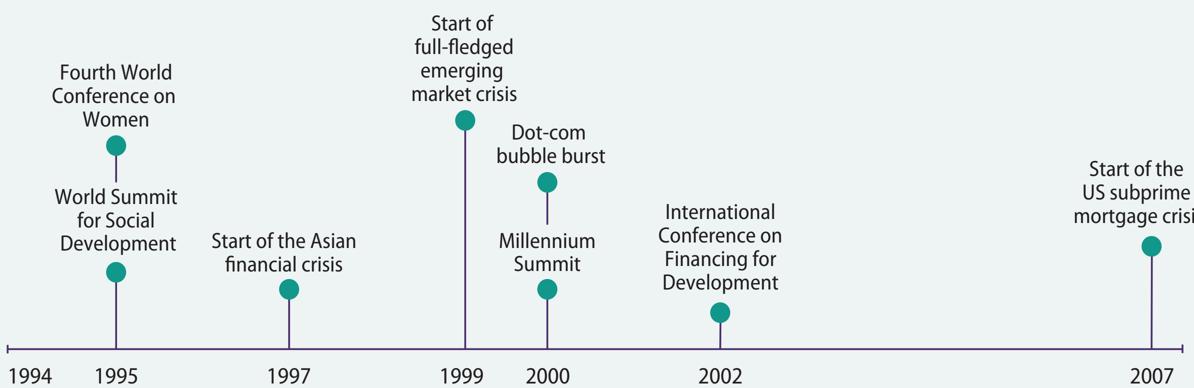
Chapter IV

Globalization meets the Millennium Development Goals

Key messages

- The adoption of the Millennium Development Goals (MDGs) at the turn of the century represented the successful inauguration of an effort to expand the focus beyond economic growth so as to encompass human development. As a result of rapid economic expansion and improved social policies in many developing countries, the MDG target of halving extreme poverty by 2015 globally had been reached by 2010.
- The growth momentum, however, proved to be unsustainable. Growth in the global economy was largely fuelled by strong consumer demand in the United States of America, as funded by easy credit. This pattern of growth led to mounting global imbalances and overleveraged financial institutions, businesses and households. In the absence of effective policy coordination mechanisms for securing an orderly unwinding of global imbalances, global growth proved unsustainable.
- In response to the episodic financial crises of the 1990s and 2000s, developing countries increased foreign reserves significantly as a form of self-insurance, a factor that increased the net transfer of financial resources from South to North.
- One of the central objectives of economic development policy is to facilitate the structural transformation of countries towards diversification of production and exports. This remains central to any strategy for achieving sustained economic growth in developing countries.

Key events



We believe that the central challenge we face today is to ensure that globalization becomes a positive force for all the world's people.

United Nations Millennium Declaration (*paragraph 5*)

Introduction[1]

The present chapter analyses the key trends in the world economy and the major changes in the development agenda between the mid-1990s and the period immediately preceding the onset of the global financial crisis of 2008-2009. The process of global economic integration—globalization—had been gathering momentum since the 1980s, and the forces driving it became stronger and, in some ways, more entrenched towards the end of the 1990s. During that period, this entrenchment was reinforced by rapid trade liberalization and deregulation of the economy. In the 2000s, developing countries as a whole increased their share in global economic activities and the income gap between developing and developed countries (defined by the difference in average per capita income) decreased to some extent. Underlying these global trends was an increase in global imbalances leading to financial market instability, which eventually culminated in the global financial crisis of 2008-2009.

As examined in chapter III, the Washington Consensus prescribed a market-based approach for development founded on the assumption that the income gap between poor and rich countries would decrease through greater integration of global markets. In the 1990s, contrary to these predictions, trade and financial systems that were more open operated in parallel with increasing income inequality. Various editions of the *Survey* attributed this phenomenon largely to rapid globalization and technological change which favoured skilled labour and the withdrawal of the State from the public provisioning of basic services such as health care, education and social protection. In his preface to *World Economic and Social Survey 2000*, the Secretary-General pointed out that the number of people living in absolute poverty remained "virtually unchanged" from what it had been decades before, and that only a handful had achieved "successful development over a short period of time". The poorest countries and the poorest peoples appeared to be stuck in what he referred to as a "poverty trap", which signified that the decade of the 1990s had not witnessed the outcomes envisaged under the Washington Consensus.

States Members of the United Nations acknowledged that the goals of the International Development Strategy for the Third United Nations Development Decade[2] had been largely unattained. It was within that context that the Fourth United Nations Development Decade (1991-2000) was launched. Through the elaboration of a series of goals and objectives, including priority areas of development, the International Development Strategy for the Fourth United Nations Development Decade[3] reaffirmed the importance, inter alia,

1 The present chapter reviews the condition of the global economy and development trends in the period between the mid-1990s and 2007, as examined in the *World Economic and Social Survey*. It also reviews the analysis of short-term economic trends presented in *World Economic Situation and Prospects*, a companion publication which was issued starting in 1999. In this chapter, both reports are referred to as the *Survey*.

2 Adopted by the General Assembly in its resolution 35/56 of 5 December 1980 and contained in the annex thereto.

3 Adopted by the General Assembly in its resolution 45/199 of 21 December 1990 and contained in the annex thereto.

of growth, employment creation, poverty eradication, environmental protection, improved education, health and nutrition, and enhanced participation of men and women in political life (see appendix A.3). The objectives set forth in the Strategy for the Fourth Development Decade reflected a continuation of the practice under previous strategies of placing emphasis on the full range of issues relevant to development. That emphasis was in clear contrast to the narrow scope of the narrative under the Washington Consensus which focused on economic growth and market liberalization.

The discontent that had been brewing during the period of structural adjustment policies found its voice through the organization of a series of world summits and global conferences, including the World Summit for Children, held in New York on 29 and 30 September 1990; the United Nations Conference on Environment and Development, held in Rio de Janeiro from 3 to 14 June 1992; the World Summit for Social Development, held in Copenhagen from 6 to 12 March 1995, at which many of the recommendations associated with the implementation of the Strategy for the Fourth United Nations Development Decade were reiterated and expanded; and the Fourth World Conference on Women, held in Beijing from 4 to 15 September 1995 (see appendix A.4 for a comprehensive listing of the conferences held in the 1990s). At the same time, and building upon the concept of *development as freedom*, as formulated by development economist Amartya Sen, the United Nations, with the publication of the first issue of the *Human Development Report*,[4] contributed to the discussion an essential principle, namely, that people must be at the centre of development.[5]

The formulation of the MDGs, which emanated from the United Nations Millennium Declaration,[6] reflected the recognition by the international community that economic growth alone had not been sufficient to address human development concerns. In contrast, the goals and targets under the MDGs focused attention on the most critical requirements for human development at that time: reduction of poverty and hunger under Goal 1 (employment generation was subsequently added as an additional target under that Goal), improvements in education and health, gender equality and environmental sustainability.

Economic convergence between countries, the imbalances leading to the global financial crisis, and the adoption of the MDGs shaped the world economy in this period

This chapter focuses on the global economy and development trends in the period from the mid-1990s to the late 2000s (see figure IV.1), and, in particular, on three major issues that shaped the world economy during that period and beyond:

(a) The catch-up process of developing countries with respect to the average income of developed economies;

(b) Increased instability of the global economy which led eventually to the global financial crisis;

(c) Adoption and implementation of the MDGs.

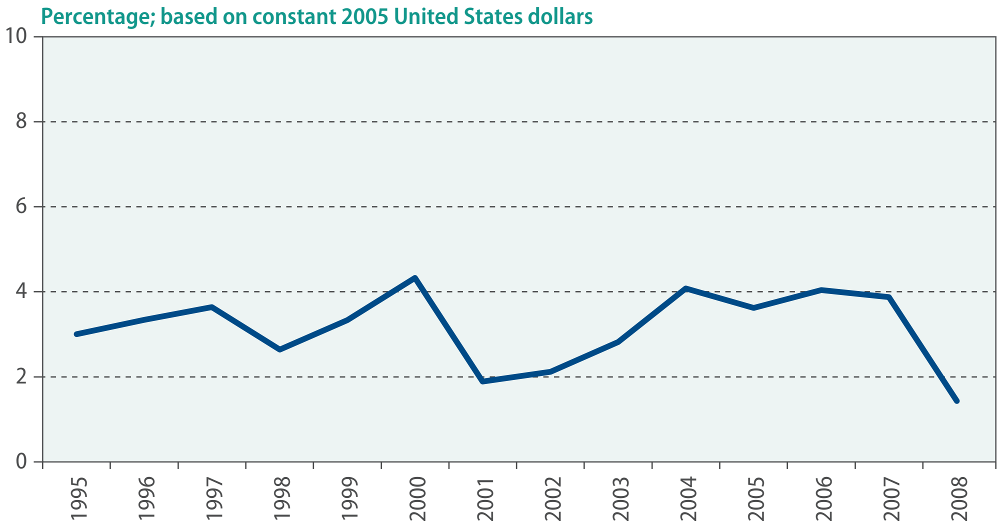
A careful retrospective analysis of the underlying factors and policy decisions that framed these major events is particularly relevant to the current debate centred on the implementation of policies aimed towards achievement of sustainable development.

4 United Nations Development Programme, *Human Development Report 1990* (New York, Oxford University Press, 1990).

5 Although the report was published by the United Nations Development Programme, its preparation was a United Nations system-wide initiative, as noted in the foreword to the volume.

6 Adopted by the General Assembly in its resolution 55/2 of 8 September 2000 at the Millennium Summit, held in New York from 6 to 8 September 2000.

Figure IV.1
Global growth of GDP, 1995–2008



Source: UN/DESA, based on data from the Statistics Division.

The period covered in this chapter encompasses the efforts of developing countries to catch up with developed countries in regard to per capita income. The catch-up process began following the burst of the dot-com bubble in 2001,[7] which marked the commencement of a new era for the world economy, with near unprecedented economic growth in developing countries and a major shift in the balance of global economic power in favour of emerging economies. The rapid expansion of trade volumes, which was associated with a rise in prices of primary commodities, resulted, for many developing countries, in improved terms of trade and more dynamic exports. The increase in income per capita in a large number of those countries narrowed the income gap with respect to developed countries. Poverty declined in most developing countries, and in some of them, the decline was substantial. The period of the global commodity boom, extending from 2002 to 2007, was therefore one during which prosperity was more widely shared across countries.

As mentioned above, this chapter will also analyse the instability of the global economy which accompanied the economic boom. The period 2002-2007 was marked by global imbalances which led to the great recession of 2008, mainly in developed countries. Most developing countries were exposed to that instability, which had originated in developed countries, and commodity-exporting countries yet again had to face volatile prices for their commodities.

Greater economic integration increased countries' exposure to the volatility of the global economy…

The catch-up process and global instability are, in a sense, two sides of the same coin. The increased global economic integration during the 1990s had major effects on production, investment, finance and macroeconomic policies across the world. In most economies, the share of total external trade in national income increased—in some cases, very substantially. Even relatively poor and less developed countries engaged in internal and external financial liberalization, which allowed them to access international capital markets. However, global economic integration also exposed developing countries to volatile cross-border flows to a much greater extent than had been evident in previous decades. The issue

7 The dot-com bubble, which is also known as the tech bubble or Internet bubble, refers to the sharp, rapid growth in equity value of the Internet sector and related fields in developed countries.

of vulnerability leads back to the discussion on the need for developing countries to diversify their economies to avoid both an over-reliance on a handful of commodity exports, and price and income volatility. Indeed, economic diversification and improved patterns of integration in the global economy for developing countries continue to be extremely pertinent issues and relevant to the success of the 2030 Agenda for Sustainable Development.[8]

The adoption of the United Nations Millennium Declaration and the formulation of the MDGs signalled recognition of an undeniable need for the development agenda to be extended beyond economic growth alone. Implementation of the goals and targets under the MDGs was considered a priority for the national Governments of developing countries in their efforts to ensure achievement of better living standards and human development. Implementation of policies towards achievement of those goals was supported by developed countries through a series of commitments towards rules-based, predictable and non-discriminatory trading and financials systems; the delivery of official development assistance (ODA); and addressing the needs of least developed countries, landlocked developing countries and small island developing States, among other goals contained under Millennium Development Goal 8, which was to develop a global partnership for development. The rapid period of globalization in previous decades had made it evident that economic growth did not always translate into sustained and social development. The series of world summits and international conferences, mentioned briefly above, as organized by the United Nations during the 1990s, generated broad support from the global community for human development goals, including improved health, education, gender equality and environmental sustainability, and helped promote a new development narrative driven by a vision of human-centred development. The major international development goals agreed at those summits and conferences were the foundation for the formulation of the MDGs.

The MDGs focused on human development priorities…

In their attempt to capture human and social progress across different dimensions, definitions of development had themselves evolved over time. The influence exerted by the human development approach and the capability approach, as elaborated by Amartya Sen, was reflected in the integration of the different economic and social dimensions under one coherent development agenda. The United Nations Millennium Declaration and the MDGs focused attention on key social development priorities but also included references to economic and environmental goals. As observed directly above, the MDGs were shaped as objectives and targets to be achieved by developing countries with support from developed countries through a global partnership for development.

Important features of the MDGs were the well-defined numerical targets to concretize the ambition reflected in each Goal. Such a framework, underpinned by a multiplicity of Goals and their numerical targets, facilitated the discussion on the substantive processes and policies needed to ensure that all objectives were met. The fact that different dimensions of development were integrated within that single framework led to a discussion on the need to improve policy coherence for the achievement of specific targets—a discussion that has taken centre stage with regard to the implementation of the Sustainable Development Goals (SDGs). The MDG framework, including the identification of well-defined targets, also facilitated the selection of numerical indicators to assist in the review of progress towards achievement of the MDG goals and targets and to help improve accountability.

…but they paid less attention to the economic and environmental dimensions of development

A number of criticisms have been directed at the MDG agenda. The issues that generated considerable debate, among many others, included the risk of a disconnect between

8 General Assembly resolution 70/1.

target setting and the processes that determined their achievement; and insufficient emphasis on the economic and environmental dimensions of development.

Efforts by developing economies to catch up with developed ones

During the 1980s and 1990s, the policies associated with the Washington Consensus were imbued with the conviction that (a) free market mechanisms were essential for sustaining economic growth (see chap. III) and (b) that greater openness to the global market would lead to a closing of the income gap between poor and rich countries. In consequence, countries across the globe opened up their trade and financial systems to the global market. Empirical evidence has shown, however, that narrowing of the income gap across those countries was not achieved universally. In fact, the 1980s was characterized as a "lost decade" of development for countries in Africa and Latin America and the Caribbean. Those countries had been under pressure to adopt the policies espoused under the Washington Consensus and ended up experiencing a prolonged recession.

The 1980s witnessed the disappointing experience of developing economies and the 1990s were no more encouraging. Again, as noted by the Secretary-General in his preface to the 2000 *Survey,* while some countries had achieved successful development over a short period of time, they were far too few in number. On the other hand, the richer countries continued to make steady progress, which contributed to an ever-widening gap between what became bastions of prosperity and the rest of the world. The words of the Secretary-General bear repeating: the poorest countries and the poorest people appeared stuck in what he termed a poverty trap.

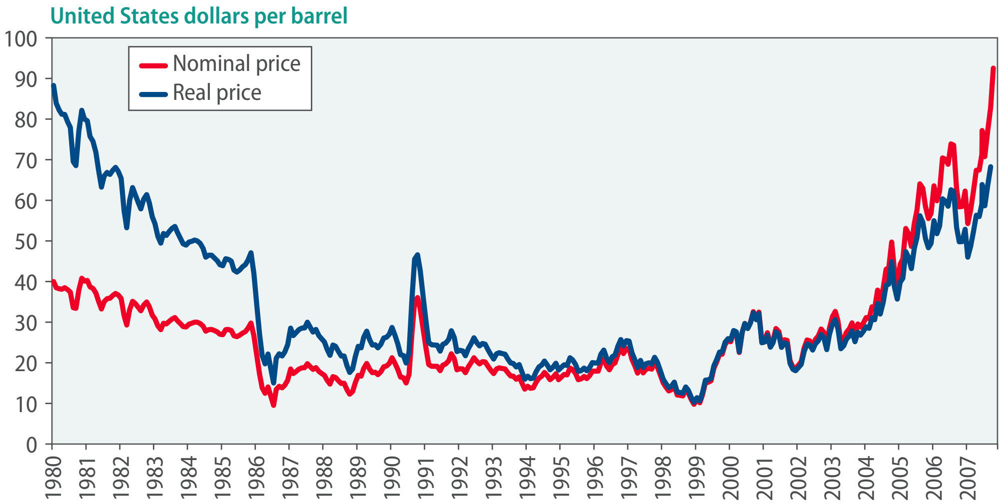
In the period 2002-2007, rising commodity prices led to faster growth and poverty reduction in most developing countries

Within the context of the global economy's recovery from the financial crisis in Asia (see below), fast growth in China and, to some extent, in India led, in the period 2002-2007, to a global economic boom which generated high growth rates and a shift in global economic power. As a result, some developing countries, including China and India, emerged as major economic players. That period was associated with the rapid expansion of trade volumes combined with rising prices of primary commodities, signifying a pattern that was associated with improved terms of trade for many developing countries. This meant significant acceleration of the rates of income expansion in most of the developing world, leading to substantial declines in poverty.

Signs of the commodity and oil boom were far from visible at the beginning of the decade (see figures IV.2 and IV.3). Energy (including crude oil) and metal prices increased at the beginning of the decade, but it was an increase from the lows reached at the end of the 1990s. Food and other agricultural commodity prices remained at historic lows until the latter half of the decade when food prices, in particular, spiked, marking the onset of the so-called food crisis of 2007-2008.

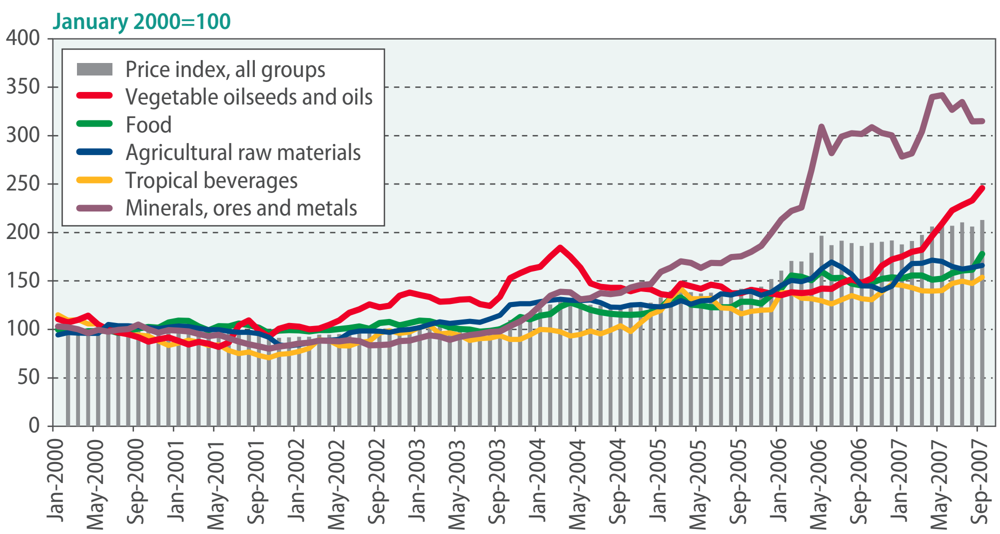
The "shock" to the global economy from this commodity price boom was as big as the first oil shock, in the 1970s. However, in contrast with that episode, it was induced mainly by the rapid rise in global demand for commodities rather than by supply-side shocks. As a result, the impact on global economic growth was benign, at least during 2004-2007, and commodity-exporting developing countries were among the main beneficiaries of these trends. Nonetheless, rising prices and inflation caused monetary authorities to tighten policy from mid-2004 to June 2006.

Figure IV.2
Nominal and real Brent crude oil prices, 1980–2007



Source: *World Economic Situation and Prospects 2008*, p. 58, figure II.6.

Figure IV.3
Monthly averages of free market price indices of non-oil commodities, January 2000 to September 2007



Source: UN/DESA, adapted from *World Economic Situation and Prospects 2008*, p. 56, figure II.5.

World Economic Situation and Prospects 2005 assessed the 2004 oil price shock in the following terms:

> Although prices had subsided by year's end, the surge in oil prices in 2004 triggered two main concerns: first, the risk of another global oil crisis which, according to some analysts, would dwarf the crises of the 1970s (both of which wreaked havoc on the world economy), and, second, the possibility of permanently higher oil prices in the long run. Despite their surge in 2004, oil prices in inflation-adjusted terms remained far below the record levels they reached in the late 1970s; even the volatility in prices was less than in previous oil crises (p. 11).

World Economic Situation and Prospects emphasized that "the rise in oil prices was driven mainly by strong global oil demand, not by reductions in supply, as was the case in past oil crises" and that "[o]n this occasion, the increased oil prices [would] lead to slower global economic growth in 2005 and beyond, but not necessarily to a substantial downturn or a recession" (ibid.).

Commodity exporting developing countries had important gains in their terms of trade

The rise in commodity prices proved to be a bonanza for primary goods-exporting developing countries. *World Economic Situation and Prospects 2007* provided estimates of the terms-of-trade gains. During the height of the boom (2004-2006), the gains for oil exporters averaged no less than 8.0 per cent of GDP per year, while that for exporters of minerals and mining products averaged 5.4 per cent per year (table I.3, p. 12). Those gains were offset by losses incurred by exporters of manufactures from deteriorating terms of trade of about 1 per cent of their GDP. On the other hand, developing countries with more diversified export structures and countries dependent mainly on exports of food and other agricultural products witnessed little change in their terms of trade during this period.

Fast growth in developing countries helped to narrow the gap between their income level and that of developed countries…

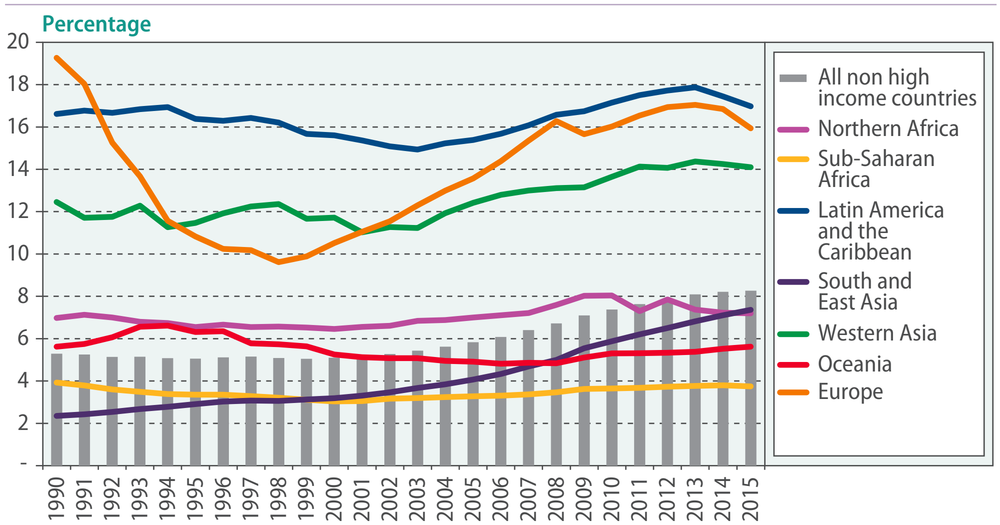
Faster growth in a greater number of developing countries accelerated income convergence with developed countries. GDP per capita in developing countries grew on average more than 4 per cent per year between 2000 and 2008, while in developed countries it grew on average about 2 per cent per year during the same period. Prior to 2002, income convergence with developed economies had been ascribed mainly to growth in Asian countries, in particular in China. After 2002, this trend was extended to other developing regions such as Africa and Latin America and the Caribbean. As a result, the ratio of per capita income of developing countries to that of developed countries increased considerably during this period, thereby reducing inequalities between countries (see figure IV.4).

….leading to formulation of the concept of "decoupling"

The boom led several analysts, particularly those at the International Monetary Fund (IMF), to advance the concept of "decoupling" growth to account for the fact that large developing countries like China and India were no longer dependent upon economic growth in the core economies and could even provide alternative "growth poles" for the global economy (see box IV.1).

Figure IV.4

GDP per capita of non high income countries[a] as a share of the OECD average, by region, 1990–2015



Source: UN/DESA, based on data from the Population and Statistics Divisions.

a A total of 132 countries comprising: developing low-income countries, middle-income countries and economies in transition, with data for all years.

However, in 2007, the economic boom ended. The financial collapse in the United States resulted in the transmission of shocks globally and on a scale that was unprecedented, with economies in all regions of the world being adversely affected. Some in fact ended up suffering much more than did the epicentre of the crisis, namely, the United States itself. As indicated in *World Economic Situation and Prospects 2007* (box I.2, p. 3) and

Further evidence showed that growth cycles in developing countries remained correlated with those of the developed countries

Box IV.1

The thesis of growth decoupling

The argument for growth "decoupling" was founded upon the observation that, for several years, the rate of economic growth in many developing countries had been higher than that of the United States of America and other developed countries. This signified the presence of strong domestic sources of growth and a decoupling of business cycles.

Globalization played some role in the observed decoupling. Extended trade and financial networks had made the world economy more complex. In such a world, the impact of a single economy on business cycles in the rest of the world would necessarily diminish. For instance, more integrated financial markets would allow countries to find the necessary financing to absorb trade shocks emanating from a slowdown in the United States. Also, increasing South-South trade and investment flows strengthened economic ties among developing countries, thereby reducing their reliance on United States markets. At the same time, as countries became more deeply embedded in global networks, they were also exposed to new vulnerabilities.

While recognizing that the world was becoming less reliant on the state of demand in the United States, the *Survey* argued at the same time that it was premature or misguided to speak of decoupling. The *Survey* also warned that the terms-of-trade gains could not offer a stable source of long-term growth even in a period of prosperity in many developing countries, first, because the volatility of primary commodity prices and pro-cyclical responses of capital flows could be a source of major macroeconomic instability, hampering long-term growth and offsetting the short-term welfare gains; and, second, because some of the gains could easily seep out of their domestic economies. As analysed in *World Economic Situation and Prospects 2007*, the terms-of-trade gains of exporters of minerals and metals were almost entirely offset by increased net profit remittances abroad by foreign mining companies during 2004-2006, leaving only a small net income gain for those economies (table I.3, p. 12). However, such offsetting effects were much smaller for net oil exporters during that period.

As had been the case in the 1990s, growth records in developing countries were driven by rising import demand mainly from the United States economy, as the result of a particular combination of forces which could not be sustained over a longer period of time. Until 2008, the United States economy had remained the primary engine of global growth, generating demand directly for exports of manufactured goods from different regions and creating demand indirectly for primary and intermediate goods. In this process, the United States economy reversed the traditionally "expected" pattern of international capital flow by drawing in savings from the rest of the world, including from the poorest regions. This enabled it to embark on a domestic credit-fuelled boom with shaky foundations, as became only too evident during the 2008-2009 global financial crisis.

The impact of the crisis refuted the thesis of decoupling. Instead, as convincingly argued in various editions of the *Survey*, all of the developing regions remained critically dependent upon the external growth stimulus provided by the North, with the business cycles moving broadly in tandem, albeit with higher average growth rates for most of the developing world. In fact, aggregate GDP growth of developed and developing countries moved in a synchronized fashion throughout the 2000s.

As the *Survey* argued, deeper trade and financial linkages could explain why international transmission of economic cycles in the major economies to developing regions remained (and remains) strong despite strengthened domestic sources of growth. For example, much of the rapid increase in intraregional trade in developing Asia (the most dynamic region of the world in the past decade) could be attributed to the emergence of a multi-location multi-country export production platform, organized increasingly around China as the final processor. Reduced demand from the North therefore translated into reduced demand for the raw materials and intermediates required for processing, a phenomenon that has become particularly evident in the past five years.

World Economic Situation and Prospects 2008 (p. 26; and chap. I, pp. 40-43, appendix 2), growth cycles in developing countries remained closely correlated with those of developed economies, particularly with the cycles of the United States economy.

Despite the growth-related success of some large developing countries and some degree of shifting of the balance of economic power towards the developing region, the *Survey* has suggested that it would be both premature and over-optimistic to expect a flatter world in the near future. A number of countries have experienced economic convergence towards the living standards of developed economies, but many countries are still lagging behind, especially in Africa.

More significantly, and well before the hype surrounding the growth of emerging markets had faded, the *Survey* had noted the difficulties associated with a pattern of integration that was inherently fragile. In a starkly prescient warning, the 2010 *Survey* pointed out that the pattern of uneven development brought about by globalization had so far not been sustainable. Since this time around, i.e., at the beginning of the crisis period 2007-2008, developing countries were much more integrated into the world economy, the global crisis had more profound implications and more serious consequences for development.

A surge in global imbalances as the prelude to the global financial crisis

Globalization since the 1990s has been accompanied by the emergence of a number of global imbalances

Globalization in the 1990s and at the beginning of the twenty-first century was accompanied by the emergence of a number of global imbalances, which led eventually to several episodes of crisis. This chapter examines these episodes and analyses the macroeconomic policy responses that were taken at the time of each crisis.

Although the Asian crisis caused economic downturns in many developing countries, in most cases, signs of recovery had already become visible by 1999. The recovery, however, did not put an end to the turmoil in global financial markets. Financial resources flowed out of Asia and other emerging markets into dot-com stocks in the United States which drove equity prices upward, and with the Nasdaq stock exchange experiencing a boom over the period 1998-2000. When the bubble burst in 2001, the United States Federal Reserve Board (the Fed), in order to avert both an economic downturn and deflation, implemented an expansionary monetary policy during the period 2001-2004. This was perceived by many, a posteriori, as one of the major factors leading to the housing market bubble in the United States. That period witnessed the build-up of global imbalances, and financial market instability, which was imminent, led to several crises and culminated in the global financial crisis of 2008-2009.

The end of the twentieth century was marked by the Asian financial crisis of 1997-1998

The end of the twentieth century was marked by the Asian financial crisis of 1997-1998. Before the crisis erupted, economic performance in developing countries as a whole had been relatively strong, with aggregate GDP growth of over 5 per cent in 1995. The robust performance was due largely to fast growth in China and other countries in East and South-East Asia and, to a lesser extent, in South Asia. It was domestic demand, rather than exports, that drove growth in East and South-East Asia, although the countries of those subregions had often been held up as examples of successful export-led growth (*World Economic Survey 1991*, pp. 39-43).

At the beginning of June 1997, however, a series of currency devaluations spread throughout Asian markets. After months of speculative downward pressure on the baht, the central bank of Thailand was forced to freely float its currency, owing to the lack of the foreign currency needed to support its currency peg to the dollar. After the announcement, the baht immediately lost 18 per cent of its value against the dollar; following its devaluation, waves of speculation spread rapidly throughout Asia (exemplifying the so-called contagion effect). As a result, there was a sharp loss in value in the region of national currencies against the dollar, causing surges in dollar-denominated external debt burdens, stock market declines and reduced import revenues.

In debates on the causes of the Asian financial crisis, several interpretations were put forward. Some experts looked for root causes in market fundamentals: in the presence of the currency peg, large current account deficits created downward pressure on the currencies in East Asia, encouraging speculative attacks. High domestic interest rates prevailing before the crisis encouraged domestic companies to borrow dollars offshore at lower interest rates, in order to fund inadequately evaluated, hence, risky investments; and with weak oversight of domestic lending, rapid credit growth led to a significant increase in financial leverage. Other analysts attributed the crisis to the sudden shift in market confidence in the region's economies and the financial panic that ensued. The entire region experienced the withdrawal of many investors, who perceived the financial crisis in one economy as a sign of underlying problems in other economies of the region. It should certainly be emphasized that the vulnerability of the region's financial systems was exacerbated by their closer integration with global financial markets, which led to a massive influx of foreign capital from investors, many of whom were seeking a short-term return. That influx widened the scale of risky lending in the region, exposing it to significant capital flow risks during periods of uncertainty.

Shockwaves were felt throughout the global economy which ultimately resulted in a full-fledged emerging market crisis

Despite policy and financial interventions on the part of IMF and the World Bank, shockwaves were felt throughout the global economy. By 1999, the Asian crisis had spread and turned into a full-fledged emerging market crisis, engulfing the Russian Federation in mid-1998. This significantly affected the countries of Central Asia, and led to currency and banking crises in Argentina and Brazil in early 1999. The financial crises in emerging economies caused economic downturns, which were sometimes severe. While signs of recovery had already become visible by the end of 1999, it was those emerging economies that shouldered most of the burden imposed by the adjustment costs required to end the crisis. For this, *World Economic and Social Survey 1999* blamed the ill-conceived contractionary macroeconomic policies implemented by national Governments, which aggravated the welfare losses incurred during the financial crises. Austerity measures and restrictive monetary policy were among the conditions imposed by IMF for injections of liquidity. The monetary policy aimed at increasing domestic interest rates so as to stem capital outflows and stabilize exchange rates and inflation, while the fiscal policy, with the aim of rebuilding international reserves, focused on reducing current account imbalances. The IMF-supported programmes failed, however, to stop the panic and capital outflows, the depreciation of exchange rates and the deterioration of financial markets. As a consequence of the contractionary policies, the slowdown of economic activity in the emerging economies was much sharper than anticipated, resulting in higher unemployment rates and political stress.

The lack of adequate mechanisms for achieving improved international macroeconomic policy coordination and the deeper flaws in the international financial architecture impeded containment of the Asian crisis (*World Economic Situation and Prospects 1999*, pp. 15-19). These deficiencies would remain a source of recurring concern within the United

Nations from then on. However, inasmuch as the global economy started to improve during 1999, all proposals to address those deficiencies were shelved. Such proposals did not have much resonance among the world community's major players until the global crisis erupted in 2008, when the G20 emerged as a platform for achieving such coordination (see chap. V).

It was in 2000, shortly after the Asian financial crisis, that the dot-com bubble in developed economies burst

During 1998-2000, while some countries in South-East and East Asia were suffering from the impact of the Asian financial crisis, the dot-com bubble was forming in developed economies, particularly in the United States. The total equity value of stock markets rose rapidly in the second half of the 1990s owing largely to growth in the Internet sector and related technological areas, but in March 2000, the bubble burst. As a result, between 2000 and 2002, the stock market experienced a loss of $5 trillion in the market value of companies.

The burst of the dot-com bubble and the Asian crisis, which were both bound up with the logic underpinning global financial markets, unintentionally created an economic environment in the late 2000s that turned out to be fertile ground for another global economic crisis. Capital flowed out of emerging markets in Asia and other regions for investment in United States dot-com stocks, which drove up equity prices. As the stock market bubble burst, the Fed adopted an expansionary monetary policy in a series of steps over the course of a period beginning in 2001 and extending well into 2004, in order to avert a downturn and possible deflation. Risk premiums hit low levels and leveraged deals became common as investors chased yields in an environment of lax regulatory oversight. This ushered in a period characterized by large-scale growth in credit and leveraged loans and a sharp increase in home prices in the United States.

The immediate effect of the dot-com crisis was, as it turned out, relatively mild owing to the fact that many developing countries had accumulated international reserves as a form of self-insurance against sudden capital outflows which would put their whole economy in jeopardy and result in costly financial crisis. High international reserves enabled central banks to intervene in the foreign exchange market to defend their national currencies in instances of speculative attack and helped cushion economies from external shocks. It should be noted, however, that as those reserves were kept in the form of highly liquid low-risk government bonds denominated by major currencies (such as United States Treasury bonds), the accumulation of reserves in developing economies translated into a net transfer of financial resources from South to North. By the end of 2007, these transfers out of developing countries as a whole, as measured by changes in foreign reserves, bordered on US$ 1 trillion. While the major current account surplus countries in East Asia and the Middle East were the biggest contributors, Africa and Latin America and the Caribbean also saw large outflows of financial resources (see *World Economic Situation and Prospects 2011*, table III.2, pp. 72-73).

Loose monetary policy in the US fuelled an expansion of global liquidity and imbalances...

The major challenge of the burst of the dot-com bubble lay in the area of policy response. The shift towards loose monetary policies (especially in the United States) fuelled a massive expansion of global liquidity and global imbalances. The economy of the United States and of some other developed countries ran current account deficits, while countries of East Asia and commodity exporting countries ran massive surpluses. Low interest rates in developed economies, combined with large amounts of money flowing out of countries directly affected by the Asian crisis, triggered more risk taking within the financial markets of developed countries, the build-up of household debt and high leverage ratios of non-financial firms. The so-called yield spreads dropped to historically low levels, signifying another episode of irrational exuberance in financial markets. Speculative investment in commodity markets also helped fuel the ensuing commodity price boom. Ultimately, this led to the creation of a housing market bubble in developed countries with large current account deficits, especially the United States.

…at a time when new financial instruments were feeding a housing bubble in the United States

New financial instruments also played a crucial role in creating a housing bubble in the United States. Once the mortgages of individual homeowners with low credit ratings (so-called sub-prime mortgages) had been securitized—that is, repackaged into a multiplicity of new financial instruments and sold to domestic and international financial investors as "diversified", low-risk and highly liquid financial securities—markets worldwide became blinded to the underlying risks in play. It should be mentioned that housing and real estate bubbles were found also in other economies running major external deficits.

The abundance of financial capital available in the global economy did not translate into higher productive investment. Indeed, the Fed's expansionary monetary policy did not induce a boom of any strength in productive investments, but led instead to the overleveraging of households and non-bank financial firms, which extended into real estate booms; and lax monetary policy and innovative but poorly regulated financial instruments fuelled a bubble.

In response to these developments, *World Economic Situation and Prospects 2008* maintained that the ongoing downturn in housing prices in the United States had become much more serious in the third quarter of 2007 with the sub-prime mortgage meltdown, which triggered "a full-scale credit crunch" with reverberations throughout the global financial system (p. iii). The debacle in the sub-prime mortgage loan sector triggered full-blown global financial turmoil. Although sub-prime mortgages made up a relatively small fraction of the total mortgage market and an even smaller fraction of the total credit market, complex financial instruments with overstretched leverage, lack of transparency and inadequate regulation served to spread and multiply the risk beyond the sub-prime market. This was a development that most observers came to understand only after the crisis had erupted, less than a year later.

The global imbalances and ensuing financial market instability culminated in the global financial crisis of 2008-2009

A major preoccupation during this period centred on the global imbalances and ensuing financial market instability that culminated in the global financial crisis of 2008-2009. On the other hand, the *Survey* had warned as early as 2005 against the dangers of the unsustainable pattern of global growth that had emerged about a decade before. Rapid growth was supported by strong consumer demand in the United States, which benefited from both easy access to credit and the positive wealth effects accruing from booming house prices. As mentioned above, far-reaching financial deregulation facilitated a massive and what was now an unfettered expansion of new financial instruments, such as securitizations of sub-prime mortgage lending, in global financial markets. This pattern of growth led in turn to strong export growth in developing countries and to high commodity prices. Unfortunately, it also led to a situation characterized by mounting global financial imbalances and overleveraged financial institutions, businesses and households.

Debates focused on the possible sources of those global imbalances. According to one argument put forward, especially by the Fed, the deficit was caused mainly by external factors. Hence, the fiscal adjustment policies of the United States Government would not be effective in dealing with the country's current account deficit. Emphasis was placed instead on the "savings glut", which was used to explain the global imbalances: countries with high savings rates, mainly in Asia, had significantly increased their savings above (the desired level of) domestic investment,[9] which thus accounted for the exceptionally low long-term interest rates worldwide. Put simply, from this perspective, as global imbalances could be attributed to excess savings outside the United States, adjusting those imbalances through a reduction in the fiscal deficit of the United States and a concomitant increase in domestic savings would not be the first relevant or the first necessary step to be taken. The logic of this argument hinged on the contention that effective global adjustment should be carried out elsewhere, specifically in emerging market economies, which were to become net borrowers once again.

From another perspective, domestic investment demand was too low relative to savings. The global investment rate, which had been on a long-term declining trend, reached a historic low in 2002 (*World Economic Situation and Prospects 2006*). It experienced a very slight recovery thereafter but remained below 22 per cent of world gross product (WGP) (ibid.). Focusing on trends at the global level and for major economies, the *Survey* argued on several occasions that investment demand had been "anaemic" in most countries having current account surpluses, with China being the notable exception among the largest economies. More specifically, since 2001, the growth of non-residential business investment had been remarkably weak in many countries, irrespective of their current account balance position, and the low level of investment had prevailed despite generally buoyant corporate profits and low interest rates worldwide. The *Survey* cautioned that these conditions posed the serious risk of a disorderly adjustment of the major economies' macroeconomic imbalances.

Excess savings in Europe and in many countries in Asia were attributable primarily to a weakening of investment growth

In fact, the analysis of the 2006 *Survey* showed that the increased excess savings in most major economies in Europe and many countries in Asia were attributable primarily to a weakening of investment growth. Fixed investment rates were down in almost all large developed and developing economies, and this held for both total and (non-residential) business investment. Booming oil prices were a cyclical part of the story, driving up savings surpluses in the economies of oil exporters with typically low domestic absorptive capacity. Even in China, where investment growth was robust, remarkably rapid growth in per capita income had pushed up savings rates above domestic investment.

Much capital outflow from current surplus countries were held in dollar-denominated assets, particularly United States government bonds, leading to further downward pressure on already low interest rates. In other words, the excess liquidity was large enough to exert an impact on financial markets, pumping dollar liquidity back mainly to the financial markets of the major deficit country, the United States. As no portfolio adjustment took place towards productive assets, investors, attracted by the low risk premiums, continued to pile into more liquid assets. Eventually, these conditions increased the economy-wide risk, hurting economic growth, and led to the financial crisis.

The ever-widening deficit of the United States, financed partially by trade surpluses in developing countries, proved unsustainable

The *Survey* insisted, throughout the 1999-2007 period, on the problem posed by exchange rate volatility related to significant financial flows from developing to developed countries. The ever-widening global imbalances—with the country issuing the world's major reserve currency, namely, the United States, accumulating increasing deficits financed in no small part by trade surpluses in developing countries—would eventually prove unsustainable. Such concerns prompted insistent calls for international coordination of macroeconomic policies to facilitate an orderly adjustment of the global imbalances

9 It is to be noted that a country with excess savings over investment runs a current account surplus by the national income accounts identity.

while minimizing economic growth costs. A coordinated strategy would have helped avert the negative growth effects and create confidence in the stability of financial markets (see chap. V). A growth stimulus in Europe and Asia, for instance, would have helped offset the initially contractionary effect of adjustment policies in the United States. No such coordination would come about, however, until after the crisis (ibid.).

The need for improved global policy coordination

Effective global policy coordination aimed at stemming exuberance in housing and financial markets would have helped avert the accumulation of global imbalances

A coordinated strategy among countries for introducing the policy corrections needed to stem the exuberance in housing and financial markets would have helped avert the accumulation of global imbalances. *World Economic Situation and Prospects 2007* laid down the foundations and set out the required policy directions for such international coordination. The feasible corrective actions proposed by the *Survey* were adopted only once the crisis had erupted. At that point, corrective actions were too little and too late and the required efforts lacked consistency (see the discussion in chap. V).

While economic arguments for coordination remained strong, *World Economic Situation and Prospects 2007* recognized that achieving it would require strong and long-lasting political will (pp. 24-34). One of the obstacles at the time, but one that is certainly still of relevance today, was the absence of a consensus on the risks posed by the constellation of global imbalances. Even if Governments agreed that eventual adjustments were necessary, they did not agree on the matter of their urgency. Another problem stemmed from the fact that the Governments of the major economies preferred not to bear the main burden of adjustment and were therefore reluctant to follow through on their commitments.

Reforms in the global financial system constitute an area requiring international policy coordination. In particular, changing the pattern of global imbalances would remain difficult without reforming the global reserve system, which continued to rely on the dollar. Under such a system, countries were willing to maintain strong reserve positions as self-insurance against possible global market instability, thereby helping to sustain rather than minimize the pattern of global imbalances. As argued at greater length in *World Economic Situation and Prospects 2005*, a system less reliant on one national currency would likely have been a solution to the prevailing unsustainable pattern. For instance, common reserve pools and true international liquidity, including special drawing rights (SDRs), had been suggested. Such reforms could also serve as the basis for innovative climate and development financing through the issuance of SDRs.

Reforms would have also required more urgent coordinated efforts to improve financial regulation and supervision. Some emerging market countries were already responding to the return of speculative capital flows by introducing capital controls. This represented a logical means of protecting their macroeconomic policy space against short-term capital flows, which can have a devastating impact on growth and poverty reduction. Surprisingly, however, a serious discussion on capital account regulations worldwide has still not been conducted, despite the acknowledgement of its importance both in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development[10] and for the success of the 2030 Agenda for Sustainable Development.[11]

10 General Assembly resolution 69/313, annex.

11 General Assembly resolution 70/1.

The human development approach and the emergence of the Millennium Development Goals

The aim of the International Development Strategy for the Fourth United Nations Development Decade was to ensure accelerated development and stronger international cooperation

The principal aim of the International Development Strategy for the Fourth United Nations Development Decade was to ensure that the 1990s would be a decade of accelerated development and stronger international cooperation. The Strategy set ambitious goals for the economic growth of countries. This would lead to a transformation through which those countries could foster productive employment, poverty eradication and environmental protection. As noted in the introduction to this chapter, the Strategy was focused on ensuring that the 1990s were a decade of, inter alia, accelerated industrialization; an increase in agricultural production and productivity to enable food self-reliance; improvement and modernization of infrastructure; and enhancement "of the participation of all men and women in economic and political life". As regards the last-mentioned goal, *World Economic Survey 1990* (chap. IX.A), *World Economic Survey 1991* (chap. IX.A) and *World Economic and Social Survey 1995* (chap. IX) all devoted separate sections to problems faced by women. The aim was that by the time it ended, the Fourth Development Decade should have witnessed a significant improvement in the human condition in developing countries and a reduction in the gap between rich and poor countries.

Under the International Development Strategy for the Fourth United Nations Development Decade, States Members of the United Nations pledged, among other things, to take effective action to provide an international environment that ensured full, equitable and effective participation of developing countries in the adoption and application of decisions in the areas of economic cooperation for development; reform of the international monetary system so as to render it responsive to the interest of developing countries; and greater market access to the exports from developing countries. It was also recognized that the international community had a special responsibility towards developing countries, which were threatened with soil erosion and soil degradation due to overgrazing and the cultivation of marginal land, as carried out by their inhabitants in their effort to make a living.

During the Fourth United Nations Development Decade, as already mentioned, the United Nations further sought to promote an overall change of perspective on global development through the organization of a series of world conferences and summits, including the World Summit for Children, the United Nations Conference on Environment and Development, the World Summit for Social Development and the Fourth World Conference on Women, at all of which specific objectives and targets were agreed. On 30 September 1990, the World Summit for Children adopted the World Declaration on the Survival, Protection and Development of Children.[12] Shortly before, the General Assembly, by its resolution 44/25 of 20 November 1989, had adopted and opened for signature, ratification and accession, the Convention on the Rights of the Child,[13] which came into force on 2 September 1990. On 14 June 1992, the United Nations Conference on Environment and Development ("Earth Summit") adopted the Rio Declaration on Environment and Development[14] and Agenda 21[15]; and in Beijing, on 15 September

12 Document A/45/625, annex.

13 United Nations, *Treaty Series*, vol. 1577, No. 27531.

14 *Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992*, vol. I, *Resolutions Adopted by the Conference* (United Nations publication, Sales No. E.93.I.8 and corrigendum), resolution 1, annex I.

15 Ibid., annex II.

1995, the Fourth World Conference on Women adopted the key global policy documents on gender equality, namely, the Beijing Declaration and Platform for Action.[16] In the Copenhagen Declaration on Social Development and Programme of Action of the World Summit for Social Development,[17] adopted by the Summit on 12 March 1995, many of the commitments, objectives and priorities for action set out in the Strategy for the Fourth Development Decade were reiterated and expanded.

The *Human Development Report* broadened the discussion on development and placed people at the centre of development

As noted in the introduction, the publication of the first issue of the *Human Development Report* broadened the discussion on development and put forward the essential idea that people must be at the centre of all development. In the foreword to the volume, the Administrator of the United Nations Development Programme (UNDP) cautioned that "(p)eople cannot be reduced to a single dimension as economic creatures" (p. iii). It was forcefully asserted that the purpose of development is "to offer people more options", one being "access to income—not as an end in itself but as a means to acquiring human well-being". Other important dimensions of development were also mentioned, including "long life, knowledge, political freedom, personal security, community participation and guaranteed human rights". Emerging as an alternative to the narrow focus on economic growth that had characterized the structural adjustment programmes of the 1980s and led to an acceleration of the globalization of economic activities during the 1990s, this change in perspective set the stage for a new paradigm in development thinking whose role in facilitating the adoption of the United Nations Millennium Declaration at the dawn of the twenty-first century was a determinant one.

The globalization process that unfolded during the 1990s revealed that economic growth did not always translate into sustained economic and social development and that different strategies were therefore required to ensure a broader concept of development. This inevitably raised questions centring on the definition and measurement of development. As shown in chapter II, definitions of development have evolved over time, reflecting the efforts to encompass the various dimensions of economic and social progress considered to be important, including, more recently, the interlinkages between economic and social progress and the environment.

The issue was discussed in the 2000 *Survey* where different proposals were put forth, evidencing a shift away from a sole focus on per capita income towards the integration of perspectives on human development as constituting a multidimensional process, including the progressive realization of human rights and capability, as conceptualized by Amartya Sen. However, as indicated in several editions of the *Survey*, economic growth and human development are often interlinked, which implies that improvement in one dimension cannot be achieved without simultaneous improvements in all the others. In other words, not only is economic growth a necessary condition for human development, but, conversely, human development is a necessary condition for economic growth.

The formulation of the MDGs reflected the recognition that achievement of human development requires more than just economic growth

The formulation of the MDGs reflected the international community's recognition that income expansion alone had not been sufficient to enable human development concerns to be addressed—in particular those reflected in the International Development Strategy for the Fourth United Nations Development Decade and the international development goals agreed at the summits and international conferences organized by the United Nations

16 *Report of the Fourth World Conference on Women, Beijing, 4-15 September 1995* (United Nations publication, Sales No. E.96.IV.13), chap. I, resolution 1, annexes I and II.

17 *Report of the World Summit for Social Development, Copenhagen, 6-12 March 1995* (United Nations publication, Sales No. E.96.IV.8), chap. I, resolution 1, annexes I and II.

in the 1990s. The focus of the targets included under the MDGs was on some of the development concerns that were perceived at the time to be the most critical, including (under Goal 1) reduction of poverty and hunger and, subsequently, employment generation; improvements in education and health; gender equality; and environmental sustainability.

The MDGs focused on the human development objectives to be achieved by developing countries with support from developed countries

The MDGs focused on the human development objectives that were to be achieved by developing countries with support from developed countries within the framework of a global partnership. This attested to the importance of recognizing that the disjunction between economic expansion and social progress had clearly been the result of the impact of global economic and financial processes, with market dynamics jeopardizing countries' development efforts. Within the framework of the MDGs, developed countries committed, inter alia, to an open, rules-based, predictable and non-discriminatory trading and financial system, support for addressing the debt problems of developing countries, delivery of the ODA target, and expediting their access to new technology.

The *Survey* had been explicit in emphasizing that the need to address poverty reduction and other development goals should not imply subsuming them in the category of income growth alone. The focus—some would say the obsessional focus—on income growth was perceived as symptomatic of the failure of both the discipline of development economics and policy discussions to have evolved in the course of the 1980s and 1990s. In the view of *World Economic and Social Survey 2000*, "(b)y 1980, most ideas of the 1940s and 1950s, such as those concerning externalities and poverty traps, had been forgotten" (p. 126), which led to the greater prominence in policy circles of various versions of the Washington Consensus. According to the logic of the Consensus, stabilization, liberalization and privatization would automatically stimulate economic growth whose trickle-down effects should improve living standards.

The 2000 *Survey* countered these arguments by bringing to the fore several of the factors that fostered the persistence of poverty traps, including weak aggregate demand, which was perceived as reducing linkages across sectors within the economy. The absence of good-quality education and training at all levels, the lack of research and development and the failure to improve technological capabilities were also flagged as constraints on broader development and poverty reduction. In addition, the *Survey* identified institutional constraints, such as the prevalence of highly unequal asset holdings (especially landholdings), as structural factors that could contribute to a perpetuation of poverty and the creation of poverty traps.

This discussion of poverty traps remains highly pertinent within the context of the implementation of the 2030 Agenda and the Sustainable Development Goals. It was concluded at the end of the 1990s that macroeconomic policies alone were not sufficient for addressing the problems of the poor and therefore that complementary measures were necessary. In any case, there was no easy determination of which specific macroeconomic policies would work in particular contexts. According to *World Economic and Social Survey 2003*, because of "the sensitivity of poverty outcomes to the composition of fiscal expenditure and taxes", it was not possible to establish "a single general linkage between fiscal policy and poverty" (p. 146).

Economic growth and human development are linked in a two-way relationship: both are needed to sustain progress

As observed in *World Economic and Social Survey 2006*, "the links between growth and human development are complex and they probably stand in a two-way relationship, implying that both must be promoted to sustain progress in either" (p. 19). However, the *Survey* also noted "that not all countries with relatively higher levels of human development managed to reach higher levels of long-term economic growth" which suggested that "human development is a necessary but not a sufficient condition for economic growth" (p. 20).

Taking specifically into account Goal 1: Eradicate extreme poverty and hunger, one could argue that achievement of the MDGs was relatively successful, as target 1.A, namely, to halve, between 1990 and 2015, the proportion of people whose income is less than $1 a day, had been achieved by 2010, five years prior to the 2015 deadline. Further, the proportion of people living on less than $1.25 a day had fallen globally from 36 per cent in 1990 to 12 per cent in 2015 (see figure IV.5). However, the global picture hides different regional trends. The world's most populous countries have played an important role in the global trend. By contrast, in sub-Saharan Africa, extreme poverty declined only to 41 per cent in 2015, from 57 per cent in 1990. Progress in reducing the proportion of people who suffer from hunger has been significant as well, although efforts have not been as successful to reduce extreme poverty. Globally, the proportion of undernourished people declined from 23.3 per cent in 1990 only to 13.7 per cent in 2011.

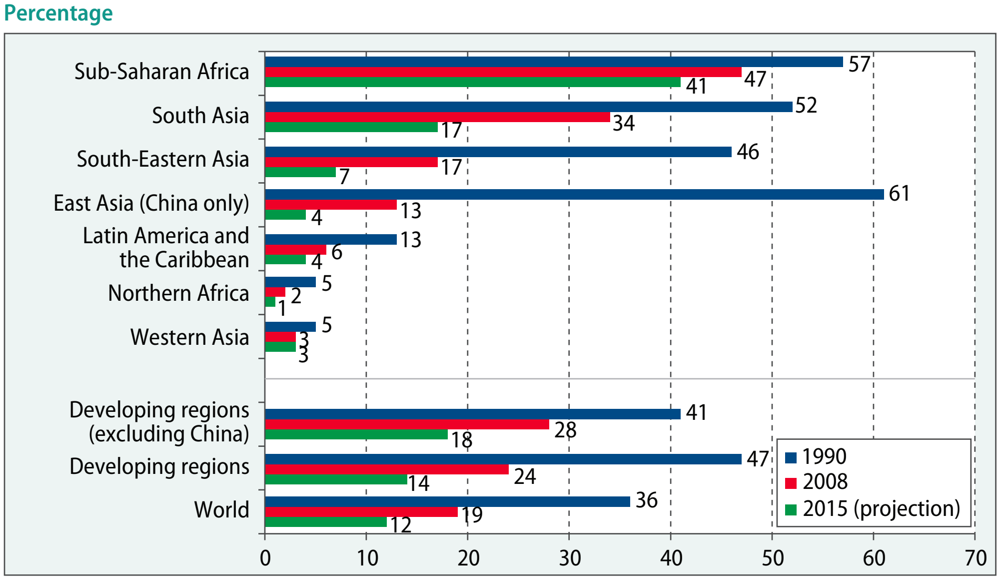
World Economic and Social Survey 2014/2015 provided a comprehensive assessment of the period of MDGs implementation. A major concern of the *Survey* is the need for substantive coordination and integration of policy interventions for consistent progress across the multiple dimensions of development. This is an issue of great importance for the implementation of the SDGs, which are to be achieved under a much more comprehensive and ambitious agenda. The challenge lies in determining how to coordinate and integrate multisectoral policies in accordance with a single overarching vision—a vision that remains consistent with long-term objectives without losing sight of short-term priorities. An integrated approach can facilitate the design of coherent policies and help avert some of the unintended consequences of single-minded policies. Further, the huge potential for generating co-benefits through the design and implementation of a multisectoral approach, not to mention the advantages in terms of cost effectiveness, should encourage policymakers to move in this direction.

A case in point concerns the challenge of achieving food security, an objective included under both the MDGs and the SDGs. Experience has shown that achieving such a

Figure IV.5

Proportion of people living on less than $1.25 a day, by region, 1990, 2008 and 2015

Percentage



Source: *The Millennium Development Goals Report* for the years 2012 and 2015. Available at http://www.un.org/millenniumgoals/reports.shtml.

goal requires a multisectoral approach, given the multiple interrelated dimensions that need to be focused on simultaneously. Instead of being designed in parallel with environmental policies or being driven mainly by technological and economic objectives, policies aimed at stimulating agricultural productivity should integrate goals, e.g., encompassing ecosystem preservation.

Achieving resilience in the face of climate change is another issue that entails difficult choices and trade-offs. Policymakers must seek more holistic and inclusive institutional responses which incorporate adaptation measures in the wider development planning and budgeting processes. This should start with an assessment of local vulnerabilities and a quest both for synergies between adaptation and mitigation challenges and for economies of scale which can lead to cost savings.

The adoption of the goals and numerical targets under the MDGs brought with it the challenge of identifying the processes that would enable them to be achieved substantively

As was made clear in several editions of the *Survey* issued during this period, another major issue that emerged through adoption of the goals and numerical targets under the MDGs was the challenge of identifying the processes and policies that would enable them to be met substantively. The fact that sustained poverty reduction, for example, was usually associated with broader economic processes (such as productive diversification into higher value added activities) was of clear-cut relevance in this regard. There was also the risk of a failure to recognize that, once numerical targets had been set, global, regional, national or local processes could work against or prevent their achievement. In addition, the tendency to focus on national-level results had led to a neglect of the question how specific social groups were being affected by, or excluded from consideration under, the new strategies being implemented. Addressing these issues, which were discussed both explicitly and implicitly in the *Survey*, could be extremely important for a successful implementation of the current 2030 Agenda, including the Sustainable Development Goals.

For example, MDG 1, whose original focus was reduction of poverty and hunger, had subsequently expanded its reach to include improvement in the conditions of employment and livelihoods, which was increasingly recognized as a precondition for meeting other goals. The fact that the *Survey* was directly or indirectly concerned with the limitations of Goal 1 contributed to a more thorough and nuanced understanding of the combination of policies that could be useful in ensuring that the Goal was successfully met. The *Survey* thereby made an important contribution to the discussion, since the elaboration of the MDGs, which were largely stand-alone in themselves, entailed little reference to the global and national policies and processes that could result in the desired outcomes. *Survey* analyses paved the way towards a greater recognition of the role played by processes in the framing of global goals. This in turn facilitated in no small measure a broader understanding of the challenges that informed the discussion leading up to the adoption of the Sustainable Development Goals and the 2030 Agenda.

Reflecting on the experience of the period

The success enjoyed by developing economies in achieving economic growth during the first several years of the new millennium was followed by severe economic downturns as a result of the global financial crisis. This reminder—that economic booms have been transient and can create a false sense of complacency about the future—is a timely one within the context of implementation of the 2030 Agenda. Yet, it is always difficult to exercise caution in the midst of a global boom, especially for economies that are experiencing faster growth in such periods. The experience of developing countries in the areas of global production and trade during the boom-and-bust cycles of the 1990s and 2000s provides some important lessons with respect to the implementation of policies for sustainable development. For example, there is a need: (a) for national and international mechanisms with the capacity to maximize the benefits of globalization for developing countries, while minimizing the adverse impacts of increasing exposure to global economic shocks; (b) for support for economic diversification in developing countries and the building of resilience to global economic shocks; and (c) for a strong, reinvigorated and effective global partnership with the capacity to advance progress towards achievement of the SDGs.

As the *Survey* has demonstrated, despite some shift in the balance of economic power in favour of economies of the global South (China in particular but also Brazil, India and the Russian Federation, among others), it would be premature and overly optimistic to expect a flatter world in the near future. While a number of countries have undergone a significant convergence towards the advanced economies in terms of their living standards, other countries, especially in Africa, have fallen further behind.

More significantly, the experience during the late 1990s and the 2000s demonstrated that, in a world where developing countries play a much more significant role and are much better integrated, global crises have more profound implications and more serious consequences for the development of those countries. Integration of economic activities at the global level increases the exposure of developing (and developed countries) to the volatility of global markets, thereby making them inherently vulnerable to economic turmoil.

A key challenge for policymakers is to establish the mechanisms needed to reduce the effects of economic shocks

A key challenge for policymakers is thus to establish the mechanisms needed to prevent or reduce the extent and effects of economic shocks within a much more integrated world economy. This is particularly important given that once such shocks arise, protection of the poor rarely becomes a policy priority. Negative shocks have immediate and long-lasting impacts on poverty, while the impacts of positive shocks, which tend to be gradual, can be easily cancelled out when a negative shock is inflicted. Therefore, the best kind of macroeconomic policy is one that can counter boom-and-bust cycles in such a way as to prevent or soften negative shocks and provide greater economic stability.

Securing an orderly unwinding of global imbalances remains a challenge

In this regard, securing an orderly unwinding of global imbalances and preventing the eruption of financial turmoil continue to strongly require improved international macroeconomic policy coordination. And according to a principle that remains still relevant today, moving beyond an excessive reliance on monetary policies to support national economies requires an improved *mix* of policies (see chap. V for further details). The argument often advanced for the application of a coordinated short-term stimulus by economies with reasonably large fiscal space is consistent with benign global rebalancing.

The essence of development is structural transformation

The second important lesson to be derived from the experiences of this period takes the form of a continued reminder that the essence of development is structural transformation. That lesson constitutes a potent antidote to the argument that simple expansion of economic activity automatically generates socially desirable forms of economic diversification. The counterargument was focused particularly on the linkages among agriculture, the rural non-agricultural sector, the distribution of land, infrastructure and technological progress in agriculture. The main thrust was that successful development policies are those capable of taking into account and integrating all of the relevant dimensions. In the agricultural sector, for instance, this would entail dealing simultaneously with agricultural research and extension services, seed and fertilizer delivery systems, marketing and transportation, and access to finance, so as to reduce the traditional constraints faced by smallholder agriculture.

Developing countries continue to advocate for the need for greater economic diversification

The need for greater economic diversification has been urged repeatedly by a number of developing countries. This issue is particularly relevant for the implementation of the 2030 Agenda, as diversification in rural economies, for example, can help facilitate the process of adaptation to the effects of climate change. *World Economic and Social Survey 2001* provides a nuanced perspective on the implications of different attempts at economic diversification. While noting that "(d)iversification is often seen as an appropriate policy to be pursued in the face of the type of vulnerability that comes from relying heavily on the production and export of one commodity or industrial sector", the *Survey* cautions that "inappropriate diversification, directed at reducing vulnerability, but resulting in the creation of industries that are not in line with a country's true comparative advantage… could itself have adverse economic consequences" (p. 130).

The implementation of the MDGs was supported by a reinvigorated global partnership

The third important lesson to be derived is that the successful implementation of the MDGs was dependent largely on a strong, reinvigorated and effective global partnership, which was taken into consideration in the design of the SDGs, especially SDG 17 (Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development). It was during this period that the question of the effectiveness of development assistance, primarily ODA, received greater attention. Soon after the MDGs were agreed, ODA accelerated increasingly up until the global financial crisis in 2008-2009. Political momentum for increasing ODA grew in the early 2000s, notably through an explicit recognition of the need for a "substantial increase in ODA" (see para. 41 of the 2002 Monterrey Consensus of the International Conference on Financing for Development (United Nations, 2002) and para. 25 of the Gleneagles communiqué, adopted at the Summit of the Group of Eight held at Gleneagles from 6 to 8 July 2005).

Efforts, led mostly by the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC), gave rise to the establishment of a set of principles promoting the effectiveness of development assistance. As discussions were expanding to encompass the full scope of development assistance, it was decided by the General Assembly, in its resolution 61/16 of 20 November 2006 and pursuant to the World Summit Outcome,[18] that a biennial high-level Development Cooperation Forum would be held within the framework of the high-level segment of the Economic and Social Council as an open, inclusive and balanced platform for reviewing trends and progress in international development cooperation, including strategies, policies and financing. Additionally, the Forum constitutes a space within which all stakeholders can engage and promote greater coherence among their activities, as well as strengthen the normative and operational links within the work of the United Nations.

The above commitments notwithstanding, since 2010, total ODA for developing countries has stagnated at about 0.3 per cent of gross national income (GNI) of developed countries. The target of 0.7 per cent of developed countries' GNI has yet to be achieved. As a result, developing countries continue to face a major shortfall in much-needed financial and technical resources. The issue of ODA and the other facets of the global partnership for development will need continued review, including through agreed mechanisms within the context of the Addis Ababa Action Agenda.

Market access and multilateral trade agreements are another important focus of the global partnership for development as envisaged under the MDGs. The Doha Development

18 General Assembly resolution 60/1.

Agenda,[19] officially launched at the Fourth Ministerial Conference of the World Trade Organization, held at Doha from 9 to 13 November 2001, gained more attention when MDG 8 was formulated; unfortunately, however, negotiations of World Trade Organization members on the Agenda have been stalled. The Doha Development Agenda places development at its centre and seeks to place developing countries' needs and interests at the heart of the Doha Work Programme. A strengthened global partnership for sustainable development requires continuous efforts to ensure that trade supports countries' development efforts, with special attention to the least developed countries. Within the framework of the Addis Ababa Action Agenda, several important initiatives have also been undertaken to prevent a future debt crisis. In the future, any cooperation framework encompassing ODA, multilateral trade and debt crisis prevention will need to include consideration of credible monitoring reports on progress in realizing cooperation targets and policy coherence, including monitoring efforts and follow-up review processes.

19 See document A/C.2/56/7, annex.