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TABLE OF FIGURES

G20 – Group of Twenty

GATT – General Agreement on Tariffs and Trade

GDDS – Geney

20-fold expansion of global merchandise trade flows[1]. Merchandise trade growth was particularly strong during the 1990s. World trade in services also grew at a fast rate through the 1990s: more than doubling from 530bn ECU/ euro to 1194bn euro[2] between 1992 and 2000. Whilst some services are inherently difficult to trade (the classic example being a integration in the late 19th century. In general, these imperfections are less significant today, but persist to some degree.

One way of assessing the degree of international capital market integration is to look at the absolute size of the current account relative to GDP. This is equivalent to the net capital in- or outflow, and thus provides a simple, if somewhat crude, indication of capital market integration[8]

exceptions, have generally been supportive of international economic integration. Over this period, industrialised countries progressively opened their economies and a number of

increasing economic role of governments and the creation of international bodies has been the
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As in the trade sphere, the aftermath of WW II saw the creation of institutions (the IMF, in particular) to promote more stable international financial interaction. Further bodies were added to the governance structure of international finance as the century progressed. Although these institutions and bodies must adapt and develop to external developments, as in the trade sphere, global financial policymakers have a more mature set of financial bodies and institutions at their disposal now than at the beginning of the 20^{th} century.

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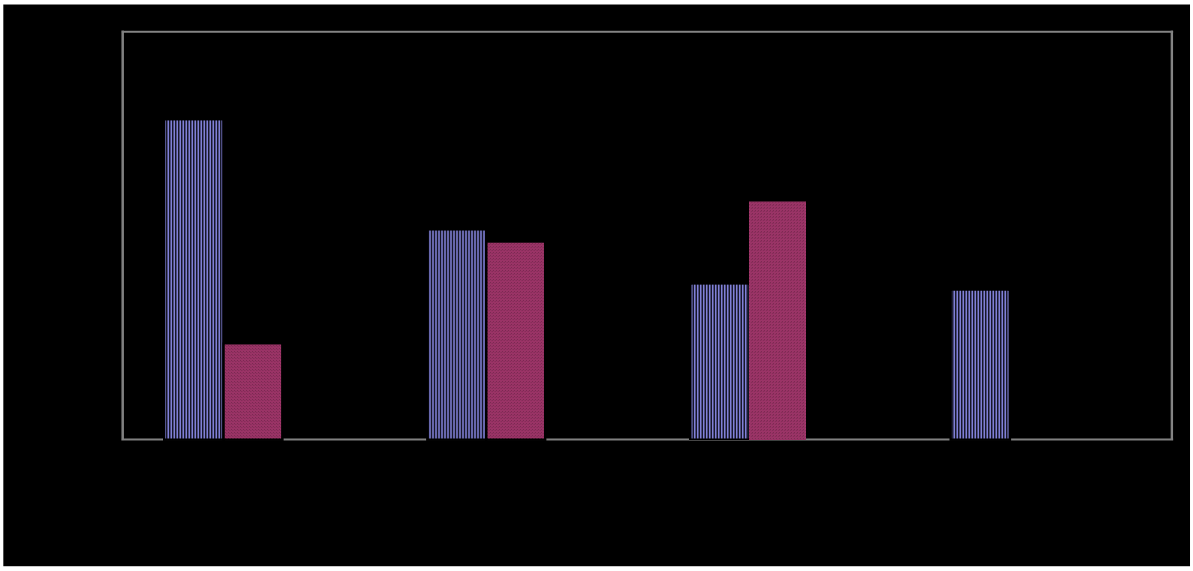
Before the First World War individuals faced few policy reaaWgpionwpherf theychoseen to trav(l)-1.4(a)4.6(d work( )-10(a)4.6(d lea)46(vea)46((se of interna)46(ationa)46((migrna)46(atio( )-10whe



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Some aspects of this perceived need for international multilateral collaboration in a globalising economy are highlighted in the concept of global public goods. Stability of the international financial and monetary system, an open trading system or the protection of global environmental commons (e.g. climate, bio-diversity) are seen as goods that can only be provided and maintained on the basis of international co-operative behaviour and support. These goods as well as other goals, such as communicable diseases control, knowledge, peace and security, can be interpreted as international or global public goods (Box 1). Their provision gene important externalities to the benefit of, in principle, all people around the world regardless of their individual contribution to the production of these goods. In the absence of a supranational enforcement power, this creates an incentive for the individual, or the individual state, to free-ride. As a result, investment in the provision of global public goods tends to be sub-optimal if the allocation decision is left to markets alone. An efficient supply of these goods would thus require the development and implementation of internationally accepted rules and standards as well as adequate financing.[26]

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countries and notes that the “post-1980 globalisers” have also begun to catch up with the rich some segments of the population, such as low-skilled workers in rich countries. The policy challenge is therefore to think through these complex interactions of policy and technological

&+$37(5 ,, 7+(,17(51$7,21$/),1$1&,$/ 6<67(0 ,1 $ */2%$/,6(' :25/'

ones; regulations continue to differ across countries and market participants do not share similar access to information and/or processing capabilities.

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of the international economic and financial system (that was built in the aftermath of World War II and that was partly modified in the early seventies) to deal with current challenges has become the object of close scrutiny.

Any assessment of the performance of the present system is, explicitly or implicitly, based on views on the main functions that the international financial system should perform. These views are, by definition, normative. For the purpose of this report, the following assumptions have been made about the functions, objectives and requirements that a first-best international system should fulfil:

- It should SURPRWH WKH LQWHUQDWLRQDO LQWHJUDWLRQ DQG DYL9 . 5(1(QJV d)]Tj/F3 1l s63.55 0 TD7 policy framework of the authoritie . This would argue, inter alia, for international

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Although the integration of financial markets and the institutional and regulatory framework in which they operate have spurred economic growth, the international monetary and financial system has continued to be criticised for being crisis-prone. With the exception of the ERM country. It is usually impossible to anticipate in advance which macroeconomic element or structural condition the markets will focus on to justify their expectation of a crisis, since almost all countries have economic weaknesses in some form or another.

Lastly, it has been claimed that the globalisation of financial markets has led to the faster

worries relate to the growing use of sophisticated financial management techniques, a greater reliance on in-house procedures for risk assessment and, in particular, the regular recourse to leverage as a means to magnify potential gains on investment positions.

Highly leveraged institutions – mainly hedge funds - p2ay an important role in the

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In the wake of the financial crises of Mexico in 1994/1995 and in South-East Asia in 1997/98, a discussion re-emerged about the instability of the IFMS and its proneness to financial crises. The financial crises were seen to expose significant problems in the functioning of international financial markets and of the system governing them. These problems included the following:

•

- There is general recognition that pursuit of VRXQG SROLFLHV and the existence of sound

become the major source of finance and investment for essentially all emerging respecting the ceiling. If debtor countries were to borrow in excess of the ceiling, markets would be expected to request a higher risk premium to cover default.

The advantages of this proposal are a better pricing of risk (if the ceilings are assessed correctly); the avoidance of rush to exit in countries respecting the ceiling; and the implicit rejection of bail outs for countries disregarding the ceiling. However, it is quite difficult to set an economically sound ceiling, independent of changing economic and political circumstances and based on economic considerations only. Moreover, a few large international borrowers have already borrowed in excess of what could be reasonably considered as an economically sound ceiling and would thus not qualify. There are also doubts about the actual relevance of differentiating domestic/international borrowing and private/public debt and about whether the IMF (and the international financial community) would be in a position to refrain from intervening in support of countries disreening); rtquitareconom1unitve a1unitrom sometimes explicitly[58]

related essentially to a well- capitalised and open banking system (Calomiris) or to sound economic fundamentals (Meltzer). The LOLR approach attempts to address the moral hazard problem associated with IMF assistance, by restricting IMF lending to sound (illiquid but solvent) debtors that face contagion. Both authors assume that the i to pre-qualify - and thus for pursuing sound policies or having a sound financial system - would be strong si e this would be the only financing window available to countries. Being pereived by financial markets as having sound policies

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In general, lower liquidity bears the risk of higher price volatility, which is the opposite of the desired effect. Despite their relatively low share in international foreign exchange markets, higher transactions costs related to the introduction of CTT could have disproportionately strong effects on the markets of developing countries, where liquidity and trade volumes are already comparatively small. Empirically, however, no simple link between the volume of

Taking this challenge into account, Jetin (2001) argues within the framework of Spahn's twopublished in June 2000. A dialogue aiming at encouraging these jurisdictions to adopt fair tax practices is currently undertaken. Since the start of its work, the Forum has obtained 11 political commitments to co-operation[79] entities, established by the UN Taliban Sanctions Committee, to whom the freeze of funds would apply.

OLVXVH RI &RUSRUDWH (QWLWLHV

However, it should be underlined that most tax and financial havens are relatively well-off

potential, the centre, therefore should take an active interest if not leadership in promoting

In general, proponents of an engineered stabilisation of exchange rates argue that the targeting

major intern4tional organis4tions, particularly the Bretton Woods institutions and the

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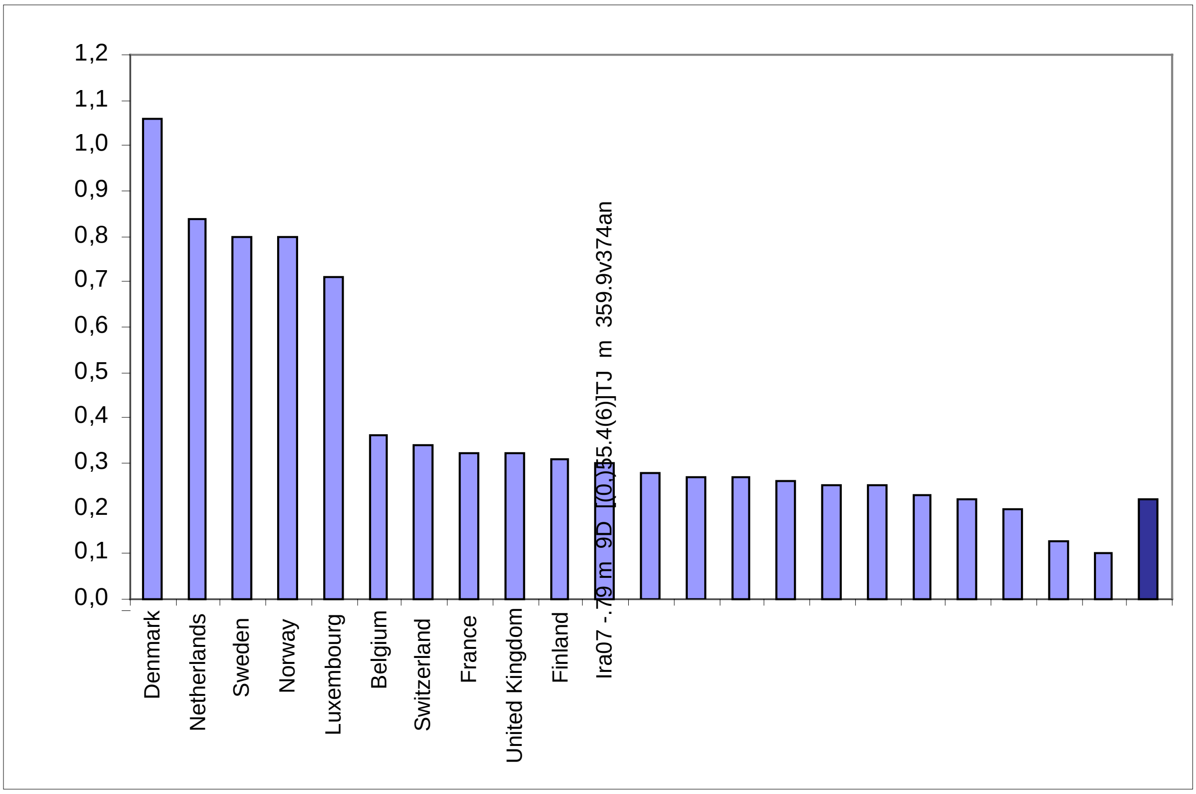

Starting from a programme that originally included mainly Africa and few more countries in the Pacific and Caribbean (ACP countries), the EC has become global in its reach. New policies. Sound policies include open trade regimes, fiscal discipline and avoidance of high inflation. The report concluded that a reallocation of aid to “good policy-high poverty” countries would increase the efficiency of assistance.

All donors recognise the importance of partnership to address development more effectively. From the start of 2000, country-led poverty reduction strategies (in the light of the World Bank's Common Development Framework) have provided a common ground for improving donor action at the country level in many of the poorest countries. At the sectoral level, the focus has been on harmonisation of operational policies and procedures in and between multilateral and bilateral agencies, which should eventually contribute to a decrease in the transaction costs of international ODA. Despite talk of better harmonisation, practice lags behind. An important immediate step is the sector-wide approach, by which financing is provided to an investment programme for a selected sector in its entirety, based on an evaluation of that sector's policy framework and institutional strengths. Although progress has so far been limited, an important learning process is ongoing (World Bank (2001a)).

As far as the EU is concerned, the Treaty establishes that the Community and the Member States shall co-ordinate their development co-operation policies and consult each other on their aid programmes, including in international organisations and during international service charge in concessional loans (currently at 0.75% of disbursed balances), and the extension of the grace period.

$ 'HEW 5HGXFWLRQ

The debt of developing countries continuously increased until the mid-1990s despite repeated afterwards to about US$ 170 billion in 1999. Relative to GNP, the debt of developing countries doubled from 18% in 1981 to 37% in 2000. Over the same period of time, the debt to GNP ratio of HIPCs rose from about 50% in 1981

reform and poverty reduction.[126]

Others question whether the debt-to-export ratio is the appropriate criterion to judge sustainability. For example, Cohen (2000) presents econometric results that suggest that the debt-to-tax ratio woul -10sel -10al -10morthe appropetaiatropmat r1718.y indicheaior fo4(r)-1ass sustainabilityport(rat. Sachs(r)-1(199900at r)-4((gg)9.u(o)-0.elts thaththeex)-14.e(a)6(debt-to-ex)-14.7(port(deon

In this context, it is important to note that several creditor countries have decided to cancel the total of their claims towards HIPC countries. Also, at the initiative of the Commission, the Council decided in May 2001 to alleviate all special loans glanted to least developed ACP

A.3.1. Trends in Trade

If oil trade is excluded (where exports have fallen significantly in dollar terms) developing

)LJXUH (8 7UDGH ZLWK 'HYHORSLQJ &RXQWULHV ELOOLRQ (85 the highest rates are still in developing countries, but developed countries also practice tariff escalation[144].

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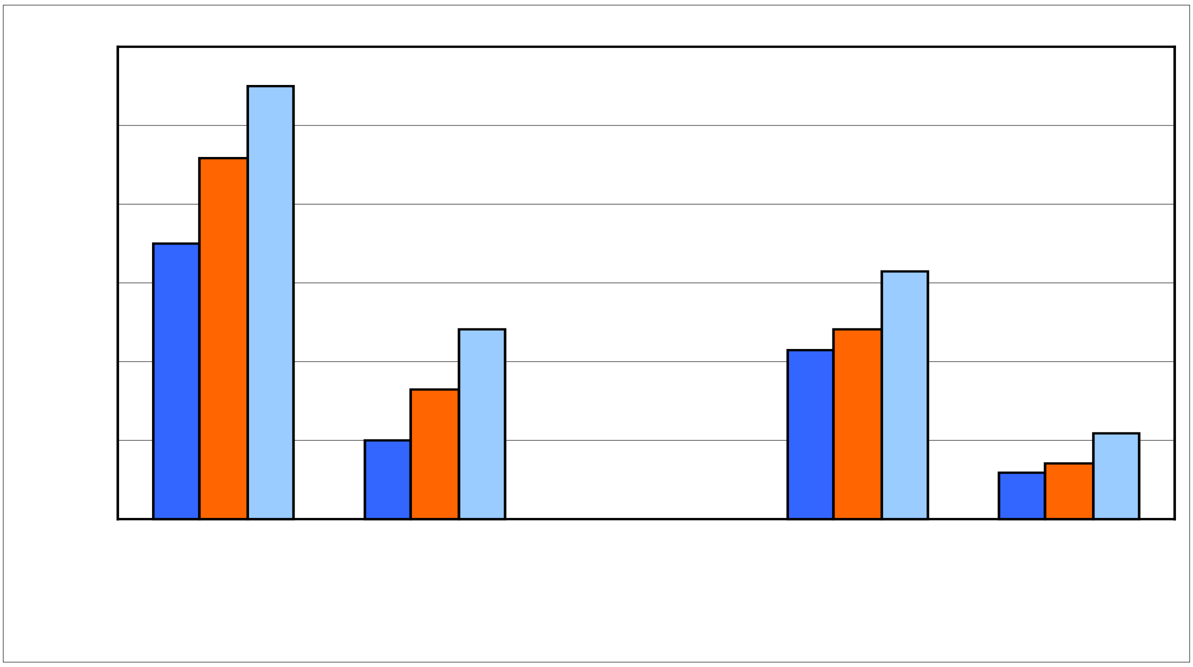

allowing duty and quota free access. This market access should enable them to exploit economies of scale to develop industries which were previously unviable[145].

At the May 2001 3rd UN Conference on LDCs, all industrialised countries for the first time committed to the objective of duty and quota free access for all exports originating in LDCs. Such an emulation of the EU EBA by other major industrialised nations would contribute significantly to LDCs' opportunities for trade based growth [146]. Studies of the impact of EBA have forecast large increases in welfare as a result – between US$ 400 and US$ 317 million dependinin aTcı˝nthe istdTJı˝/F3 1 Tfı˝8.04 0 0 8.04 318.7(7 67131 Tmı˝-.0075 Tcı˝(1467Tjı˝/F4 1 Tfı˝12 0

Improved market access is a prerequisite to increase trade and hence trade-generated growth. Trade liberalisation, including in sectors of interest to developing countries, and underpinned

programme that is being implemented to assist developing countries in relation to new negotiations. Other international organisations, such as UNCTAD, ITC, World Bank, as well

away from supranational taxes has taken place despite the existence of an advanced economic and political integration with the corresponding well-developed institutional and legal framework. As the current framework of non-EU international co-operation has not reached such a degree of integration, the feasibility of reaching agreement on introducing at0.2(ational)]TJ T* -0.00
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Aviation Organisation (ICAO)[178]. However, the current policy of ICAO, which remained unchanged by the 33rd ICAO Assembly in October 2001, is that it recommends the reciprocal exemption from all taxes on fuel taken on board by aircraft in connection with international air services. As an environmental economic instrument, the ICAO favours an open emission trading system and at the meeting in October, the Assembly requested the development of guidelines for emission trading for international aviation.[179]

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A tax on arms trade or production surfaced in the debate on international taxation in the UN framework on global taxes in the 1990s[180]. Such a tax was consideed as a legitimate contribution in the framework of initiatives of prevention of conflicts and peacekeeping. Various possibilities have been mentioned in the debate: a tax on production versus a tax on trade and a tax encompassing all conventional arms or just limited to land mines. However, no concrete proposal has been put forward. T0(I)220(F)4.5(r)1.5(en)-11.5(ch)-10(M.6(ster)-10(ofI)220(F)

export licenses issued by Member Sates amounted to roughly ¼ ELOOLRQ LQ &DUOPDQ (1998) quotes a figure of US$ 10.8 billion for the 1997 US exports. UN data are more out of date but are still broadly in line with these figures. Whatever rate is applied, this tax lower demand for air travel and freight. It would be expected that airlines would also respond

The final report[201]

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