

**Summary of the
Policy Dialogue on the
World Economy and International Economic Cooperation with Heads of
Financial and Trade Institutions of the United Nations System
Monday, 3 July 2006, 11 am – 1 pm**

A high-level policy dialogue among the representatives of UN Department of Economic and Social Affairs, the UN regional commissions, UN Conference on Trade and Development, the World Bank, the International Monetary Fund and the World Trade Organizations was held during the High-Level segment of ECOSOC in Geneva on 3 July.

Under-Secretary-General for Economic and Social Development, Mr. Jose Antonio Ocampo, serving as moderator to the discussions, noted that the world economy had performed well in 2005 and 2006, with a slight moderation in growth expected for the second half of 2006. The rapid and fairly broad economic growth of the developing countries was persisting. It is expected that developing countries as a group would register a growth rate of more than 6 per cent, with the least-developed countries reaching an unprecedented rate of over 7 per cent. These encouraging numbers reflected a favorable international economic environment, characterized by debt relief; strong commodity prices fuelled by economic expansion of some large developing countries; and increased access to private capital markets. Yet, these exceptional conditions were threatened by increasing risks, such as uncertainties surrounding current trade negotiations, increased volatility of commodity markets, rising interest rates, global financial imbalances and risks associated with high oil prices, among other factors.

He also highlighted the salient points of the *World Economic and Social Survey 2006*, which is the main background document for the policy dialogue. He elaborated that the Survey described a progress of dual divergence in the global economy: growing income gaps between developed and developing countries, paralleled by a process of growth divergence among developing countries. Success in achieving sustainable economic growth had been limited to a few developing countries, whereas a large number of countries had witnessed periods of “growth collapses”, leading to greater international economic inequality. Other findings of the Survey included the need for developing countries to diversify production structures towards activities with higher levels of productivity and stronger domestic linkages, in order to facilitate higher growth, rather than aiming for more integration into world markets alone. Additionally, it was found that minor and gradual institutional changes could have a great impact on growth if those were perceived as initiating a further process of reform. A strategy for reducing international divergence should thus include the following issues: fostering active trade and production sector policies; opening up more space for counter-cyclical macro-

economic policies; ensuring sustained levels of public spending; and promoting gradual, country-specific and home-made institutional reforms.

Mr Supachai Panitchpakdi, Secretary-General of the United Nations Conference on Trade and Development, said the upswing of the world economy had brought about major improvement in the living standards and the employment situation of millions of people in developing countries. This irrefutable economic success, however, gave rise to caution with regards to possible negative repercussions of significant global trade imbalances and a considerable rise in volatility in the global economy.

There was a strong need for a successful conclusion of the current trade negotiations in order to sustain economic growth. Moreover, while high oil prices did not seem to have a highly negative impact on growth of developing country economies, this could become a matter of concern in the future. Also, while terms of trade of many developing countries had improved since 2003, the change had been less drastic for manufactured goods exporting countries. Moreover, real non-oil commodity prices were still below those of forty years ago, and some of the poorest countries had not had any significant benefits from liberalization of their trade practices.

Ms. Valentine Rugwabiza, Deputy Director-General of the World Trade Organization, expressed disappointment that recent high-level consultations had not yet succeeded in narrowing positions on the current Doha round of trade negotiations. Talks had concentrated on the reduction of agricultural subsidies and tariffs, as well as a reduction of tariffs in industrial goods. All major negotiating partners were required to make concessions in these areas.

It was reiterated that the current round was an unprecedented opportunity to reform trade policies to sustain the substantial global growth that had been reported by the other speakers. The potential cost of failure of these negotiations was very high to millions of people in the developing world. She expressed hope that the positions of the negotiating members were still bridgeable, and that all parties were committed to finishing the round of negotiations to a successful end this year.

Mr. Francois Bourguignon, Chief Economist and Senior Vice President of the World Bank, noted that in recent years, there had been a convergence of growth rates of GDP per capita across the globe, with developing countries generally generating higher rates than the developed countries. It was however imperative to ensure that the positive momentum would be sustained. For example, not all Sub-Saharan African countries experienced satisfactory growth rates. In order to bridge the existing differences, a results-oriented agenda for development was called for. It was highlighted that the best public good was development knowledge. Moreover, there was an urgent need to reach an agreement in the current Doha round of trade negotiations, as well as its important link with the Aid for Trade agenda. Finally, it was stressed that within the realm of migration, “win-win-win” opportunities, as had been suggested in a recent report by the Secretary-General, indeed existed, meaning that there were benefits for the country of origin, the receiving country, and migrants themselves as a result of more open migration policies.

Mr. Reinhard Munzberg, Special Representative to the United Nations of the International Monetary Fund, stressed the importance of reducing global imbalances, particularly in consumption and savings, which were not sustainable. High and volatile oil prices and natural disasters, such as the avian influenza were risks to continued global prosperity and must be addressed. As part of a new IMF medium-term strategy aimed at making surveillance methods more effective, the IMF was developing a new multilateral consultation mechanism, with the view to form a new consensus building framework, emphasizing multilateral action. Also within that new strategy was the goal to improve the usefulness of IMF lending by assisting countries in achieving the MDGs; assisting countries in their capacity to absorb aid properly; and in gaining consensus from lending countries to achieve greater ownership over their own economic progress.

On behalf of the regional commissions, Mr. Kim Hak-Su, Executive Secretary of Economic and Social Commission for Asia and the Pacific, stressed that high economic growth had not been sufficient in the fight against poverty and had not lead to equivalent employment creation in the various regions of the world. Governments needed to improve the functioning of labour markets, placing particular emphasis on the importance of generating youth employment.

Following the panelists' speeches, delegations made comments and raised several questions. The representative of South Africa stated that more open trade practices were expected from all countries. He requested the Secretary-General of UNCTAD to provide further information on the status of the current negotiations on trade. A request was also posed to the representative of the IMF on the new consultation mechanism. The delegate from Finland, speaking on behalf of the EU, noted that each country had the primary responsibility for its own economic progress, but that international cooperation was essential to achieve that progress. It was stressed that the Doha Round must come to a consensus as soon as possible. The EU had created a time table to achieve the agreed 0.7 per cent ODA target by each of its member states by 2015, and had committed to providing a 55 per cent increase in aid to Africa.

The delegate from Brazil stated that more attention must be given to the international economic environment and stressed his country's disappointment in the current lack of progress on the Doha round. The representative of Thailand stated that the widening of global trade imbalances remained a key challenge to the efforts for achieving the MDGs.

The representative of the Russian Federation stressed that current macro-economic policies must address the volatility of the global economic situation. Concerted efforts of the agencies and financial and trade institutions of the United Nations system were thus required. Finally, the delegate from the Dominican Republic noted that not only high oil prices, but also the vulnerability of some countries to natural disasters also posed serious challenge to their economic growth prospects.

In reply to the question from South Africa, the Secretary-General of UNCTAD outlined the three key aspects of the current trade negotiations, namely reduction of agricultural subsidies, agricultural tariffs and in tariffs on industrial goods. While stating that there was a lack of progress in these areas, he observed that there was a need for a package of agreement of reforms on all these three areas. The representative of the IMF, in reply to the other question from South Africa, expressed the commitment of IMF staff to the implementation of a new consultation mechanism but stated that he could not provide any details, as it was yet to be finalized.
