



World Chronicle

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"WORLD ECONOMIC TRENDS 2003"

The World Economic and Social Survey is the UN's yearly global economic report. According to the survey, the world economy in 2003 is struggling to regain momentum, and a slowdown in trade and investment, coupled with high unemployment, raises some serious concerns about how much progress can be made to reduce poverty rates. But what does a weak dollar mean for various regional economies? Is the U.S. the sole engine of global economic growth or will there be a "multi-engine" recovery? Will the recent conflict in Iraq have a destabilizing effect on economic recovery in the Middle East? In this edition of World Chronicle, these questions are addressed with the help of Ian Kinniburgh, the principal author of the survey and Director of Development Policy Analysis in the UN Department of Economic and Social Affairs.

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ANNOUNCER: From the United Nations in New York, an unedited interview programme on global issues. This is **World Chronicle**. And here is the host of today's **World Chronicle**.

LITTLEJOHNS: I am Michael Littlejohns and this is **World Chronicle**.

The UN's yearly economic report shows that the world economy is struggling to regain momentum. A worldwide slowdown in trade and investment, coupled with high unemployment, raises some serious concerns about how much progress can be made to reduce poverty rates. Here today to help us understand the major world economic trends, and what they mean in human terms, is Ian Kinniburgh, Director of Development Policy Analysis in the UN Department of Economic and Social Affairs. Joining us to talk to Mr. Kinniburgh are Tuyet Nguyen of German Press Agency, DPA, and Peter Engardio of Business Week. Mr. Kinniburgh, welcome to **World Chronicle**. Mr. Kinniburgh, the Iraq war is now behind us but the impact seems to be lingering on, and we are by no means out of the woods. What is the continuing impact of the situation, not only in Iraq, but in the Middle East generally, likely to be on the world economy for the next two, three years?

KINNIBURGH: Well I think the major impact is just one of general geo-political uncertainty. As you said it certainly has been reduced by the Iraq war where before people were very unclear as to what might happen. With the war over that uncertainty has been eliminated. But there are certainly some lingering uncertainties, particularly regarding the peace process obviously, and the impact that the development in that region can have on the rest of the world. So it does have a global impact. It is not purely a regional phenomenon.

LITTLEJOHNS: What about oil? How do you see the price of oil developing over the next year or so?

KINNIBURGH: Well of course the possibility of war and the possibility of damage to the oil infrastructure in Iraq and possibly elsewhere in the region did raise the price of oil very sharply for a brief period early in 2003, but it transpired that the damage to the oil infrastructure in Iraq was less than expected so that we haven't seen any major disruption to the oil supply. And we expect the oil supply to broadly be in the OPEC basket range of 22-28 dollars per barrel for the remainder of the year. So we don't see any particular spike in the future, which is good news, and we see probably somewhat of a downward trend over longer term.

NGUYEN: You predict also that the world economy may improve in the fourth quarter of 2003. And this report, it seems to me, that it is more positive than in previous years. What is the reason for you to be so optimistic?

KINNIBURGH: Well we have to remember that the first factor is indeed is the removal of certain global geo-political uncertainties. The fact is that both investors and consumers dislike uncertainty and they therefore resist spending money because of their doubts about the future. So with that over-global, over-hang of uncertainty having been removed, the outlook is more positive. But we also have to remember that we have had a period of slow growth over a couple of years now and there are some cyclical factors, which will prompt a recovery.

NGUYEN: Can you talk a little bit about SARS, the Sever Acute Respiratory Syndrome. It has been predicted that Asian economy will really go down because of SARS. And they also say that SARS will travel around the world. It may come to the United States and Europe in the fall or the winter of 2003. What will be the impact on the economy, particularly on the US, which you said would lead the recovery?

KINNIBURGH: Yes, well SARS is a very good example of another totally non-economic shock to the world economy, and certainly in the first few months, the first quarter of 2003, this has a similarly damaging effect, a direct impact on certain activities particularly in the Asia region and to some extent also in Toronto, in North America, where we saw very direct impact on hotel occupancy rates, on travel and tourism. But as the year has progressed we see, we are optimistic indeed, that the disease will be contained, this epidemic outbreak will be contained. So we do not expect this to have a major impact in the latter half of 2003, although it did have a concrete impact in certain countries, a very focused impact in a number of countries and regions in the first part of 2003.

NGUYEN: But was it really bad in Asia already or is it exaggerated -- the impact on the economy in Asia?

KINNIBURGH: Exaggerated? I am not sure. It had I would say a marked impact. There were concrete losses in the rate of growth, particularly in Singapore, in Hong Kong, but only within restricted areas of China. So it did have a very measurable impact. But as the year progresses we are hoping that this will diminish as the disease is contained.

ENGARDIO: Now most economists expect a rebound in the second half because there is a mass amount of stimulus that the US is pumping out. Which parts of the world do you expect are going to benefit the most? You also have a very sharp change in interest rates – I mean in exchange rates -- and the US dollar getting tremendously against the euro and all the dollar linked currencies are probably out of balance as well. How are the benefits going to be spread around the world?

KINNIBURGH: Yes, well you are quite right obviously that we do expect the stimulus, the recovery to start in the United States in part because of the very large fiscal and

monetary stimulus that is being applied and has been applied, and was accumulated over the last couple of years. So we do expect the lead to come from the United States and, as you say in the past, the United States has essentially been the engine of growth by importing from the rest of the world. And as you say the depreciation of the United States dollar will very much dampen this effect. So those countries, Europe and also many developing countries that are more tied to Europe than to the US economy will not benefit as much with the depreciated dollar as they would have done otherwise. So this is a dampening of the engine of growth of the United States has functioned as to date.

ENGARDIO: How does Latin America benefit? I have lost track of the currency regimes of Latin America. So much has changed in the last few years. Will the main beneficiaries of this be China and a few Asian countries, or is Latin America in a good position?

KINNIBURGH: Well, one of the changes that is taking place -- as you say it is difficult to follow exchange rate policies these days, but very many countries are following floating exchange rates policies -- an increasing number of countries are in that position. So they will probably adjust according to the basic fundamentals. The Chinese on the other hand do by and large keep their currency tied to the dollar, so they are not going to have the same -- they in fact will benefit the same way the United States would.

LITTLEJOHNS: How is the lack of momentum that we just have spoken about likely to affect the people in developing countries? The benefits of globalization, we've heard so much about, are they going to be diminished?

KINNIBURGH: In very crude terms a slow down in the world economy is seen effectively as a slow down in the pace of globalization, not that globalization has gone backward as it were, but it has very much slowed. So in 2001, for example, the volume of world trade, the number of goods traded between countries measured in real terms in volume actually diminished, which is a very unusual phenomenon. And similarly capital flows diminished and foreign direct investment fell, and this in a globalizing world with developing countries being more open and more dependent on the rest of the world, this slow down has had very adverse effects on developing countries.

NGUYEN: Is that after September 11, 2001, the flow of foreign direct investment has gone down and world trade also has gone down because of the terrorist attack? It has been two years already. How much longer do you expect the slow down to continue?

KINNIBURGH: Well you should remember that the slow down actually, when we look back with the benefit of hindsight, the slow down did in fact start before September 11.

So we shouldn't...but it is true also that the September 11 as you say, very much, we remember it very vividly ...this uncertainty that I talked about early on. It is a different type of uncertainty, but it certainly had a negative impact on the world economy, which was already slowing down. So 2001 was a particularly bad year and that carried over for a while, but in fact to our surprise, to some extent, there was in early 2002, the beginning of a recovery. But this very quickly became derailed in part because of the new uncertainties that affected the world in particular the uncertainties in West Asia and in the Middle East. So we got knocked off track as it were, and now we hope, with the removal of some these geo-political uncertainties, we're back on track when we have what we economists call a fairly normal cyclical recovery, a downturn and then an upturn, and that is what we are looking to in the second half of this 2003.

NGUYEN: The war in Iraq has really slowed down. It was short and it removed the fears that the war would impact on the economy. But the peaceful transition is not over yet in Iraq, and you talk about removal of uncertainties. I wonder if Iraq will continue to be one of the uncertainties in the future until really -- reconstruction will take years to finish, the uncertainty is not going to go away, particularly in Iraq.

KINNIBURGH: No, I certainly agree with you. I hope I didn't quite say removal of uncertainties, but certainly reduced uncertainties. So I think they are diminished, if we compare with beginning of 2003, later in the year now they diminished, but they are certainly not reduced. But I fully accept and recognize the very difficult situation within Iraq itself and in neighboring countries because of the very focused uncertainties in that country. But they are not having the same global effects, they are having some global effects but not to the same extent as they did prior to the invasion, when everybody is worried about oil prices, what might happen to the supply of oil, and all of those related outcomes. The effects within the United States itself, people even here within the United States were very concerned about prospects. So those broader global implications, uncertainties have been diminished but not entirely reduced. As you know the authorities in the United States and in Western Europe and elsewhere continue to talk about the possibility of terrorist attacks. This is a very unhealthy environment for economic growth.

LITTLEJOHNS: President Bush has invested a great deal of effort and personal credibility, political credibility in the Middle East in trying to bring about a settlement between the Palestinians and Israel. If such a thing should happen would that have a major economic impact?

KINNIBURGH: Well I don't wish to belittle the question, but one immediate benefit we must never forget that one immediate benefit will be on the region itself. I mean this in its

own right is very important to bring stability, not only to the parties directly involved, but to the region as a whole. But we have to remember that that region has large, geo-political ramifications for the rest of the world, not least because of oil, but importantly because of oil, and so peace in that region, or the avoidance of the possibility that things may go wrong, would be a great benefit to the world economy as a whole, yes.

ENGARDIO: Let me ask you a little bit about aid to the developing world. Before it went into the Iraq war, there was a huge gush of sympathy for developing nations and the United Nations led a big campaign to get the west [to] increase foreign aid, and so did the world bank, and Bush was behind it and then Iraq kind of took everybody's eye off it, and I am wondering, has that whole initiative by now petered out? Obviously the UN is not nearly as united it used to be. American resources I am sure, if you break it down, on the top of development assistance, are going primarily to -- I am not sure how much is actually going to Africa or if it is going to the new priorities. What has happened to that whole initiative? Has it been going ahead of is it stalled right now?

KINNIBURGH: Well it is fairly early days if I may say first and foremost. We have, within the UN, these millennium development goals, which haven't ended. They have a target date of 2015, which is an appropriate perspective I think for development issues as opposed to short-term economic issues. So with those goals in mind, as you say, we had a major UN conference in Monterey, Mexico in March 2002 as a result of which there were a number a very important pledges for increased aid. That and the other global conferences of generators as you say, a sort of global compact between the rich and the poor countries that we need to accelerate the efforts to reduce poverty. Now I would like to think that there is some separation between this sort of broad political differences that we have had on one particular short-term issue recently and the longer global concern about reducing poverty. I believe that commitment still exists and the commitments that you mentioned about increased foreign-aid were long-term in nature. So many of the richer countries have made pledges not just for 2003 or 2004 but for the longer term future, and we believe and we have no evidence to date, to suggest that those -- I mean we do believe that they will be honoured, and there is no evidence to suggest so far that they will not. That is not to say that it will be easy, but we think they will be honored and indeed we are very hopeful that the people will go beyond what they have pledged already.

LITTLEJOHNS: This is **World Chronicle**. Our guest is Ian Kinniburgh, Director of Development Policy Analysis in the UN Department of Economic and Social Affairs.

ENGARDIO: So far in talking about very very short term kind of things going on in the global economy. Longer term -- you know, it was in one of your reports, your report

notes that growth was very strong nearly '90's in the developing world, where trade was growing very dramatically, capital flows were growing very dramatically, you know equity and foreign direct investment, but ever since about '96-'97 capital flows have been dropping, there have been a net outflow of debt, there didn't seem to be any real recovery in that trend. Cyclical. Regardless of how well the US economy is doing cyclically or Europe, that trend has remained constant, and it seems that investors and lenders just associate much, much more risk with the developing than they did before. Then you also have a slow down in trade, and it's hard to see where the momentum is going to come from for the kind of dynamic growth and trade that we saw in the early '90's. Japan is stuck, and probably is going to stay stuck, Germany is stuck, and looks like it is going to stay stuck. The US may not be going back to 4% growth, you know, 3 or perhaps may go back to 2.5. I am wondering, what do you see in the developing world in general? Just to add one more thing: As you also note, China and India account for almost all of the growth, 3% and above of the developing world. I think it is something like 80% of the world is not growing, you know, essentially if you take China and India, out of the equation, there is -- you see there is bifurcation going on where India and China and -- country big, big emerging markets -- maybe doing a lot, and the rest of the world is kind of separating off. Do you see anything to read for the rest of the world to regain the kind of momentum and dynamism that it had in the early 1990's?

KINNIBURGH: There are a very large number of questions. I would say that first of all the pessimistic note you strike about, for example Western Europe, Germany and also Japan, is we hope a rather short term note. So it is true that both Western Europe and Japan are facing difficulties at the moment for the somewhat different reasons, but both, broadly speaking, and it is difficult to be specific on this, but broadly speaking both are undertaking what we call structural reforms so that the Japanese are trying to address some of their financial difficulties, the Western Europeans are trying to address some of their constraints they see to higher long-term growth. So it is true that they have short-term difficulties but we hope they will be resolved.

ENGARDIO: I guess I meant Germany. Germany seems stuck.

KINNIBURGH: Well, but as you know there are important policy changes being introduced in Germany, which will not raise growth in the next six months or next year but, hopefully in a sort of perspective, the development perspective will raise growth over the medium term. And that is certainly very important. We do believe that obviously a multi-engined world economy is better than a single engine world economy. But on the other hand I also, I take your point about, if you like, about the bifurcation in the developing world. I

think one of the notes for longer term optimism is that we have learned a lot of development lessons and particularly in the '90's, and particularly the way globalization works, and what you need to benefit from globalization. So the period as you say since '97, we have suffered a number of shocks. We had the Asian crisis, we had the Russian crisis, which in fact affected developing countries. We had the bursting of the IT bubble, the stock market bubble in the North, which affected developing countries. We have had the SARS crisis. We've had Iraq. So we've had a sequence of shocks. But as a result of that, in the course of that process, developing countries I think have learned a lot of lessons about how to deal with the globalization process. And we mentioned exchange rates, for example. We do not have the same crisis. So I would say that looking ahead the improvements in policies, and China and India are therefore good examples, the improving policies in developing countries do bode better for the future.

LITTLEJOHNS: Mr. Kinniburgh, we have a large audience in Africa for this programme. Talk a bit about Africa's problems and how somewhere down the line they may finally overcome them.

KINNIBURGH: Well, that is a very large question. But clearly one of the things that disrupts growth, and we have seen it unfortunately again in the last year or so -- disrupts growth in Africa -- is conflict. And we do and the Secretary-General as you know is giving a great deal of attention to resolving the various regional conflicts that have erupted in Africa. So we have --and I think I would say in 2002, early 2002, and slightly before there was -- we were optimistic that the level if you like of conflict in Africa was diminishing. But we have seen some flare-ups in late 2002-2003. So that issue has to be resolved and I think it really depends very heavily on the African countries themselves. But Africa is in a position in this globalized world where it is very vulnerable to external shocks as we know, the usual problem of commodity prices. It is vulnerable to it's climate, again this year in early 2003 we have seen for the first time, fortunately it has been for many years but unfortunately it was this year, famine in certain countries in Africa. So the climatic conditions in Africa [have] an adverse impact, the vulnerability to commodity prices are another challenge that it faces and. But despite all this the African countries again, writ large I would say, have undertaken important economic reforms. So with good external conditions and a steady hand on the tiller within the countries themselves, we are hopeful that Africa will be able to rise about this sort of low level trap that it has been stuck in.

LITTLEJOHNS: You didn't mention the AIDS pandemic.

KINNIBURGH: Thank you for reminding me. That clearly is a major impediment to growth as well as a humanitarian disaster in Africa, yes.

NGUYEN: Two years ago the World Trade Organization held a meeting in Doha to really push world trade. But some people including the former Mexican President, Ernesto Dio, he said the negotiations are deadlocked. Here you said also that world trade is going nowhere or almost nowhere. How did you reach the process of negotiations again, you know the type that you had in Doha two years ago?

KINNIBURGH: It is certainly true that as of mid-2003 the trade negotiations are I would say facing considerable difficulties. But I think what the negotiators have to remember very importantly is not to see these as purely trade negotiations, and to take up the commitments that they have made earlier in a broader context, and to remember that it was agreed that these trade negotiations will be classified at development round, that the objective would be to help developing countries and to address some of the fundamental weaknesses in the trading system that have handicapped developing countries. So I think one of the important issues here to get these trade negotiations back on track is a political commitment by all concerned to say this is not a strict trade negotiation in the narrow sense of the term but it is with a view to addressing some of these fundamental development problems.

ENGARDIO: Do you have much optimism that anything will come from the meeting in Cancun in regards of Agricultural...

NGUYEN: In September.

ENGARDIO: Yes. Do you see any sign that there might be any kind of agreement or has it got to wait for another meeting?

KINNIBURGH: Well I am not sufficiently on the inside to know what is going on. But I am of course aware that there are lots of talking going on, and I am hopeful because I think people do realize that this is an incredibly important opportunity and it is a breakthrough, for example in the area of agriculture, which you mentioned, which we agree is critical for the developing countries. A breakthrough there is an idea of whose time has come finally. And I think there is a recognition of that, but that is not to deny that it is extremely difficult and very sensitive. This issue has not been there for so long for no reason. But I think with the political will and commitment, and in this new environment of development co-operation, I think it should be possible to make a breakthrough.

LITTLEJOHNS: Mr. Kinniburgh it seems that surveys are what you might call a growth industry. The IMF, the World Bank, the United Nations, the UN Conference on Trade and Development, various other multilateral organizations are producing these things on a very regular basis. How accurate would you say the surveys are? What is your batting record, so to speak?

KINNIBURGH: First of all I have to do a piece of advertising saying that we were the first, the UN has been doing its global survey for over fifty years, and precisely taking a global view. I would also argue that each of these reports, they look maybe to the outside as they have all got similar titles, but they are in fact rather different. And thirdly I would argue that pluralism is in fact quite a good idea. Now on your batting record, that is a bit difficult. I don't have a scorecard exactly and we are like all other forecasts -- very good at revising our forecast to make sure that when the time comes they are correct. But there is a tendency, it has been argued, for these things sometimes to be too optimistic, and we were once accused of being too pessimistic. I think now we have just about got it right.

LITTLEJOHNS: Have there been egregious errors in surveys? In projections I mean?

KINNIBURGH: Egregious errors? That is a value judgment. And also I would also argue that there have been egregious errors maybe in some other surveys, less so in ours. We have a less, if I may say, slightly small-invested interest in our numbers as such because we are not a lending institution. So we don't need to be optimistic. We are in no way a financial institutions. We have nothing invested in this report.

LITTLEJOHNS: Time is up. Mr. Kinniburgh, that is all the time we have. Thank you for being with us on this edition of **World Chronicle**. Our guest has been Ian Kinniburgh, Director of Development Policy Analysis in the UN Department of Economic and Social Affairs. He was interviewed by Tuyet Nguyen of German Press Agency/DPA, and Peter Engardio of Business Week. I am Michael Littlejohns. Thank you for joining us. We invite you to be with us for the next edition of **World Chronicle**.

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