation, the currency is still deemed to be undervalued by about 10 per cent (the current value of R6.6/\$ against an equilibrium rate of R6.0/\$).

According to the speaker, the main reasons for this appreciation were: high interest rate differentials because of South Africa's monetary policies that increased interest rates by 400 basis points in 2002 to combat inflation; better investor sentiments towards South Africa stemming from higher ratings and increased confidence in the country's monetary and fiscal policy management; closing of the forward book by the central bank; and increases in gold and platinum prices.

On the positive side, the rand appreciation contributed to lower inflation and interest rates, which declined to the lowest levels in 20 years. Interest rate differentials between South Africa and major industrial countries were large, even though South African interest rates had dropped to low levels. This differential attracted capital flows to South Africa. Also, private consumption expenditures increased because of declining interest rates and lower inflation. Government consumption expenditures also increased, although this was less sensitive to interest rates, partly as a result of increased spending in the run-up to national elections in 2004. Gross fixed capital formation increased to 16 per cent in 2003 as a result of the rand appreciation, lower interest rates and cheaper imports. Net exports turned negative in 2003, however, because of the

loss of competitiveness of South African exports due to the appreciation of the rand. This was a reversal of the period of booming export growth in 2001 when the rand depreciated significantly. The current-account balance deteriorated from a surplus in 2002 to a deficit in 2003, but strong growth in capital inflows partly financed this deficit.

On the negative side, the mining and manufacturing sectors were negatively affected by the rand appreciation because of the loss of competitiveness in those sectors. The mining sector recorded zero growth in the fourth quarter of 2003, with a decline projected for 2004. It resulted in slower overall GDP growth (1.9 per cent in 2003) and significant job losses in mining and manufacturing sectors. The unemployment rate is very high: 28.2 per cent by narrow definition, which excludes job seekers who have given up looking for employment, and 48.1 by broader definition. Corporate profitability growth, as measured by declines in gross operational surpluses, declined to almost zero percentage growth in 2003. This fed through to job losses, lower corporate taxes and lower investment in the mining and manufacturing sectors. National savings also declined. The savings/GDP ratio declined from 17 per cent in 2002 to 15 per cent in 2003.

In the discussion following the presentation, several comments were made by the speaker and other participants. The significant lags observed between ODA commitments and disbursements have been attributed to factors other than the absorptive capacity of recipient countries, such as the timeliness of disbursements and increased conditionalities required by donor countries. On the other hand, ODA flows associated with the global fund to combat HIV/AIDS require an appropriate system and infrastructure to be in place before funds are disbursed. This could affect the absorptive capacity of some countries. A question was raised about the exchange-rate policy of the central bank of South Africa. Mr. de Wet said that the Reserve Bank of South Africa targeted exchange rates indirectly through its inflation targeting policy. This policy is expected to work better in the future as inflation expectations become more forward-looking than backward-looking, as they have been in the past.

The issue of unemployment in South Africa was also discussed. Structural factors, such as a large pool of unskilled labour and low productivity growth contribute to the high levels of unemployment in South Africa. In the absence of an appreciating currency and loss of export competitiveness, such as the trend observed in 2003, mining and manufacturing firms would have been able to retain more jobs since profitability would have been higher. The shock of the 2003 appreciation, however, forced many companies to lay off more workers than anticipated. South Africa's economic growth in recent years, which has been driven mainly by domestic demand, has contributed poorly to job creation and poverty reduction. In addition, most resource flows to South Africa have been portfolio investments in short-term instruments rather than FDI in the private sector for increased job creation and faster economic growth.

Latin America and the Caribbean

Mr. Andre Hofman, United Nations Economic Commission for Latin America and the Caribbean (ECLAC), presented the outlook for Latin America and the Caribbean. According to him, the region's GDP was expected to grow by 4 per cent in 2004, led by a recovery in the larger economies (3 per cent GDP growth is expected for both Mexico and Brazil) and faster growth in Venezuela (this having mainly a statistical effect after a deep recession in 2003 and a recuperation, albeit a small one, in oil production). In the Southern

Cone, Argentina continues its rapid growth while Chile keeps maintaining the region's most solid growth path at the rate of 4 per cent. In addition, the Central American isthmus will also recover from its slow growth.

GDP in LAC will be boosted by export growth (while imports will continue their recuperation) and some recovery of internal demand. Thus, the current-account balance will end up in a surplus, albeit a small one, in an unprecedented second year in a row. Exchange rates will become more stable and inflation will continue its downward, less volatile path. Some improvement in the fiscal situation is also expected.

This forecast assumes that the industrialized countries will continue their recovery path, China's performance will remain strong, commodity prices will stabilize, albeit at high levels, oil prices will remain stable and there will be a modest increase in the quantum of exports.

The average LAC country risk index continues to descend and there is greater convergence within the region (except for Argentina). International issuance of government bonds continued to increase through the first quarter of 2004.

Several country participants from the floor added to Mr. Hofman's presentation:

Brazil: **Mr. Eustaquio Reis, IPEA, Brazil**, commented that the Brazilian economy had been losing some of its momentum during the past few months. Unemployment remained at high levels, while the monetary authority continued to decrease the official interest rate, to 16 per cent on 15 April, and loosen access to credit for investment through its development bank (BNDES) in order to try to revive the economic activity. The government has also raised public wages. It appears that the year's forecast for GDP growth could be lowered to 3 per cent.

Colombia: **Mr. Luis García Echeverría**, said that economic growth in Colombia in 2003 had been mostly due to an increase in construction, which would continue in 2004. Despite the fact that the Colombian economy has been growing, unemployment continues to be a problem despite growth.

Venezuela: **Ms. Cristina Rodríguez, Metroeconomica, Venezuela**, commented that, since the 2002 strike lifted in February 2003, *Venezuela* had been in a critical political situation. Price and exchange-rate controls have depressed domestic demand, while unemployment has reached 18.6 per cent. The recovery in 2004 is a statistical phenomenon and stagnation is foreseen in the medium term. Price controls have created parallel markets and inflation will remain high.

Special topic for Latin America:

The Dynamics of Inflation in Latin America

Ms. Sandra Manuelito, United Nations Economic Commission for Latin America and the Caribbean (ECLAC), spoke about the dynamics of inflation in Latin America. She said that although the average inflation rate of in the LAC countries had decreased tremendously over the past decade, the trends in the prices of goods and services varied between countries and periods. Also, the relative prices between tradable and non-tradable goods have fluctuated among different countries and different periods. This instability has been more intense after a devaluation following the crises and it continues to present problems to producers and consumers in their medium-term decision making. Among non-tradable goods, services have experienced the fastest growth, while, among tradable goods, perishable consumption goods in general have taken a downward trend.

The volatile trend of the relative prices may have been caused by a variety of factors. Among these are the opening of the markets and the effect of changes in international prices, the change to more flexible exchange-rate regimes after a balance-of-payment crisis and accompanying changes in economic policy, the liberalization of prices through the end of indexation. Lower inflation and more stable relative prices were a by-product of more restrictive monetary and fiscal policy leading to economic recession.

SPECIAL ECONOMIC TOPICS

The Economic Future of Europe

Professor Olivier Blanchard, MIT, made a presentation on the economic future of Europe. The economic performance in Europe is better than often believed. On the surface, it appears that the European economy is stuck at a permanently lower living standard compared to the United States; it has failed to catch up with the United States over the last 30 years has been falling further behind since the mid 1990's. It is true that GDP per capita had been significantly lower in the EU than in the United States in 1970 and that in 2000 the gap was nearly identical. However this is misleading. Average labour productivity in the EU, when measured as GDP per hour worked, had been only 70 per cent of that in the United States in 1970, but had grown at a much faster rate in the ensuing 30 years so that by 2000 the gap had narrowed to 90 per cent. In France, productivity was actually higher than that of the United States in 2000. At the same time, hours worked decreased significantly in the EU relative to the US. The speaker attributed this to workers in the EU using the productivity gains to increase leisure rather than income, in direct contrast to those in the US.

Many possible measurement biases were addressed without changing the fundamental story. The change in hours worked per capita was decomposed into hours worked per worker, the employment rate and the participation rate. It was found that most of the change took place in hours worked per full-time worker, while a decrease in the employment (increased unemployment) rate was roughly offset by the increase in the participation rate. So either this represented preference for increased leisure, or it was the result of increasing distortions such as

taxes on work. Marginal tax rates have increased more in the EU than in the US. But cross country evidence within the EU for a relation between the decrease in hours and the increase in tax rates is weak, so the majority of the decline was attributed to preferences.

Looking at the most recent period, the mid 1990s until the present, it is fairly clear that the United States did experience an acceleration in productivity growth while the EU experienced a deceleration. Some recent studies have compared Total Factor Productivity across countries and sectors, trying to take careful account of comparability across countries, particularly in the deflators used. Some of the difference in productivity growth can be attributed to the EU being behind in IT production (and its associated high rate of productivity growth) at the aggregate level, and some could be attributed to higher investment in IT technology in the US, although it was argued that much of this was overinvestment. The majority of the difference, however, was attributed to the large difference in productivity growth in the IT-using service sector, particularly retail and wholesale trade.

The speaker then discussed the state of the reform process in the product, financial and labour markets. He claimed that reforms in the product and financial markets were key, as these would push the process of reform in labour markets. Many elements of product and financial market reform had already been achieved, while labour market reform was very slow and filled with tension. However, these tensions were a sign of change. The process of reform continues through competition policy, which gives Brussels considerable power over national governments, and there is a question as to why this power was given. Either it was an accident and member governments didn't realize what they were doing, or it was by design and governments delegated to Brussels those reforms that were the most difficult to achieve; the Commission could then be used as a "scapegoat".

Studies of the progress in reform indicate that regulation in the EU has steadily decreased over time, but on the whole the EU is more regulated than the US, while there is substantial heterogeneity across countries within the EU. The structural effects of reform could be seen in the degree of price convergence achieved and in the changed structure of financial relations. At the sectoral level, examples of significant deregulation and measurable change include road freight, the automotive sector and retail trade. The last of these was of interest because it was the key to the recent dynamism of United States productivity. In the EU, much of the regulation in this sector consisted of zoning restrictions, which are controlled at the local level, so the regulation level is still high in many countries. Regulation in retail trade may inhibit entry of new, more productive firms and thus may explain some of the productivity differential between the EU and the US. Other sectors, such as telecommunications, electricity and retail banking, show substantial evidence of deregulation and changes in firm behaviour. But if these changes have occurred, why was there no evidence of higher productivity growth in the 1990s? The speaker proposed that firms had been under considerable pressure to maintain levels of employment. This, coupled with low overall demand, meant that firms had less incentive to implement innovations and hence implied lower productivity growth. But this may mean that when growth picks up these innovations will be implemented and productivity will increase.

Product and financial market reforms have been driving changes in labour markets. Product market deregulation leads to lower rents for firms and thus less to divide up between labour and capital. This is unpopular because the gains to labour as consumers in the form of lower inflation are less apparent than the losses from lower rents. But much of the product

market deregulation takes place at the Brussels level so that it can ultimately be introduced. However public sector reforms are at the national level, so they have lagged. Financial market deregulation can be viewed as increasing the elasticity of capital with respect to its rate of return. This will result in lower real wages and so again will be unpopular. Unions are an important constituent in the reform process, as they are hurt by deregulation. Deregulation results in smaller rents and so smaller benefits to workers from joining unions. This can be seen as another factor leading to declining union membership.

Looking at labour market institutions (unemployment insurance, minimum wages, and employment protection), there are two views regarding their usefulness. The cynical view is that these provide another way of affecting the distribution of rents between firms and workers, the naïve view is that they are used to solve a number of market imperfections, such as providing unemployment insurance; the truth lies somewhere in between. From the cynical vantage point, as rents become smaller these institutions become less useful. From the naïve point of view, there is a trade-off between social insurance and economic efficiency. The EU is not yet on the frontier, but deregulation is applying pressure to get it closer to the frontier and a more efficient European model rather than the United States model. Unemployment insurance reforms are moving ahead. The highest replacement rates have been reduced and recent schemes are adding more active reemployment policies. Progress in employment protection is more limited, with a lot of forward and reverse movement.

The role of China in the Global Economy

Mr. Yongzheng Yang, IMF, presented a working paper on the role of China in the global economy. In his presentation he addressed two main concerns: export competition and competition for FDI in the context of China's integration in the world economy and its effects on LDCs, and the implications of China's accession to the WTO.

China's integration process into the world economy has been marked by reductions in tariff as well as in non-tariff trade barriers, reflected by the rise in the share of trade in GDP as well as the share of FDI in total investment. The question arising in this context is whether China's integration process has been different from other phases of integration. While it has been similar in terms of real output growth and FDI, it has been based less on trade as compared to the experience of other countries, such as Japan.

China's WTO commitments include the opening of its markets for goods and services, especially through the removal of tariffs and the introduction and enforcement of anti-dumping rules and regulations. China's accession to the WTO will affect the economic outlook for other countries. While it is likely to lead to an increase in import demand from China and an improvement in the terms of trade of China's trading partners, it will also lead to more intense export competition and therefore to a decrease in competitors' terms of trade.

According to the speaker, the main beneficiary of China's WTO accession will be China itself. However, these positive effects will be concentrated on only a few sectors, such as the textile industry. In the long run, the benefits arising from China's integration into the world economy are likely to be more widespread and evenly distributed within the Chinese economy.

Mr. Yang then presented the results of analysis of the impact of China's growth during 1975-1995 on the world economy as a whole using a general equilibrium, the Global Trade Analysis Project (GTAP). His model produced the following results:

- Chinese growth has had a positive impact on the world as a whole.
- The terms of trade of China and its partner economies have improved.
- The terms of trade of third countries (competitors) have deteriorated.

These findings imply that strong trade ties with China were beneficial.

Looking ahead, South Asia is likely to suffer from China's increasing role in world trade due to the structural similarities of these countries' exports. However, sticky real wages could lead to negative impacts on other countries as well. According to the speaker's estimate, overall, about 1-2 percent of the world's labour force will have to move to other sectors due to China's growth.

The speaker concluded with the following points. China's emergence as a trade power does not differ from previous phases of integration, but the size of its economy will imply a more pronounced impact on other countries. The net impact of China's WTO accession on LDCs will depend on the degree of competition in third markets. Countries need to be flexible in adjusting to the new challenges emanating from China's WTO accession.

Mr. Yang's presentation was followed by a roundtable discussion on the same topic.

India: Ms. Pami Dua, Delhi School of Economics, compared the case of India to the case of China in terms of becoming future economic powers and considered the possibility of India overtaking China as the leading emerging market. She also spoke about the implications of China's accession to the WTO for India.

To facilitate the comparison, the speaker made the following observations. During the 1990-1999 period, China achieved an average real annual GDP growth rate of 10.7 per cent, while India's growth rate was 6 per cent. In 1965, India's GDP stood at 125 per cent of China's GDP. By 2000, the value of India's total production had fallen to just 45 per cent of that of China. In 1949, agriculture had accounted for 68 per cent of the size of the Chinese economy, while the proportion was only 18 per cent in 1999. As regards India, the share of agriculture in the economy had fallen from 52 per cent in 1952 to 25 per cent in 1999.

When comparing the first ten years of reform in China (1978-1987) and India (1991-2000), there are two major findings. First, India opened up its economy more quickly in terms of both trade and foreign direct investment. Second, growth rates of GDP and GDP per capita were higher in China. According to the speaker, the possible reasons for these different developments are the linkages to neighbouring economies as well as different starting levels as far as GDP per capita is concerned.

China's accession to the WTO is likely to put pressure on India's exports to the rest of the world since both countries have their comparative advantage in labour-intensive, manufactured goods and compete in the export of a similar range of goods, for example, textiles, leather products and light machinery. As regards Indian exports to China, China's WTO

membership will possibly lead to an increase. But given that exports to China account for only 2 per cent of India's total exports, the overall positive effects on Indian exports will be limited. While the effects on Indian imports from the rest of the world will be negligible, imports from China are likely to increase, having only little overall effect due to the low proportion of imports from China in total Indian imports. The impact on FDI in India will be limited, since India is not competing for export-oriented FDI. FDI directed to the local market will not be influenced by China, but rather by the pace of domestic macroeconomic and structural reforms.

With respect to business processing outsourcing, India is well placed to cope with increased competitive pressure from China. India's main strengths are a low-cost base, competency, technical infrastructure, language and a skilled labour pool. China is likely to become a major player in the Japanese market, where India is still barely present at the moment.

Looking ahead, India may see sustained higher growth over the next 30-50 years. Even though China's growth rate is likely to fall, possibly making India the leader in economic growth, China can still be expected to be the largest economy in 2040 (based on a study by Goldman Sachs).

Hong Kong SAR: **Ms. Win-Lin Chou, the Chinese University of Hong Kong**, spoke about several economic issues in the relations between China and Hong Kong Special Administrative Region (SAR), which according to her were particularly relevant in assessing the prospects for the economy of Hong Kong SAR. She noted that the Closer Economic Partnership Arrangement (CEPA), which facilitates trade in both goods and services, was likely to lead to an increase of exports from Hong Kong SAR to China. Also, an individual visit scheme by China was launched, according to which residents from 14 Chinese cities can apply for travel documents for Hong Kong SAR. This is likely to have a positive effect on the tourism sector of Hong Kong SAR and to increase its exports of services. In addition, the restrictions on Hong Kong SAR banks to conduct transactions in Chinese currency had been loosened recently. This makes it easier for the banks to offer more comprehensive financial services, implying additional stimulation for the financial sector of Hong Kong SAR.

Singapore: **Mr. Roberto Mariano, Singapore Management University**, spoke about the impact of China's growth and its accession to the WTO for *ASEAN countries*. According to him, it will not only result in increasing export competition in third markets but also in chances for increased exports to China. The ASEAN countries will become targets for Chinese investment. Also, new possibilities will open for investment and vertical production integration for ASEAN countries in China. He concluded that the strategic location between China and India creates vast opportunities for ASEAN countries. There is room for them to specialize in niche areas such as the telecoms, information technologies, services and life sciences.

China: **Mr. Tongsan Wang, Institute of Quantitative and Technical Economic, Beijing**, spoke about the potential effects of the WTO membership for China. According to him, the textile sector will benefit, while other sectors such as automobile production may suffer. The effects are likely to differ across regions, with the more industrialized coastal and eastern regions likely to benefit more than the Western regions of China. Also, in the long run, benefits are likely to increase.

The speaker also described the current macroeconomic situation in China. GDP growth has been solid since the Asian financial crisis. Last year, the economy expanded by 9.1 per cent, but there are currently fears that the economy may experience a hard landing. Economic growth may exceed 10 per cent in the second quarter of 2004, partly because of a low base for comparison in the previous year due to SARS. Against this background, growth could end up at more than 9 per cent for 2004 as a whole.

Investment has grown strongly in 2003 and is likely to expand at a fast pace this year, possibly at a rate exceeding 20 per cent. FDI remained unchanged last year at a high level and is expected to remain at this level in 2004.

Trade data show greater fluctuations than GDP, but over the last 20 years, there has almost always been a trade surplus. The amount of the surplus is expected to decrease, however. Regarding trade, the reduction of tax benefits on exports from the beginning of this year probably led to the front-loading of exports in the fourth quarter of 2003. This may have contributed to the trade deficit in the first two months of 2004. For 2004 as a whole, the trade balance is still likely to remain in surplus.

On the fiscal side, the deficit increased in the wake of the Asian crisis. The government is expected to take a more prudent fiscal policy stance, with the nominal deficit remaining unchanged in the new budget year.

During the discussion period, **Mr. Dili Raj Khanal, Institute for Policy Research & Development, Nepal**, commented on recent economic developments in Nepal. In 2003, the country registered positive growth rates both in the agricultural and non-agricultural sectors (especially in industry and trade). Remittance income has been strong and has fostered domestic demand. Nepal, one of the most liberalized countries in Eastern and Southern Asia, joined the WTO in 2004.

According to the speaker, however, there remain serious challenges to future growth: political instability, which is hampering growth; the curbing of the budget deficit, which is happening at the expense of investments in development; the dual exchange-rate system, which is creating asymmetries; the Nepali rupee, which is pegged to the Indian rupee but flexible with respect to other currencies; and uncertainties concerning the future development of the external sector, which arise from the accession to the WTO and from the phasing out of the Multifibre Arrangement.

Stability and growth in Europe: implications of the EU enlargement

Mr. Laszlo Halpern, Institute of Economics, Hungarian Academy of Sciences, Budapest, spoke about stability and growth in the accession countries. The new EU members are supposed to be subject to equal treatment. The concept of equal treatment, however, can be viewed in various ways. On the one hand, it may assume application of the same rules and requirements as for the existing EU members. On the other hand, it may imply recognition of the need for an individual approach to every new EU member. Countries currently joining the EU vary among each other and from the existing member states. They have much lower per capita income levels than the existing EU members and are subject to volatile capital movements. If the existing EU rules are applied to them without modification, it may slow their

GDP growth, destabilize their economies due to volatility of capital flows and even have a spillover impact on the EMU.

Mr. Halpern described the EU accession countries as small, open economies with relatively low levels of public debt that have achieved a high degree of business cycle synchronization with the EU. Their currencies are appreciating, equilibrium interest rates are converging to the EU level and risk premium for assets denominated in domestic currency is declining. Following the enlargement, nominal rather than real asymmetric shocks are more likely for these new EU members. These countries will remain sensitive to exchange-rate volatility. Price stability implies higher equilibrium inflation. Lower interest rates will lead to an increase in private consumption and higher current-account deficits, in turn generating inflationary expectations. Public sector adjustment is, therefore, expected to compensate for this increase.

The speaker then talked about the impact of EU accession on capital flows in the accession countries. Portfolio capital flows will remain large and volatile. The financial markets of these countries and the degree of monetization correspond to their level of development as economies that are still catching up. The danger is that these countries will attract strong flows of speculative capital exchange rates, as they offer relatively high real interest rates and the prospects of steady real appreciation. Under pressure from capital flows, the exchange rate may deviate from its equilibrium path and room for manoeuvre through interest rates would be limited both in the case of fixed and flexible exchange-rate regimes.

According to the speaker, the equilibrium characteristics of the new members imply running structural budget deficits in the medium term, without jeopardizing fiscal discipline. Currently their debt to GDP ratios are well below 60 per cent, but growing borrowing by the private sector and vulnerability of currencies require that fiscal adjustment should go ahead, determined by current-account sustainability. The 3 per cent short-term budget deficit ceiling is, therefore, irrelevant. Eventually, the fiscal criteria of the euro zone should and could be met independently of joining the euro. The ERM-2 (Exchange Rate Mechanism) as an intermediary regime on its way to adopting the euro is not very helpful in stability management and might even become a speculative target. In conclusion, the speaker expressed the view that euro zone entry criteria and the Stability and Growth Pact (SGP) should be reconsidered in the case of these new members, and as soon as their economies are mature enough, they should join the euro.

Mr. Rumen Dobrinski, United Nations Economic Commission of Europe (ECE), spoke about the implications of the EU enlargement for the non-accession transition countries. The speaker presented an overview of the new geopolitical and economic realities in Europe that would go into effect on 1 May. The European continent will be shaped by the different groups of countries: the EU-25; non-EU developed economies (Iceland, Norway and Switzerland); EU association process (Albania, Bosnia and Herzegovina and Serbia and Montenegro); several European CIS countries (such as Moldova, Ukraine and Georgia), which are aspiring to closer links with EU but on which the EU position is not yet clear; and other CIS-countries that have not expressed such aspirations.

The EU enlargement in May will affect the relationships among these groups of countries and the speaker outlined the possible channels and directions of impact. The dependence of the non-accession countries on trade with the EU-15 is high in South East Europe, while in the CIS region it is usually high either in exports or in imports. The dependence of non-accession

countries on trade with the eight acceding countries increases with the size of the economy of a non-accession country. The expected trade effects of EU enlargement on non-accession countries vary among the countries and are to a large extent determined by the composition of their exports and imports. On the positive side, the non-accession countries will benefit from a reduction in tariff barriers, the adoption of the Generalized System of Preferences (GSP) treatment of some exports and the application of Russia's "market economy" status (recognized by the EU) in the eight acceding countries. On the negative side, there are some new non-tariff barriers in the accession countries, such as EU import quotas and regulations, the Common Agricultural Policy (CAP) and the possible increase in anti-dumping measures. Other economic implications of EU enlargement for non-accession countries include the effects of the EU visa regime and the EU policy of diversification of energy supplies, as well as some unresolved issues, such as the extension of the Partnership and Cooperation Agreements (PCAs) with the EU-15 to the EU-25, the major focus being Russia, renegotiation of the EU's import quotas and ongoing negotiations for WTO accession.

Perspectives on international trade for Africa

Ms. Shamika Sirimanne, United Nations Economic Commission for Africa (ECA), presented a paper entitled "Unlocking Africa's Trade Potential", which will be a part of the 2004 Economic Report on Africa, to be released by the ECA in July. She focused her presentation on two main areas: the new trends in African trade and the export structure of African countries, and measuring Africa's competitiveness and the policy implications thereof.

While acknowledging the slight increase of Africa's total trade in absolute terms over the recent years, Ms. Sirimanne noted that the continent had become increasingly marginalized in international trade when compared to other developing regions. In fact, she showed that Africa had lost its share of world trade in manufactured exports, as well as in primary commodity exports, and concluded that improving competitiveness was crucial if the current trend was to be reversed.

She then presented the methodology used to build the Trade Competitive Index (TCI), the ECA indicator for competitiveness. She reminded the participants that the sample used to that effect included twenty African countries and eight non-African countries, for intercontinental comparison, and covered a period from 1980 to 2001. More importantly, she revealed that the TCI consisted of measures in the three following areas: the enabling trade environment, meaning the overall economic and political environment's conduciveness to trade; the availability of productive resources (direct inputs to production, such as land and labour; and the quality of infrastructure, meaning the availability of indirect inputs, such as physical infrastructure to enable the flow of goods and services. She also described the TCI as a unique and relevant tool because it was trade specific, captured the underlying factors of competitiveness rather than the outcome of competitiveness, focused especially on African countries and explained well the trade patterns in the continent.

The compilation of data revealed that the TCI varied largely from country to country. On the one hand, the difference in competitiveness between African countries and non-African countries was attributed to a worse health and education situation in the former. On the other hand, the quality of institutions, transport and telecommunication networks, and energy infrastructure were identified as key determinants of competitiveness among African countries.

Consequently, the improvement of the health and education situation, the promotion of good governance and the development of physical infrastructure were thought to be crucial in ensuring a greater integration of Africa into international trade.

Two main comments followed the presentation. First, on the exclusion of services and a regional intratrade perspective in the analysis of competitiveness, Ms. Sirimanne acknowledged the relevance of such observations and reported that work was going on at the ECA to incorporate these dimensions. Second, in the case of Nigeria, one participant questioned the rationale of excluding oil exports from the analysis of competitiveness, to which the speaker responded that the ECA was looking at the policy angle, meaning that it was interested in how African countries could reduce their reliance on exports of raw materials and move up the value chain in producing manufactured goods or processed materials.

Trade and exchange-rate issues for Latin America

Mr. Dominick Salvatore, Fordham University, presented an analysis of the advantages and disadvantages of bilateral and regional free trade agreements (FTAs) for the world trading system and for global growth. He pointed out that there had been a tremendous increase in FTAs in the world since 1970. There is a great variety of agreements: preferential trade agreements, free trade agreements, customs unions (CU), customs markets (CM) with full movement of capital and labour, monetary unions (MU) and full monetary unions. The European Union started as a CU that developed into a CM to its present MU. The North American Free Trade Agreement (NAFTA) is only an FTA, while Mercosur is working towards becoming a CM. The most important question is whether these agreements can enhance welfare. A way of analyzing the pros and cons of FTAs, he argued, was to assess whether such agreements promoted trade creation or trade diversion. As a rule of thumb, the higher the tariffs among members and the lower the tariffs against non-members, the more trade-creating a FTA will be. Nevertheless, Mr. Salvatore shared the opinion that FTAs were a good example of only a second-best solution, as Jacob Viner had proposed in the fifties, breaking with the old notion that FTAs would lead to free trade, and should not be a replacement of a multilateral system where welfare gains were maximized, the first-best solution.

On the positive side, FTAs may contribute to increased competition due to lower trade barriers, even if only at the regional level, support increased economies of scale and promote investment in member countries. They may also contribute to advance trade liberalization when multilateral negotiations are at a stalemate. On the negative side, it is impossible to deny the discriminatory nature of FTAs (when membership is not open) and the fact that they take resources and efforts away from building multilateral trading arrangements. Additionally, in a regional or bilateral negotiation process, weaker members may be more easily coerced into making concessions that they would not necessarily agree to in multilateral negotiations.

According to Mr. Salvatore, FTAs should be evaluated by their capacity to promote greater economic growth through increased specialization, efficiency and competition. In his view, FTAs are not achieving this, as demonstrated in the case of the European Union, where productivity growth is slower than in the United States. A more conclusive analysis, however, and one that—according to the speaker—could be pursued by Project LINK, would be to run counterfactual simulations and assess the outcomes that would have been generated had FTAs

not been implemented. Mr. Salvatore anticipated that such an exercise would indicate that a strengthened multilateral system would have performed much better.

Mr. Alfredo Coutiño, Center for Economic Forecasting of Mexico, presented a Mexican perspective on NAFTA ten years after its launching. He focused his presentation on selected macroeconomic indicators and centered it on the benefits brought about by NAFTA to the Mexican economy. Mr. Coutiño claimed that it was difficult to find indicators of negative outcomes that could be attributed exclusively to NAFTA.

The main points of his presentation included an overview of such indicators as FDI inflows, import and export flows, current-account balances and number of in-bond processing plants (*maquilas*). In his view, NAFTA was positive for Mexico on all of these counts. On the negative side, it promoted a greater synchronicity with the U.S. economy, thereby making the Mexican economy more sensitive to external shocks. Finally, he argued that the economic slump that prevailed in Mexico during the period 2001-2003 was not necessarily due to NAFTA but rather to the lack of structural reforms that should have been in place for Mexico to fully benefit from its increased integration into the global economy.

During the question and answer session that followed, some LINK participants expressed their scepticism about NAFTA benefits. It was argued, for instance, that Brazil's exports, imports and FDI flows exhibited similar trends despite the absence of an FTA with the United States. Another participant, however, remarked that, before NAFTA, Mexico underwent severe economic crisis every six years according to the political calendar. The last presidential elections did not lead to such a crisis. Thus, eventual negative shocks brought by greater synchronicity with the U.S. economy could be perhaps considered a relative advantage.

Mr. Alfredo Calcagno, United Nations Conference on Trade and Development (UNCTAD), spoke about exchange-rate regimes and their consequences for trade and growth in Latin America. Since 1990, with a few exceptions, countries in Latin America have gradually shifted towards more flexible exchange-rate regimes (ERRs). This has allowed and will further allow for more room for manoeuvre in conducting macroeconomic policies and permitting for a correction of prices, which would translate into an increase in exports and have a greater impact on the economy. In contrast, a fixed exchange-rate regime of an overvalued currency is not only harmful but costly to defend. More flexible exchange regimes have facilitated macroeconomic management, but many obstacles for development remain, and the ERR is not the only important variable.

Although there is a recovery under way in 2004, the previous years were characterized by economic stagnation and low GDP per capita. Investment was at record low levels, unemployment has increased to historical highs and disappointment in the results of structural reforms and the shift to more market-oriented policies has increased. Despite better external conditions in 2004, longer-term obstacles to development persist: high levels of public debt, vulnerability to external shocks, weak domestic demand, persistent income inequality, lack of access to credit and weak linkages between the external sector and the rest of the economy.

During the nineties, the net transfer of resources (NTR) increased but was accompanied by constant-current account deficits. After the crises of 1999, NTRs to the region decreased to zero, forcing monetary authorities to increase interest rates, and fiscal policies also became

restrictive. In addition, the international prices of commodities fell, and NTRs to the region in the biennium 2002-2003 became negative. This vulnerability to external shocks and the region's dependency on capital flows has made macroeconomic management procyclical.

After 2000, countries adopted more flexible exchange-rate regimes, and devaluations after crises shifted current-account deficits to surpluses. Even after the Argentine crisis, the devaluation did not transfer directly into consumer prices but more into wholesale prices due to an increase in interest rates implemented before the devaluation. The interest rate level now is even lower than during the Convertibility Plan, thanks to the switch to a flexible exchange-rate regime. After the devaluation, the economy bottomed out only six months after the crisis and ended a four-year old recession. The economy had changed radically since the 1990s, with a more dynamic industry and agriculture and a revived internal demand.

ANNEXES

Project LINK Spring Meeting

14-16 April 2004, Conference Room 2, United Nations Headquarters, New York

Agenda

Wednesday, 14 April

Morning Session:

Chair: Lawrence Klein

10:00-10:15

Opening

United Nations, New York

10:15-1:00

Global Outlook

United Nations Project LINK

Ian Kinniburgh, United Nations, New York

International Monetary Fund

Tim Callen, IMF, Washington

World Bank

Hans Timmer, World Bank, Washington

National Institute of Economic and Social Research

Ray Barrell, NIESR, London

General Discussion

1:00-2:30

Lunch

Afternoon Session

Chair: Peter Pauly

2:30-3:30

Global Outlook

The World Oil Market

Robert Kaufmann, Boston University, Boston

Non-oil commodity markets

Gerry Adams, Northeastern University, Boston

Patrick Westhoff, University of Missouri-Columbia, Columbia

3:30-4:30 General Discussion
Regional Economic Outlook: Japan, Australia and New Zealand
Country participants

4:30-5:30 **Current Policy Issues I: The Economic Future of Europe**
Olivier Blanchard, MIT, Cambridge, MA
General Discussion

5:45-7:30 **Reception**
Ex-Press bar, 3rd floor (via elevator or escalator)

Thursday, 15 April

Morning Session:
Chair: Stephen Hall

10:00-11:00 **Regional Economic Outlook: North America**
Lawrence Klein, University of Pennsylvania, Philadelphia
Country Participants

11:00-12:00 **Current Policy Issues II: The Role of China in the Global Economy**
Yongzheng Yang, IMF, Washington
Roundtable discussion
Pami Dua, University of Delhi, Delhi
Win-Lin Chou, Chinese University of Hong Kong, Hong Kong
Roberto Mariano, Singapore Management University, Singapore
Tongsan Wang, Chinese Academy of Social Sciences, Beijing

12:00-1:00 **Regional Economic Outlook: South and East Asia**
Hiren Sarkar, Economic and Social Commission for Asia and the Pacific,
Bangkok
Country Participants

1:00-2:30 Lunch

Afternoon Session:
Chair: René Koekemoer

2:30-4:00 **Current Policy Issues III: Stability and Growth in Europe:**
Implications of the EU Enlargement

(a) Stability and Growth in the Accession Countries

Laszlo Halpern, Institute of Economics, Hungarian Academy of Sciences,
Budapest

**(b) The Implications of EU Enlargement for the Non-Accession
Transition Countries**

Rumen Dobrinsky, Economic Commission for Europe, Geneva

General Discussion

4:00-5:30

Regional Economic Outlook: Europe and CIS

Andre Dramais, European Commission, Brussels

Rumen Dobrinsky, Economic Commission for Europe, Geneva

Country Participants

Friday, 16 April

Morning Session

Chair: Roberto Mariano

10:00-11:00

Regional Economic Outlook: Africa

Shamika N. Sirimanne, Economic Commission for Africa, Addis Ababa

Country Participants

Impact of dollar depreciation on developing countries: the South African case

Walter de Wet, University of Pretoria, Pretoria

11:00-12:00

Current Policy Issues IV: Perspectives on International Trade for Africa

Unlocking Africa's Trade Potential

Shamika N. Sirimanne, Economic Commission for Africa, Addis Ababa

12:00-1:00

Regional Economic Outlook: Middle East

Fadhil Mahdi, Economic and Social Commission for Western Asia, Beirut

Edouard Nsimba, United Nations, New York

Country Participants

1:00-2:30

Lunch

Afternoon Session

Chair: Bert Hickman

2:30-4:00

Current Policy Issues V: Trade and exchange rate issues for Latin America

(a) Free Trade Areas: Building Blocks or Stumbling Blocks for the World Trading System

Dominick Salvatore, Fordham University, New York

(b) NAFTA ten years after: a Mexican perspective

*Alfredo Coutiño, Center for Economic Forecasting of Mexico,
Philadelphia*

**(c) Exchange rate regimes and their consequences for trade and
growth in Latin America**

Alfredo Calcagno, UNCTAD, Geneva

4:00-5:00

Regional Economic Outlook: Latin America

*Andre Hofman, Economic Commission for Latin America and the
Caribbean, Santiago
Country Participants*

The Dynamics of Inflation in Latin America

*Sandra Manuelito, Economic Commission for Latin America and the
Caribbean, Santiago*

5:00

LINK Business Meeting

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