

**Statement by Supachai Panitchpakdi,
Secretary-General of UNCTAD,
to the ECOSOC High-level Policy Dialogue on Current Developments in the
World Economy and International Economic Cooperation**

Geneva, 2 July 2007

Mr. President and Moderator, Mr. Sha Zukang;
Distinguished Delegates;
Ladies and Gentlemen:

We are roughly halfway through the fourth straight year of strong and broad-based global economic expansion – but as Mr. Sha just said, a modest downshift is likely this year. Still, the world economy on the whole is rather healthy. But of course this picture must be qualified by the slowdown of the US economy and by the fact that growth in Japan and the euro zone still rely very much on external dynamics.

The good news is that developing countries continue to grow strongly, supported by favourable financial conditions and strong commodity prices. Rarely has their growth been so marked and broad-based. These countries are playing a larger role than ever in today's global economic expansion. Globalization has strengthened their trade and financial linkages with the rest of the world. There have been remarkable gains for both developed and developing countries, although management and balancing are needed to ensure sustainability. Last year, cross-border trade as a share of world GDP pierced the 30% threshold for the first time. The global trading system has become more inclusive, fuelling economic growth and recovery. Overall, the share of developing countries in global trade has increased. Over the past decade their real exports have nearly tripled, especially in manufactures. For many commodity producers in the South, the boom in commodity demand and prices has offered opportunities long absent, and has led to significant and prolonged improvement in their terms of trade. Indeed, commodity prices rose last year by 30% – the greatest increase since the start of the upswing. Additionally, most developing countries managed to trigger a stable expansion of domestic demand and robust growth in real private consumption. Their impressive expansion of exports, imports and consumption means that they are now major contributors to both global supply and global demand, which is certainly beneficial to the world economy as a whole.

Developing countries are not only trading more with the North, but also among themselves. I will have more to say about South-South trade at the launch of the Development Cooperation Forum later this week.

I would also like to note that a new landscape for development finance is emerging. For a number of years now, global capital flows have been reversed; developing countries have become net exporters of capital, and developed countries, net importers. The resource transfer from the poor to the rich is the exact opposite of what happened in the first era of globalization in the early 20th century. With increased export revenue, emerging market economies have reduced their foreign borrowings and increased their holdings of foreign assets.

As I have suggested, the short-term prospects for the world economy are generally bright. But new challenges are arising that could slow or even derail this remarkable record of strong global growth if not handled properly.

Slower economic growth in the United States, albeit moderate, still affects global growth, and that may in turn have an impact on trade growth and financial integration. As the world becomes more interdependent, solid economic growth elsewhere could help lift US growth, especially since that country's economic operations abroad represent a bigger slice of the economy than before, and since the dollar is also now relatively weak. In parallel with the deceleration in the US, China's attempts to cool off an overheated investment sector could result in another global downturn.

Given all this, tackling the global imbalances, and dealing especially with exchange rates and financial speculation, must remain a priority for the international community. For a number of years now, the extraordinary US current account deficit, and the surplus of several developed countries and China, have been high on the political agenda, but improvements are microscopic. The enormous build-up of US foreign indebtedness continues unabated. This has led to rapidly mounting political pressure for unilateral measures to protect the country from becoming even more dependent on Asia. The situation only adds to the pressure on China to let its currency float and appreciate.

But there can be little doubt that these current account imbalances cannot be corrected without adjustments in the global pattern of demand and exchange rates – and here I would like to emphasize the word “global”, because the problem is not confined to the US and China. Very high current account surpluses have been registered not just in China, but in Japan and Germany as well. Moreover, the Japanese currency has recently depreciated vis-à-vis those of Japan's most important trading partners. And there are other cases where exchange rate changes have gone in the wrong direction.

Most of the financial crises in the post-Bretton Woods era of floating have been preceded by a build-up in nominal interest rate differentials, which is not covered by depreciation in the exchange rate of the country with the higher nominal interest rate. This leads to shifts in the currency composition of investor portfolios, triggering an appreciation in the real exchange rate of the country with the higher nominal interest rate and implying a further rise in the return on those investments. Moreover, if central banks attempt from the outset to limit domestic currency by buying up foreign exchange, the resulting increase in foreign currency reserves will only add to the confidence of international speculators.

Shifts in short-term asset holdings from currencies with very low inflation and very low nominal interest rates to those with higher inflation and higher interest rates breaks the vital link between interest rate differentials and the risk of currency depreciation. It also challenges the view that floating is the only feasible solution to the external balance problem. From this standpoint, therefore – and as UNCTAD has long been warning – pressure on China to float its currency may not necessarily lead to the expected outcome.

The recent wave of globalization has increased competitive pressures in world markets, with distributional consequences both among and within countries. Failure to address them effectively could trigger renewed protectionism internationally and social instability domestically, jeopardizing many of the gains brought about by economic expansion. Despite a 71% increase in the real income of developing countries over the past decade, enormous differences remain. Persistent and devastating poverty has not yet been eradicated in many poor countries. Income disparity in some fast-growing emerging economies has drawn the attention of policy makers. And in the developed world, the benefits of globalization have accrued far more to the owners of capital than to the providers of labour. Labour shares of national income in the major developed economies are at record lows, whereas the shares going to capital are at record highs.

Mr. President,
Ladies and Gentlemen:

From a development perspective, it is a moral imperative for the world to remember poor countries, especially at a time of robust global economic growth. ODA from DAC members fell last year from \$106 billion to \$103 billion, raising uncertainty about the G8 Gleneagles commitments to scale up development assistance to Africa by 2010. Amidst increasing private capital flows to developing countries, many of the poorest countries continue to operate on the periphery of the global financial system. For these countries, ODA is still the most important source of financial resources to meet their basic needs, and I trust that this meeting will contribute to addressing all these urgent challenges.

Thank you.

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