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World Economic and Social Survey, 2002**

Chapter I
The world economy in 2002***

Summary

In 2001, the world economy suffered its largest setback in a decade, with gross world product (GWP) increasing by only 1.3 per cent after growth of 4 per cent in 2000. Almost all countries grew less rapidly than in 2000 and the number of developing countries experiencing a decline in output per capita returned to the levels prevailing in the aftermath of the Asian crisis.

The slowdown began in the United States of America with the bursting of two "bubbles" related to the information and communication technologies (ICT) sector — one in the real economy and the other in the equity market. The slowdown was quickly transmitted around the world through a decline in international trade — the first in almost two decades. The terrorist attacks of 11 September 2001 briefly exacerbated the situation but recovery in the United States began before the end of 2001.

The world economy is forecast to grow by less than 2 per cent in 2002, with the momentum of the rebound pushing global growth to above 3 per cent in 2003. Whereas the slowdown was rapid and quickly embraced many countries, the recovery is expected to be both slow and less synchronized among economies. Only

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a modest recovery is expected in the developed countries in 2002, while the economies in transition are forecast to experience a further deceleration. Among the developing countries, China and India were able to largely maintain their growth in 2001 and are expected to continue to do so in 2002 and 2003, but the majority are not expected to return until late in 2003 to the average rate of growth they had achieved in the years prior to the Asian crisis.

Despite the inhospitable short-term economic conditions for developing countries and economies in transition, important new foundations laid in 2001 and early 2002 offer the prospect of enhanced international development cooperation over the medium term. In addition to addressing the short-term risks to the global economic recovery, policy makers worldwide should initiate actions to ensure that the Doha Development Agenda and the Monterrey Consensus (A/CONF.198/11, chap. I, resolution 1, annex) are fully implemented.

Fragilities and resilience in the world economy

The pervasive global slowdown in 2001 pointed to fragilities in the world economy, while the brevity of the downturn highlights some of its resilience. Some of the factors that contributed to the slowdown have abated or reversed their course, leading to the recovery in 2002 and 2003, while others will continue to have a dampening effect. Their combined impact is unlikely to produce a recovery that is comparable to the slowdown in magnitude, speed or spread.

Synchronicity in the world economy and dependency on the economy of the United States of America

Two salient features of recent years have been the increased synchronicity among the world's economies and the greater dependency of global economic growth on the economic strength of the United States of America. Given its large size, the economy of the United States has played an important role in global economic developments since the Second World War, but the dependency of world economic growth on the business cycles of the United States, and on those of the United States alone, increased in the late 1990s. This can be largely explained by the increasing share of the United States in world trade. During the period 1996-2000, the growth of United States imports exceeded the growth by world trade by about 3½ per cent annually. As a result, world exports destined for the United States increased from 14.8 per cent in 1995 to 18.6 per cent in 2000. Exports from developing economies to the United States increased from 22 per cent in 1990 to almost 28 per cent in 2000. Other factors, such as linkages through capital flows, the major role of United States markets in international finance, the technological lead of many United States firms, and the increased global correlation in business sentiments, have also enhanced the role of the United States in the world economy.

Following the 1997-1998 Asian financial crises, strong import demand from the United States was almost the sole force pulling many crisis-affected developing and transition economies from their recessions. Particularly since that time, the United States has been the "single engine" for global economic growth. This became more apparent during 2000-2001 when the engine stalled. The shift from growth of over 15 per cent in United States imports in 2000 to a decline of 3 per cent in 2001 was a major factor in the global slowdown. In previous global economic cycles, a slowdown in the United States would usually be accompanied by economic strength in Europe or Japan or both. In recent years, however, none of the other major economies has replaced the United States or shared its role of supporting global growth.

The increased synchronicity in the 2001 global economic downturn among many countries, particularly major developed economies, was mainly attributable to a series of common shocks, including an increase in oil prices, the consequences of earlier monetary tightening, the bursting of the information and communication technologies (ICT) bubble both in equity markets and in capital spending, and the September terrorist attacks. Meanwhile, the increased global economic integration of the 1990s also contributed to the synchronicity: the increase in the volume of trade and financial flows in relation to output amplified the effects of the common shocks; regional integration and the growth of transnational corporations have fostered intra-firm trade and global production networks, directly enhancing ties at the firm level; and the use of ICT has also facilitated the development of increased interconnections between firms in different countries.

The experience of the world economy in the past few years has highlighted the instability associated with increased global synchronicity and the growing dependency on the economy of the United States. Since the economic growth and stability of the United States have significant implications for many other economies, economic policy makers in the United States are confronted with international as well as domestic responsibilities. At the same time, it is in the self-interest of other developed countries to adopt policies that are growth-oriented and that will also enable their economies to make a greater contribution to global economic expansion. At the same time, international policy consistency and coordination, common global economic monitoring, and information-sharing become more imperative than ever. A transition from a "single-engine" world economy to multipolar and more balanced global economic growth is a challenge for policy makers worldwide and is crucial not only to sustaining the current recovery but also to ensuring robust growth in the long run.

Steadying effect of consumer demand

In many countries, consumer spending, the largest component of aggregate demand, remained relatively strong in 2001, largely buoyed by growth in incomes in the preceding period but also sustained by policy stimuli in some cases. This was particularly the case in the United States where low interest rates enabled automobile manufacturers to offer special incentives to consumers. This strengthened demand in a major industry that usually behaves in a strong pro-cyclical manner. Although consumer confidence was severely jolted by the terrorist attacks, it recovered a large part of this loss relatively quickly. In Japan, however, consumer spending has remained consistently weak, depressed by the deflationary spiral in the economy: consumers are reluctant to spend if they believe prices will be lower in future.

Encouragingly, domestic demand also showed strength in many developing countries and particularly in economies in transition. This reflected the generally improved economic conditions in these countries, particularly the high growth of the previous year.

Consumer demand is unlikely to provide the same support to the recovery in the near term. The lagged effects of reduced overall growth and higher unemployment will muffle consumer spending around the world. In the developed countries, a negative wealth effect from lower equity prices will compound the problem and this will be aggravated even further in countries where there is a tightening of macroeconomic policy.

Setbacks in the ICT sector, equity markets and investment

In a sharp contrast with the resilient household sector, the corporate sector was a major dragging force in many economies in 2001 and its weakness continues to pose uncertainties for the strength and sustainability of the global recovery in 2002.

The weakness in the business sector in 2000 and 2001 embodied a persistent decline in corporate profits, a precipitate fall in equity prices, a protracted cut in capital spending, and a sharp drop in industrial production. All these developments originated in the ICT sector, starting in the United States but then spreading rapidly to the rest of the world, and were triggered by the bursting of a financial and investment “bubble” that had developed in this sector in the late 1990s.

These factors have proved to be highly correlated in their development and had not improved significantly by mid-2002, suggesting the lack of an important element of dynamism in the global recovery, at least for that year. For example, despite improved general economic indicators, indices in most world equity markets in the first half of 2002 continued their decline of the previous two years. Although these markets had recouped a large part of the declines caused by the September terrorist attacks, concern about accounting practices, the intrinsic value of some stocks, corporate governance and the prospects for corporate profits led to another wave of selling in many stock markets in the second quarter of 2002, particularly in developed countries. The depressed state of equity markets suggests a lacklustre outlook for the growth of both consumer spending and business investment spending — the former because of wealth effects and the latter because of the roles of the equity market both as a benchmark for the opportunity cost of investment and as a direct source of financing.

Meanwhile, corporate profits remained weak in the first half of 2002 and capital spending continued to be cautious. The modest rebound in the demand for semiconductors and other ICT products in the first half of 2002 may signal a turnaround in part of the sector, but this does not imply a full recovery of the whole sector. A return to the high levels of ICT-related spending of the late 1990s is unlikely in the short term, because it requires not only a recovery of profits but also another major wave of ICT innovation, which has not yet appeared on the horizon.

Although another boom in the ICT sector seems unlikely to serve as the driving force for recovery in the near future, the application of ICT in other sectors probably contributed to the short duration of the downturn in the developed economies. This view is supported by preliminary data that suggest that the higher rate of productivity growth that developed in the United States in the second half of the 1990s persisted during the slowdown. Increasing the quantity and timeliness of information enabled business managers to act more promptly as market conditions changed, reducing the need for larger, more disruptive adjustments at a later date. Although inventory adjustment was an important element of the latest slowdown, the use of ICT probably reduced the magnitude and duration of this component of the cycle. Additionally, the use of innovative financing techniques has resulted in a greater dispersion of business risk, reducing the transmission of difficulties in the real sector to the financial sector and their further damaging knock-on effects. These effects are likely to be durable, proving as beneficial in the upturn as in the downturn. Over the longer term, the advantages of the application of ICT will not only continue to contribute to higher productivity growth in the developed countries but also become more widely spread, thereby contributing to global growth and development.

The vicissitudes of international trade

Throughout the 1990s, world trade grew faster than world output and was an important factor supporting economic growth, particularly in a number of developing countries in East Asia. In 2001, this stimulus was lost as world trade slowed. The deceleration was aggravated by the disruptions caused by the terrorist attacks of 11 September, including their deleterious impact on confidence, an escalation in insurance and security costs, and major cutbacks in tourism, air travel and other traded services. After growth of over 12 per cent in 2000, the volume of world merchandise exports declined by about 1 per cent in 2001 — the first fall in almost two decades (see table 1.1).

Table 1.1
Growth of world output and trade, 1993-2003
(Annual percentage change)

	1993	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*[a]	*2002*[b]	*2003*[c]
World output[c]	1.4	3.0	2.7	3.2	3.5	2.2	2.9	4.0	1.3	1¾	3¼
of which:											
Developed economies	0.9	2.9	2.3	2.7	3.0	2.5	2.8	3.4	1.0	1¼	2¾
Economies in transition	-6.7	-7.2	-0.6	-0.1	2.2	-0.7	3.0	6.3	4.4	3½	4¼
Developing economies	5.2	5.6	5.0	5.7	5.4	1.6	3.5	5.8	2.0	3¼	5
World trade	4.6	10.5	8.6	5.5	9.2	3.3	5.2	12.3	-0.9	2¼	6
Memorandum items:											
World											
Number of countries with rising per capita output	66	103	111	121	120	101	101	120	105	..	..
Number of countries in sample	145	145	145	145	145	145	145	145	145	..	..
Developing economies											
Number of countries with rising per capita output	52	68	74	80	76	59	57	70	58	..	..
Number of countries in sample	95	95	95	95	95	95	95	95	95	..	..
World output growth with PPP-based weights[d]	1.7	3.6	3.4	3.9	4.1	2.6	3.4	4.6	2.2	2¾	3½

Source: Department of Economic and Social Affairs of the United Nations Secretariat (UN/DESA).
Note: Two dots (..) indicate that data are unavailable.
[a] Partly estimated.
[b] Forecasts, based in part on Project LINK, an international collaborative research group for econometric modelling, coordinated jointly by the Development Policy Analysis Division of the United Nations Secretariat, and the University of Toronto.
[c] Calculated as a weighted average of individual country growth rates of gross domestic product (GDP), where weights are based on GDP in 1995 prices and exchange rates.
[d] Employing an alternative scheme for weighting national growth rates of GDP, based on purchasing power parity (PPP) conversions of national currency GDP into international dollars.

The deepening and widening of global economic integration since the early 1990s, particularly through trade, have benefited most countries, including many developing countries and economies in transition. However, this increased international economic interaction has raised, to varying degrees, these countries' dependence on the buoyancy of the international economic environment. For example, economic growth in some developing countries, notably those in East Asia, has become increasingly dependent on their exports of manufactured goods to the major developed economies. In 2001, this increased dependence on international trade not only magnified the conventional multiplier effects of the decline in export earnings within individual economies but also amplified its spread to other trading partners, causing the slowdown in major developed market economies to be rapidly propagated throughout the world. The developing countries were particularly adversely affected, with a 2.7 per cent decline in their volume of trade.

In addition to a lack of growth in the volume of exports, many of their prices declined because of reduced demand. The slowdown had its conventional adverse cyclical effect on the prices of primary commodities, reinforcing the downward trend in prices that has long characterized these markets but that had assumed new momentum from the mid-1990s. The downward drift in primary commodity prices throughout 2001, particularly in the aftermath of the 11 September attacks, had particularly negative effects on many of the world's poorest countries. There were also falls in the prices of some manufactured goods, particularly in the ICT sector, in 2001, to the detriment of a number of the more advanced developing countries. Overall, the developing countries experienced a decline of over 6 per cent in export revenues in 2001.

The escalation of oil prices in 1999 and 2000 was one of the factors contributing to the economic slowdown in 2001, but the subsequent easing of prices removed this as a potential restraint on the recovery. Oil prices continued to ease in early 2002 and, after a brief and limited surge prompted by the escalation of violence in the Middle East, had fallen back to about $23 per barrel, some 30 per cent below the peak in 2000. Based on the underlying supply and demand situation, oil prices are not expected to change significantly, so that their effect on the recovery should be neutral.

The volume of world trade is expected to increase in conjunction with economic activity in the major developed countries, but its growth for 2002 is forecast to be only 2¼ per cent, with most of the acceleration taking place in the second half of the year. Tourism and trade in other services have also begun to rebound from the setback caused by the attacks of 11 September but remain anaemic. The international prices of most non-oil primary commodities rebounded somewhat in the spring of 2002 and the near-term outlook is for a modest increase in the prices of most of these commodities, as global demand continues to firm. Much of the upswing in prices will be cyclical, however, rather than secular, and the prices of most primary commodities are unlikely to regain the ground lost over the past few years. Overall, therefore, there is expected to be some improvement in international trade in 2002 but it is not expected to regain its momentum of the 1990s until the end of 2003.

Hesitant financial flows to developing countries

Because of heightened uncertainties and the reduced prospects of profitable opportunities in a slowing world economy, private capital flows to developing countries declined in 2001. Foreign direct investment (FDI), which had been largely immune to earlier setbacks, decreased but remained the principal external source of finance for developing countries and economies in transition. Given the overall economic outlook, total private capital flows to these countries are not likely to recover until the second half of 2002 and then only marginally, with some further strengthening in 2003.

Following upward pressure on the “spreads” of bond yields for most developing and transition economies in the wake of the terrorist attacks of 11 September, the cost of private external financing for the overwhelming majority of these countries resumed its decline and was lower in early 2002 than a year earlier. On the other hand, countries facing financial difficulties, notably Argentina, saw their cost of external financing soar. The lack of contagion across financial markets offers a notable point of contrast between the global economic slowdown of 2001 and the fallout from the Asian and Russian financial crises of 1997-1998. The increasing ability and willingness of financial agents to differentiate among borrowers and instruments are an encouraging aspect of otherwise limited prospects for a resurgence of private capital flows to developing countries in the near term.

Official financial flows to developing countries increased in 2001, but this was mainly a result of large disbursements by the International Monetary Fund (IMF) to Argentina, Brazil and Turkey. Looking ahead, the downward trend in official development assistance (ODA) flows to developing countries seems likely to be reversed as a number of developed countries have announced increases in their commitments. In addition, a number of low-income developing countries are beginning to benefit from debt-servicing relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. However, there is increasingly widespread recognition that the debt relief currently being provided remains inadequate for regaining and sustaining growth in some of these countries.

The role of counter-cyclical policies

Benign inflation allowed interest rates in most developed economies to be lowered substantially during 2001, with real interest rates reaching nearly zero in some countries. Central banks were particularly prompt in making further reductions in interest rates in response to the heightened uncertainties and the anticipated further global economic deterioration resulting from the 11 September attacks. The Federal Reserve Board of the United States cut its short-term interest rate on 11 occasions in 2001, reducing it to its lowest level in 40 years. The European Central Bank (ECB) was less aggressive because of fears that lower interest rates would compound the difficulty of reducing core inflation in the euro area to the target rate of 2 per cent. The Bank of Japan was even more constrained: because they were already zero, nominal short-term interest rates could not be reduced, causing unconventional means of increasing liquidity to be used instead.

The monetary policy response to the recovery is more differentiated, both in its magnitude and in its application over time. A few central banks (such as those of

Australia, Canada, New Zealand and Sweden) raised policy interest rates in early 2002, but monetary policy on the whole is expected to remain mildly stimulatory during the year, with only a gradual tightening expected in the second half of 2002 as the recovery gains momentum. Overall, this widespread favourable monetary policy environment should continue to stimulate the nascent economic recovery, although the persistent upward drift in core inflation in a number of Western European economies may prompt some central banks to consider tightening policy.

Developed countries also adopted a variety of fiscal stimuli in 2001, with some reducing taxes and others raising expenditures. The stimulus was strongest in the United States, where the combination of tax cuts, increases in spending on military and homeland security, and a rise in other expenditures boosted GDP by more than 1 percentage point in the fourth quarter of 2001. In Western Europe, fiscal stimuli were constrained by fears that more expansionary policy would lead to budget deficits that were inconsistent with their commitments under the Maastricht Treaty on European Union. Nevertheless, some discretionary spending was maintained despite earlier commitments to offset tax cuts with spending reductions. More importantly, automatic stabilizers were allowed to run their full course in the European Union (EU) and their beneficial impact proved to be larger than foreseen. In Japan, fiscal policy became restrictive in 2001 owing to concern about increasing the already high level of public debt.

The policy stimuli adopted by many developed countries in 2001 played an important role in reducing the depth and duration of the global economic slowdown and launching the recovery. Maintaining a cautiously stimulative policy environment is equally important for sustaining and strengthening the recovery. In respect of considering tightening monetary policy, the risks posed by higher, but still moderate, inflation will have to be weighed against the risk of damaging the recovery, particularly since there is less room for stimulative fiscal measures in 2002 and beyond. All the major developed economies witnessed a deterioration in their fiscal balances during 2001 and this will limit their ability to apply further fiscal stimuli. The United States fiscal position has moved from surplus to deficit and some economies in EU have been at or near the deficit threshold of 3 per cent of GDP imposed by the Stability and Growth Pact. Other EU countries have breached the trajectory for reaching budget balance by 2004, as required by the EU policy-concertation framework, and the position of EU is that "discretionary (fiscal) policy should be confined to critical country specific shocks".[1] Absent an unforeseen improvement in inflation or fiscal deficits, the guiding principle for monetary policy in ECB and the commitments under the Stability and Growth Pact severely constrain the additional room for policy stimulus in most of Western Europe.

In developing countries and economies in transition, government actions to counter the slowdown were far less homogeneous, as a plethora of factors constrain the scope for policy manoeuvre. In several of these countries, monetary policy has been targeted at either the exchange rate or inflation, leaving little or no room for counter-cyclical actions. Similarly, fiscal stimuli were inhibited in a large number of these countries because budget deficits were already large, either on account of diminishing revenues from lower commodity prices (as in many African countries) or because of the public debt accumulated in an effort to counter the setbacks of the 1997-1998 financial crises (for example, in Asia and Latin America). A commitment

[1] *European Economy: Public Finances in EMU, 2002*, No. 3 (2002), pp. 93ff.

to fiscal consolidation, either in response to pressures from global capital markets or as required under the terms of policy-framework agreements with the international financial institutions (IFIs), has precluded stimulatory measures in many cases. Unlike the developed countries, very few of these economies have been able to enact monetary easing and fiscal stimuli simultaneously. Of those few, some could adopt either a stimulatory fiscal policy combined with tight monetary policy or a monetary easing accompanied by fiscal austerity.

Most of these few countries with room for policy manoeuvre were in East Asia. In such cases, monetary policy was relaxed and such additional expansionary measures as tax cuts, increases in public investment expenditures, and pay raises for civil servants were introduced in some countries. These measures are expected to continue to support domestic demand in these countries in 2002.

Policy interest rates in most other developing countries and economies in transition continue to be substantially higher than those in the major developed countries, even after allowance is made for inflation differentials. Inflation itself is far lower than historical norms in most of these countries and, in many cases, does not pose an immediate threat to macroeconomic stability. While the room for fiscal expansion remains limited, some of these countries should be in a position to provide an impetus to domestic economic activity by lowering interest rates in 2002.

Financial fragilities in the global economy

The chain of causality between business cycles in the real economy and vicissitudes in financial markets is difficult to specify, but the two are closely linked: an economy-wide financial crisis — such as a bank run, a default on external debt, a currency crisis or some combination of these — inevitably leads to a contraction in output and income, while shocks to real aggregate demand or supply almost always aggravate tensions in the financial sector, possibly triggering a financial crisis if there is some fragility. With increasing economic and financial interdependence, this phenomenon has become internationalized and potentially global in scope.

In 1997-1998, the financial crises in a number of developing and transition economies led to a substantial decline in world economic growth. The more severe and pervasive global downturn in 2000-2001 was largely attributable to problems in both the real and the financial sectors: a decline in business investment and a supply-side shock in the oil market were accompanied by the collapse of financial bubbles in equity markets. Numerous individuals and small enterprises subsequently suffered financial losses or went bankrupt, but this did not pose a systemic threat to the financial sector. A small number of large firms and a limited number of countries also faced acute financial difficulties but these were largely contained. Overall, the international financial system and most domestic financial systems weathered the slowdown and the associated financial shocks without a major crisis. This limited transmission and feedback to the financial sector, within both the developed and the developing countries and internationally, and was one of the factors that prevented a further worsening of the slowdown.

In early 2002, some observers regarded the limited international contagion effects of the Argentine debt crisis as a sign of improved strength in the international financial system. However, one reason why the Argentine default did not have large repercussions elsewhere was that it had long been anticipated. Second, the volume of outstanding bank loans and other short-term financial flows to developing countries has fallen every year since the Asian crisis; this has reduced the scope for financial contagion.

Nevertheless, the absence of an adequate system of crisis prevention and crisis resolution — as evidenced by the Argentine case — should be a source of concern about the soundness of the world's financial system. With the heavy dependence of many countries on external capital, the threat of further international debt crises remains. Furthermore, even in the absence of a crisis, the present international financial system places constraints on national development efforts. As indicated above, when confronted with an economic slowdown caused by external shocks (such as reduced export revenues and lower capital inflows), developing countries are constrained in their response, owing, for example, to the need to keep public sector debt within the limits considered sustainable by the international financial community.

With regard to domestic financial systems, banking reforms and financial restructuring in the economies affected by financial crises in the past few years are far from complete. It is also increasingly apparent that domestic financial fragility and unsound corporate governance are not confined to the developing countries and economies in transition. Issues surrounding the bankruptcy of Enron, formerly one of the largest companies in the United States, have triggered a crisis in confidence in the United States regarding a gamut of broader issues, including accounting practices, management ethics, conflicts of interest in financial analysis, and corporate governance. This crisis has exacerbated the already depressed equity markets in the United States and in some other countries, to the detriment of the real economy.

The second largest economy in the world, Japan, also continues to face a plethora of domestic financial problems. Its mounting public debt is already far higher than its GDP and this has deterred policy makers from introducing additional fiscal stimuli to address the recession. A more serious threat, however, lies in the high level of non-performing loans in the corporate and banking sectors. A vicious cycle of debt-deflation is being intensified in the economy as the weaknesses in both the financial sector and the real sector feed into each other. On the one hand, continued deflation increases the real burden of outstanding debt and depresses consumer demand, leading to an increase in bad loans, while, on the other hand, additional bad loans aggravate credit conditions for businesses and reduce asset prices, begetting further deflation. A further deterioration in the financial situation in the banking and corporate sectors remains a possibility. This would pose a systemic risk for the global financial system as a whole; the impact on world economic growth, particularly the growth of many developing economies in the region, would be substantial.

Synchronous slowdown but sequential recovery

In 2001, there were simultaneous periods of falling output in EU, Japan, the United States and several developing countries. This was the first such occurrence since the mid-1970s, when it had followed the universal oil shock of late 1973. For the developed countries, the slowdown in 2001 was sharp but brief and shallower than most previous decelerations. Growth of GDP for this group fell from over 3 per cent in 2000 to 1 per cent — slightly higher than during their previous slowdown in 1991. Within the group, only Japan and Malta registered negative growth for the year. Of the economies in transition, only the former Yugoslav Republic of Macedonia fell into this category, largely because of the civil disturbances during a good part of 2001, and growth for the group as a whole remained above 4 per cent.

The impact of the global economic downturn on developing countries was more substantial and widespread. The year-to-year deceleration in their growth — from 5.8 per cent in 2000 to 2.0 per cent in 2001 — was as large as what had occurred in the year following the Asian financial crisis, but a larger number of countries were affected. Relatively few developing countries experienced substantial contractions and these were mostly on account of country-specific difficulties, as in Argentina (-4½ per cent), Iraq (-6 per cent), Turkey (-8 per cent) and Zimbabwe (-7½ per cent). However, more than a dozen other developing countries experienced a fall in their GDP for the year.

Of the 95 developing countries regularly monitored by the United Nations Secretariat, 37 experienced a decline in per capita output in 2001 (compared with 25 in 2000), and only 17, half the number of 2000, recorded an increase of more than 3 per cent[2] (see table I.2). In terms of the number of poor people, more than half are in China and India and these should have benefited from those countries' growth of over 7 per cent and 5 per cent, respectively, in 2001. If these two countries are excluded, more than one quarter of the 2.5 billion people living in the rest of the developing world were in countries where GDP per capita fell in 2001 and only one seventh lived in countries where the increase in GDP per capita exceeded 3 per cent. The number of least developed countries recording negative per capita growth fell in 2001, but only eight least developed countries, one less than in 2000, achieved growth in their per capita GDP of more than 3 per cent. These data suggest that, for most countries and people in the developing world, there was no progress in reducing poverty in 2001.

[2] This is an informal yardstick used by the United Nations Secretariat as the minimum necessary over the longer term to reduce poverty in a country.

Table I.2
Developing countries: growth of per capita GDP by region, 1999-2000

	Number of countries monitored	*1999*	*2000*	*2001[a]*	*2002[b]*	*1999*	*2000*	*2001[a]*	*2002[b]*
Frequency of high and low growth of per capita output (number of countries)		Decline in GDP per capita				Growth of GDP per capita exceeding 3 per cent			
Developing countries	95	38	25	37	30	26	34	17	12
of which:									
Latin America	24	12	6	13	9	6	7	1	0
Africa	38	14	15	9	8	9	7	10	7
Eastern and Southern Asia	18	2	1	7	3	9	13	4	5
Western Asia	15	10	3	8	10	2	7	2	0
Memorandum items:									
Least developed countries	41	17	17	12	11	12	9	8	6
Sub-Saharan Africa	31	12	14	9	6	6	5	9	7
Percentage of population		Decline in GDP per capita				Growth of GDP per capita exceeding 3 per cent			
Developing countries	95	21.2	6.5	13.2	9.0	64.6	72.8	55.4	54.3
of which:									
Latin America	24	69.1	11.8	49.4	20.6	25.2	59.7	2.5	0.0
Africa	38	38.4	28.6	18.7	23.9	28.8	7.6	24.7	15.0
Eastern and Southern Asia	18	6.7	0.2	2.5	0.9	83.4	90.6	75.5	76.8
Western Asia	15	58.1	9.1	59.8	42.4	9.9	71.3	0.5	0.0
Memorandum items:									
Least developed countries	41	24.5	24.9	18.2	21.6	51.0	39.0	28.7	23.2
Sub-Saharan Africa	31	29.6	38.0	28.1	20.9	29.6	9.3	34.3	24.7

Source: UN/DESA, including population estimates and projections from *World Population Prospects: The 2000 Revision*, vol. I, *Comprehensive Tables*, and corrigendum (United Nations publication, Sales No.E.01.XIII.8 and Corr.1).

[a] Partly estimated.

[b] Forecast.

The data also point to the improving but mixed situation in sub-Saharan Africa. In 2001, there was a fall in the number of countries where output per capita declined and an increase in cases with a rise of over 3 per cent. The number of countries in each category was the same and each accounted for about one third of the population of the region. Broadly speaking, this indicates that, in 2001, the population of sub-Saharan Africa was divided roughly equally among those who lived in countries where per capita GDP was falling, those in countries where the increase was too small to make a meaningful difference to living standards, and those in countries where, if the year's progress was sustained over the medium term, some inroad could be made into alleviating poverty. This characterization highlights the challenge of meeting, within sub-Saharan Africa, the millennium development goals, notably that of reducing poverty by half by 2015.

For the past several years, the overwhelming majority of the developing countries and economies in transition have been successful in improving their macroeconomic policies and in implementing longer-term economic reforms. The setback to growth in these countries in 2001 originated externally and its magnitude was amplified by their increased participation in world trade. At the same time, the external environment limited the ability of most developing countries and economies in transition to react to the slowdown. This lack of room for policy manoeuvre will contribute to the slowness of the recovery in many developing countries and economies in transition and hence in the world economy at large.

Diversity in the recovery of developed market economies

Although the global economic downturn became synchronous, it was led by the **United States**. Its growth averaged only 1.2 per cent in 2001 and, while it did not meet the commonly used criterion for a recession,[3] the economy can be considered to have suffered a "growth recession", meaning a period of growth well below its potential. The slowdown was brief, but uncertainties regarding the strength, depth and durability of the recovery remain. Economic growth in the first quarter of 2002 was above 5 per cent, with brisk inventory replenishment, continued buoyancy in household demand and further gains in productivity. While the inventory replenishment that started in the fourth quarter of 2001 is anticipated to continue in the short term, a sustained economic recovery over a longer period remains contingent on a more durable increase in demand, buttressed by an improvement in corporate profits to boost capital spending and increases in employment to support consumer demand. On the basis of prevailing policies (see box I.1) and sentiment in the corporate sector and among households, the outlook is for growth of only 2½ per cent in 2002. There is likely to be some strengthening in the latter part of the year and into 2003, when growth for the year is forecast at 3½ per cent.

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[3] Many economists define a recession as two consecutive quarters of negative growth, although the Business Cycle Dating Committee (BCDC) of the National Bureau of Economic Research defines it as "a significant decline in activity spread across the economy, lasting more than a few months, visible in industrial production, employment, real income, and wholesale-retail trade" (see *NBER Reporter*, fall 2001, p. 1). BCDC announced that, by that measure, a recession in the United States had commenced in March 2001, but the Committee has not yet officially dated the termination of this recession.

Box I.1
Major assumptions of the forecast

The forecasts for 2002 and 2003 are based on country monitoring by the Secretariat and on the results of a Project LINK forecasting exercise. The most important assumptions for the forecasts are listed below. More detailed information can be found in chapters I and III of *World Economic and Social Survey, 2002* and in LINK country reports.[a]

Monetary policy

In the developed economies, central banks are expected to be in a tightening cycle, although the monetary stance is expected to stay accommodative in most countries. The Federal Reserve Board ("The Fed") is assumed to hold interest rates stable until the third quarter of 2002 and thereafter to increase them gradually by a total of 200 basis points by the end of 2003. The European Central Bank (ECB) is assumed to raise interest rates by 100 basis points in the same period. Central banks in most other developed economies are expected to tighten monetary policy gradually by varying amounts, with the exception of the Bank of Japan which is assumed to maintain its policy interest rates at zero in 2002 and 2003.

Central banks in some developing countries and economies in transition are expected to ease their monetary stance further before the end of 2002 in response to weakening growth and because their interest rates are currently high. There are, however, limits to this policy flexibility, notably in Central and Eastern Europe and Latin America, in view of inflationary pressures, macroeconomic imbalances, and the wish to avoid currency devaluations.

Fiscal policy

Fiscal policy in developed economies is expected to remain moderately stimulating in 2002 as a result of tax reductions or increases in government spending, or both, and then to remain unchanged in 2003.

Since many developing countries and economies in transition still have fiscal deficits, policy makers have only limited room for expansionary fiscal measures.

Exchange rates

An average of 130 yen per dollar is assumed for 2002-2003.

Averages of US$ 0.89 per euro for 2002 and US$ 0.91 for 2003 are assumed.

The rates for other currencies depend on country circumstances.

Commodity prices

Oil prices are assumed to fall in 2002, but only moderately. More specifically, the price of Brent crude oil is assumed to fluctuate around

[a] LINK outlook tables and LINK country reports are available on the web site of the Department of Economic and Social Affairs of the United Nations Secretariat: http://www.un.org/esa/analysis/link.
[b] See *Standard International Trade Classification, Revision 3* and corrigenda, Statistical Papers, No. 34/Rev.3 (United Nations publication, Sales No. E.86.XVII.12 and Corr.1 and 2).

The deceleration in most economies of **Western Europe** from growth of about 3 per cent in 2000 to some 1.6 per cent in 2001 was less severe than in the United States and the recovery is also expected to be more tepid. The three largest economies in the euro area — France, Germany and Italy — registered a decline in GDP in the fourth quarter of 2001 and their anticipated growth rates for 2002 — 12 per cent for France, 1 per cent for Germany and 13 per cent for Italy — underline the economic weakness in the euro zone. Macroeconomic policy in key countries is moderately stimulatory and there is expected to be an acceleration in economic activity during the second half of 2002 and into 2003. For the region as a whole, GDP is expected to grow by 1½ per cent in 2002, followed by 2¾ per cent in 2003.

Japan's economy shrank by 0.5 per cent in 2001 and a further decline of 1 per cent is expected in 2002, followed by growth of 1: per cent in 2003. After a drop in GDP of 4.9 per cent in the fourth quarter of 2001, the economy continued to slide in the early part of 2002, although some leading indicators point to a possible bottoming-out in the second quarter. While a rebound in exports could provide a cyclical lift and alleviate some of Japan's structural difficulties, the fragility of the financial sector, the large volume of non-performing loans, the high level of government debt, and rising unemployment will continue to inhibit an expansion in domestic demand.

Owing to its geographical proximity to, and its high economic dependence on, the United States economy, **Canada** is trailing that country's business cycle closely and its economic recovery is firming. **Australia and New Zealand** both largely avoided the global economic slowdown, as strengthened domestic demand offset some of the negative fallout of the external shocks. Growth in Australia is expected to accelerate slightly in 2002, but some moderation is expected in New Zealand.

Modest and stable growth in economies in transition

Growth in Poland, the largest economy in **Central and Eastern Europe**, fell from 4.0 per cent in 2000 to 1.1 per cent in 2001, but growth in the rest of the region averaged 3.9 per cent. Domestic demand was an important source of growth in many of these economies, propelled by policy stimuli and the cumulative effects of the structural reforms undertaken for over a decade. Many also achieved double-digit growth in their exports, reflecting a gain in their international competitiveness through both an improvement in the quality of their products and relatively low prices, in combination with a diversification of export markets. The anticipated economic recovery in Western Europe will provide support for these countries in the second half of 2002 and beyond. On the whole, however, circumstances in 2002 will be similar to those in 2001. Without Poland, for which the forecast is 1¼ per cent, growth of 3½ per cent is expected for the Central and Eastern European region in 2002.

The outlook for the economies of the **Commonwealth of Independent States (CIS)** remains positive. GDP for the group is expected to expand by 43 per cent in 2002, following 5.7 per cent growth in 2001. The higher prices of oil contributed to the improved economic growth in the Russian Federation in the past two years but, as in many other CIS countries, the determination to enact even controversial reforms played a role as well. The cumulative benefits of persisting with economic transformation, in spite of uneven progress and some temporary setbacks, are now being reaped in most of these countries. The robust economic performance of the Russian Federation in 2001 was pivotal for other CIS economies since exports to that country remain important for their growth. At the same time, firmer domestic demand in many of these countries is providing additional support for growth in the future.

The three **Baltic** economies sustained their economic expansion in 2001, avoiding being affected too negatively by the slowdown in their main trading partner. Weaker demand from Western Europe, with which they are increasingly linked economically, was partially offset by stronger trade ties with the CIS and Central and Eastern European economies. More importantly, firming domestic demand, including stronger investment, is increasingly underpinning the overall performance of these economies. Nevertheless, GDP growth of the group is expected to decelerate from 6.3 per cent in 2001 to 4 per cent in 2002, largely because of the absence of a significant improvement in the Western European economies until mid-2002. The expected deceleration in other economies in transition, notably the Russian Federation, will also constrain growth in the Baltic economies in the short term.

Gradual recovery from widespread setbacks to developing countries

Primarily because of the deteriorating international environment, in both trade and finance, GDP growth for developing countries as a group plummeted to only 2.0 per cent in 2001 from the 5.8 per cent achieved in 2000. These countries will benefit only gradually from the economic recovery under way in the United States and expected later in 2002 for Western Europe. The outlook is for 3¼ per cent growth in GDP for 2002, followed by 5 per cent in 2003.

Africa is forecast to grow by 2: per cent in 2002, slightly less than in 2001. Domestic sectors, which played a crucial role in offsetting some of the adverse external effects in 2001, should strengthen further. At the same time, many African economies that were unfavourably affected by the global slowdown in 2001 are expected to experience some improvement in the external economic environment in 2002. The modest recovery in the international prices of non-oil commodities should alleviate the predicament of the many African commodity-exporting countries. However, the anticipated rebound in the world economy is not expected to be sufficient to raise growth in Africa substantially in 2002.

A spectre of acute food shortages in a number of Southern African countries emerged in early 2002 as a result of adverse weather conditions in some cases and political unrest in others. A food problem of such magnitude as seems likely to develop has not been experienced for several years and the international community has to ensure that this factor and its preoccupation with other issues do not delay its action to address this pressing humanitarian need.

After a downturn to 1.3 per cent growth in GDP in 2001, developing countries in **East Asia** (excluding China) are forecast to grow by 42 per cent in 2002 and to strengthen further to 53 per cent growth in 2003. In 2001, the protracted and deep consolidation in worldwide ICT demand caused an outright contraction in some economies and near stagnation in others. The concentration of production and exports on ICT-related products, and the large trade shares with Japan and the United States, caused these economies to suffer the most among developing countries from the global economic downturn. Signs of a revival of prices for semiconductors and personal computer (PC)-related products emerged in early 2002, possibly signalling a turnaround in the global ICT market that is so crucial for the revival of many East Asian economies.

China grew by 7.3 per cent in 2001 as a rise in domestic demand, supported by expansionary policies, offset some of the weaknesses in the external sector. Continued policy stimuli, the momentum generated by the country's recent accession to the World Trade Organization, the preparations for the Olympic Games in 2008 and the economic development of the western parts of the country are expected to enable China to continue to achieve growth of about 7 per cent in 2002 and 2003.

Although the global economic slowdown left its mark on many countries in **South Asia**, GDP growth for the region dropped only from 5.0 per cent in 2000 to 4.6 per cent in 2001, and is expected to rebound to 52 per cent in 2002. The slowdown in exports resulted in lacklustre growth in industrial production in several of these economies, but domestic demand remained strong. The heightened uncertainties in the aftermath of the September terrorist attacks and the subsequent turmoil in Afghanistan adversely affected economic activity in neighbouring countries through a drop in tourism, impediments to transportation, the cancellation of export orders, and large numbers of refugees. In early 2002, these difficulties were largely displaced by the consequences of increased military tension between India and Pakistan. Nevertheless, there were indications of an improvement in both external conditions and domestic sectors in many economies of the subregion.

The economic outlook for **Western Asia** has also been adversely affected by geopolitical and military factors. Following average growth of 6.3 per cent in 2000, output fell by 1.2 per cent in 2001, although some recovery — to 1: per cent—is forecast for 2002. Many oil-exporting countries should benefit from more stable oil prices, but the outlook for oil-importing countries in the region, other than Israel and Turkey, is for meagre economic growth in 2002. Reduced workers' remittances, especially from oil-exporting countries, further declines in tourism revenues, largely because of the Israeli-Palestinian conflict, and contracting regional trade flows are constraining growth.

Aggregate GDP for the economies of **Latin America and the Caribbean** registered virtually no growth in 2001, largely because of the external shocks to which many of these countries are particularly vulnerable. Most economies in Central America experienced a slowdown in exports and tourism revenues, whereas those in South America suffered from weak commodity prices and limited external financing. Political instability also impeded growth in a few countries. In 2002, the region is expected to grow by only ¼ per cent; excluding Argentina would raise this regional average to 2 per cent but even this is only slightly above the rate of population growth. As the adverse external conditions wane, the outlook for the region will brighten, but performance in a few countries may continue to deteriorate in the short run.

Short-term risks and uncertainties

The direct economic effects of the terrorist attacks of 11 September appear to have been less than widely feared, partially because of the prompt policy response. However, the attacks highlighted the sensitivity of the global economy and world development to conflict and political tensions in individual countries and regions. These interactions have since been underlined by the reignition of conflict in the Middle East and the increased military tension between India and Pakistan. The heightened state of conflict in the world in mid-2002 adds to the already high degree of uncertainty in the forecast of short-term economic prospects, as well as damages long-term development.

In addition to the effects on the region, the implications of the violence in the Middle East for the world economy are potentially profound, primarily because of the possible implications for the price of oil. When the conflict escalated in early April 2002, Iraq suspended oil exports for a month, with the possibility of a further extension if the conflict was not resolved. Oil prices climbed by more than 15 per cent in a week, but then eased back after major Arab oil-producing countries stated that they would not resort to an oil embargo. Iraq has since resumed shipments and the Russian Federation has announced that it will abandon, as of end-June 2002, its commitment to restricting oil exports. These actions should help ensure that international oil prices stay within the range anticipated for 2002 and 2003 (see box I.1), but higher oil prices cannot be completely ruled out. A sustained increase in the price of oil would lower GWP significantly; if the price was to stay at a high level for several months, another major slowdown in the major industrialized countries would be likely.

As indicated above, the high dependence of the global economy on the economic recovery of the United States itself poses risks. The relatively shallow downturn in the United States economy did not eliminate all the domestic imbalances accumulated over the previous business cycle. For example, equity prices, even though they are below their all-time highs, still substantially exceed historical benchmarks and remain volatile. Household saving rates have been very low for some time and private sector debt, of both businesses and consumers, still stands at historical highs. There is also a possibility of a bubble in real-estate markets, partially because of some movement of household assets out of the equity market. These domestic factors pose downside risks for the economic recovery in the United States, and thus for the global economic upturn.

Internationally, the exchange rate of the United States dollar has fallen modestly and the country's external deficits have diminished somewhat but the deficits remain large. The strong dollar and the United States recovery benefit the rest of the world but the latter implies a further widening of the deficits and if they persist, both will require an even larger correction, with even larger adverse effects, in the future. In the meantime, the risks of a sudden fall in the value of the dollar and of an abrupt adjustment in the trade imbalances among major economies remain.

In early 2002, the United States adopted some restrictive trade measures. A further rise in protectionism in the United States or elsewhere is a possibility. This would aggravate the damage to already weakened world trade, reducing its role in stimulating the recovery.

The economic situations in some other individual countries also pose risks to the world economy as a whole, but risks of lesser magnitude. As elaborated earlier, failure to remedy the financial problems in Japan could give rise to a major financial crisis in that country. Inasmuch as Japan is the world's second largest economy, this would have profound effects on the world economy, and particularly on the dynamism of the South-East Asia region — which otherwise is expected to play a key role in the recovery.

The debt crisis and the political turmoil in Argentina, with their potential for spillover into heightened economic and political instability in other countries of the region, also pose challenges for the world economy, but particularly for policy makers. Failure to resolve this crisis speedily and effectively is not only having further profound negative effects on the people of Argentina but is also damaging confidence in the ability of the world at large to manage the globalized economy for the benefit of all. At the present time, both this ability and universal confidence in it are sorely needed.

Implementing the new international development agenda

Notwithstanding the short-term economic challenges faced by policy makers in 2001 and early 2002, important progress in addressing longer-term policy issues in development was made during this period. Successful implementation of the agreements reached during the year would contribute to reducing some of the fragilities in the global economic system and alleviating some of the adverse effects of economic slowdowns such as that experienced in 2001.

Making trade development-friendly

At the Fourth Ministerial Conference of the World Trade Organization, held in Doha, Qatar, in November 2001, Governments agreed to a new programme of global trade negotiations which will give particular attention to the difficulties still confronting developing countries after the Uruguay Round of multilateral trade negotiations. This action was above all a recognition of the critical role of trade in development, with particular attention being given to the negative consequences of present arrangements, such as protectionism and subsidies in the developed countries, for the development possibilities of the developing countries.

The World Trade Organization has prepared a timetable for the negotiations that are necessary to translate into action the commitments made at Doha. It has also drawn up a comprehensive programme of technical assistance to assist developing countries, and particularly the least developed countries, to participate effectively in, and benefit from, trade negotiations. The successful completion of the Doha Development Agenda will require a high degree of political determination, particularly a willingness on the part of the developed countries to undertake the types of adjustment measures that developing countries have long been called upon to make in liberalizing their trade regimes.

The United States Africa Growth and Opportunities Act and the EU Everything but Arms initiative were important examples of recognition in 2001 of the importance of expanded trading opportunities for development in the poorest countries. In 2002, however, the introduction of a revised scheme of agricultural subsidies by the United States signalled the continuation of a system that has negative consequences for many developing countries and that constitutes an important area for discussion under the Doha agenda. Previously, the imposition of safeguards on steel by the United States and the threats of retaliatory action by trading partners, although affecting relatively few developing countries, had already cast a pall over the international trading environment and over the prospects for a successful completion of the Doha programme. The slow economic growth in 2001 and 2002 raises the domestic pressure for increased protectionism in all countries. Not only should this be resisted but all countries should be looking for ways to reduce existing distortions to trade in accordance with the Doha Development Agenda. Although this applies particularly to the developed countries, the developing countries should also reduce trade barriers among themselves.

Strengthening partnerships for development

The International Conference on Financing for Development held in Monterrey, Mexico, in March 2002 marked a further advance in the international community’s approach to development. The resulting Monterrey Consensus embodies a new spirit of partnership and mutual obligations between developed and developing countries in the macroeconomic and financial areas. It reaffirms the full acceptance by developing countries of their responsibility for their own development and emphasizes their need to pursue development-friendly domestic policies and institutional arrangements and to take measures that will maximize the financial resources for development purposes mobilized from domestic sources. It calls for actions by the developed countries, in response, in the areas of private financial flows, aid, trade, debt and global governance. Particular emphasis is given to the need for coherence in developed countries’ policies regarding aid, trade and debt.

There is a mutual recognition that, within developing countries, both donors and recipients have to take additional measures to ensure that official resources are put to the most effective use in the quest for accelerated development and reduced poverty. As part of this effort to improve development effectiveness, it is agreed that there needs to be a shift towards greater developing-country “ownership”. Effective ownership by recipient countries requires human and institutional capacities, good governance at all levels, and sound policies. Particular efforts will be needed by both developed and developing countries to effect the shift from donor conditionality to recipient ownership of development programmes.

At the regional level, the formulation of the New Programme for Africa’s Development (NEPAD) is an important advance in the concept and practice of country ownership of development programmes. Its implementation will require not only a major effort on the part of all African leaders and their citizens but also a willingness on the part of the international community both to provide resources and to break with its conventional ways of addressing the challenges of development in Africa.

Reviving concessional financial flows

During 2000, Luxembourg became the fifth country to achieve the target for ODA of 0.7 per cent of donor gross national product (GNP), joining Denmark, Netherlands, Norway and Sweden, the four long-standing members of this group. In March 2002, EU and the United States announced future increases in ODA and various other countries, including individual member States of EU, have set benchmarks that will also result in future increases in ODA. However, it has been estimated that a doubling of ODA (equivalent to another $50 billion approximately) is required in order to meet the millennium development goals. While the announced increases in ODA are encouraging, continued efforts will be required in order to raise ODA by the amount required in an equitable manner.

Along with increases in the volume of ODA, further efforts are required to ensure that such assistance is put to the most effective use. Donors can contribute importantly to this by improving their own operations and by complying with the Recommendation on Untying Aid to the Least Developed Countries adopted by the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) in 2001. The former includes strengthening coordination and reducing duplication among their activities within developing countries, further harmonizing operational procedures to reduce their burden on recipient countries and moving from project assistance to programme support.

Addressing external debt

Their external debt situation continues to pose a threat to many developing countries. Of the 42 heavily indebted poor countries (HIPCs), no progress has been made towards arranging debt relief in 16 cases, mainly either because of ongoing conflict within the country or because the recent cessation of conflict means they are not in a position to undertake the necessary preparations. Special measures may be required to ensure that more countries, especially those emerging from conflict situations, qualify for relief under the HIPC Initiative as soon as possible. By late March 2002, 26 countries had reached the "decision point" in the enhanced HIPC Initiative,[4] but only 5 had moved on to the "completion point". Additional measures need to be taken to enable eligible countries to reach the completion point as expeditiously as possible. In addition, it is becoming apparent that, in several cases, the amount of relief that is required to reduce debt to a sustainable level is higher than anticipated, often because lower commodity prices have reduced export earnings and growth. It is necessary to provide additional flexibility in the programme to ensure that it succeeds in reducing a country's debt to a level that remains sustainable even when it is adversely affected by events beyond its control. Finally, the extent of debt relief is already being threatened by the low level of funding of the HIPC Trust Fund and by the fact that not all creditors are providing relief. Additional efforts are required to mobilize the resources necessary to implement the Initiative fully.

The crisis in Argentina forcefully underlines the inadequacies to date of international arrangements both to avoid international financial crises and to address them when they occur. Although many factors contributed to the crisis in Argentina, it had been widely anticipated. Nevertheless, it was not averted and, several months after it erupted, there was no agreement on the actions that had to be taken. Not only has a domestic policy response not been formulated, but there are no agreed or orderly arrangements for a country such as Argentina to reach agreement with its private sector creditors on how to address its unserviceable external debt obligations. The resulting lack of external finance has contributed to the deep recession in Argentina and to the profound social costs being incurred by its people. These effects will inevitably percolate through to the other economies and peoples of the region to some extent.

Possible arrangements to deal with debt crises involving a multitude of private sector lenders, such as that in Argentina, are now under discussion. Agreement on this matter will come too late for Argentina where the urgent need is to reach agreement on arrangements to provide the financial resources that the country needs in order to address its economic crisis. At the same time, the magnitude of the Argentine crisis underscores the need for international agreement on arrangements to deal with such private sector debt crises.

[4] See "Heavily Indebted Poor Countries (HIPC) Initiative: status of implementation" (Development Committee document DC2002-0009), report prepared by the staff of IMF and the World Bank, Washington, D.C., 14 April 2002.

Maintaining the momentum

The Doha and Monterrey conferences have provided a unifying backdrop to many discussions on development issues at the international level and have laid the foundations for the creation of an improved global partnership for development between developed and developing countries. Both set out agendas for the development of this partnership, referred to respectively as the Doha Development Agenda and “Staying engaged” (sect. III of the Monterrey Consensus). The challenge to the international community, national Governments, the private sector, civil society and all others concerned is to ensure that the new momentum that has characterized the development debate during the first years of the twenty-first century is maintained and translated into action. The successes achieved at these two conferences in 2001 and 2002 are but first steps and will evaporate if the work programmes that they established are not fully and effectively implemented and built upon.

The World Summit on Sustainable Development (26 August-4 September 2002) will provide an opportunity to build on the momentum derived from Doha and Monterrey. A successful outcome would reinforce the progress already made towards establishing the conditions necessary to achieve the international goal of reducing world poverty by half by 2015.