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**DRAFT REPORT OF THE TRADE AND DEVELOPMENT BOARD
ON THE FIRST PART OF ITS FORTY-FIRST SESSION**

Rapporteur: Mr. Calson Mbegabolawe (Zimbabwe)

AGENDA ITEM 2 : INTERDEPENDENCE (continued)

Speakers: Russian Federation
Officer-in-Charge of Global Interdependence Division

Note for Delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments - to be submitted in English or French - should be communicated by Friday, 7 October 1994 at the latest to:

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Chapter I

AGENDA ITEM 2 : INTERDEPENDENCE

(continued)

91. The Officer-in-Charge of the Global Interdependence Division, commenting on some of the points raised in the debate on agenda item 2, expressed his appreciation for the generally constructive tone of the discussions. He stressed that it was not the intention of the analysis in the Trade and Development Report to propose demand management as a solution to all the problems of the OECD economies. It could not replace structural policies. Moreover he was in full agreement with many speakers about the importance of controlling inflation and achieving fiscal balance. Nevertheless, more attention needed to be given in policy-making to the potential contribution of demand management. Concerning the particular recommendations on policy stance in the Report, he noted that these were for fiscal stimulus only in Japan, and for monetary relaxation in Europe and Japan but not in the United States. Mention had also been made of the need for caution in tightening the fiscal accounts in Europe.

92. Concerning East Asia, he emphasized that the Report did not suggest heavy-handed intervention. The lessons drawn from the examination of the experience of this region suggested rather the need for pragmatism and policy approaches adapted to the particular complex problems faced by governments. The countries were chosen for the Report's analysis on the basis of the criterion that they had, to a significant extent, achieved many of the central features of developed economies. Answering the point made in the debate that the Report had neglected such factors as the quality of administration and investment in education, he agreed that these were indeed important, but said there was a need to discuss features of the East Asian experience whose contribution to economic success had been less generally appreciated.

93. He said that the TDR had not argued in favour of generalized controls on capital inflows. Rather it had focused on the problems caused by short-term - especially speculative - capital movements for economic management. Administrative or market-oriented measures to deter such inflows should not be taboo. In this context he drew attention to the measures taken by Chile, a

country with a market-oriented approach to economic policy, to prevent capital inflows adversely affecting its competitiveness via an appreciation of the exchange rate.

94. He noted the broad agreement between UNCTAD and others on the objectives of macroeconomic policy in OECD countries. The differences related to tactics. The view expressed in the Report was that there was enough slack in many OECD economies to allow lower interest rates without the fuelling of inflation, and that acceleration of the recovery would itself improve public finances by increasing tax revenue and decreasing public expenditure. Further fiscal consolidation should wait until the recovery was robust. Currently, fiscal tightening in Europe would have adverse effects on profits, business expectations, and activity which would outweigh any increased credibility in financial markets.

95. At the 851st meeting, on 28 September 1994, the Vice-Chairman (Russian Federation), introducing the draft agreed conclusions on agenda item 2*, said that the informal consultations which he had chaired had involved a serious and well-argued debate. Consensus had been reached on almost all the issues raised in the preliminary discussions held during the current session, and he felt that the text of the draft agreed conclusions rounded off the discussions in a well-balanced and satisfactory manner.

96. The Secretary of the Trade and Development Board drew attention to line 9 of paragraph 3 of the draft agreed conclusions, where the phrase "appropriate cyclical policies" should be amended to read "appropriate monetary and fiscal policies".

Action by the Board

[To be completed]

* Subsequently circulated in ...