# 6. OUTLOOK

Many of the issues which the TDR has dealt with in the past remain unresolved. This is as true for reforms of the international financial and trading systems as it is for national efforts in developing countries to accelerate structural change, and boost employment and incomes for their populations. Integration into the global economy remains a key challenge for most of them. In most cases this will not be possible without external support and development-friendly reforms of the international economic system. In all these areas, there is ample scope for the TDR to build on its previous work and to further contribute to new thinking.

Compared to the time when the first TDR was launched, probably the most important new challenge at the global level is that of dealing with the problems associated with climate change, which will determine the framework for economic policy-making at the national and international levels in the coming decades. The international community will have to find appropriate measures of financial and technical support to developing countries to meet the challenges of climate change adaptation and mitigation.

With regard to the imperative of climate change mitigation, a central question is how it can be reconciled with growth and economic development. TDR 2009 provided an initial input to this debate (09: ch. V). There is general agreement that one way or another economic policy in all countries will have to influence the incentives for consumers and producers to switch to more climate-friendly patterns of consumption and production. But the challenge from a development perspective is how to make the necessary adaptation compatible with faster growth and employment creation to absorb surplus labour in developing countries. Rather than looking at the "costs" of climate change mitigation to developing countries, TDR 2009 therefore focused on possible new opportunities and the potential for income gains in those countries arising from this global process. It dismissed the inevitability of a *trade-off between growth and development and climate change mitigation... Experiences from both developed and developing countries show that many synergies are possible between GHG* [greenhouse gas] *emission reductions and development objectives* (09: XIV).

This, the Report suggested, could be the starting point for forward-looking industrial policies. In the future the most dynamic product groups in international trade may well be those that respond to the global imperative of climate change mitigation (09: XIV, XV), and many countries *already have "natural comparative advantages", particularly in the production of low-carbon energy, which so far have been of minor economic importance.* Others may *create dynamic comparative advantages* in this area with the help of an appropriate industrial policy. Such a policy would need to provide the right incentives for domestic producers to explore how they might participate in the production of goods embodying climate-friendly technologies or themselves develop such products adapted to specific local needs and possibilities.

In this context, TDR 2009 emphasized that the *policy space for support measures in this area is less narrowly circumscribed by multilateral agreements than in other areas* (09: XV). Moreover, since climate change mitigation is in the interests of all countries, the willingness of the international community to support industrial development in this direction may be greater than in other areas. Negotiations of relevant international agreements on climate change, trade, FDI and intellectual property rights should therefore aim at allowing developing countries sufficient policy space in this context. Given the global public good character of climate change mitigation, the TDR called upon the more advanced economies to consider *interpreting the flexibilities of the WTO Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS Agreement) in a way that would allow compulsory licensing for the production of equipment and goods that embed climate-friendly technologies, and for related processes, similar to the exemptions accorded for medicines in support of public health* (09: XVI).

Against this background, and the difficulties in the negotiations under the aegis of the United Nations conferences on climate change to forge agreement between developed, emerging and developing countries on a global climate policy, further work in this area will gain increasing relevance. And it should be of particular interest to developing countries.

A second area of growing importance for policy-oriented research and analysis is that of enhancing economic cooperation among developing countries. This would be particularly relevant, given the growing opportunities for mutually beneficial trade and financial relations among developing and emerging economies, on the one hand, and dissatisfaction with progress in global institutional reforms on the other.

Since 1983, when the TDR devoted Part II to economic cooperation among developing countries, the Report has paid relatively little attention to this subject. At the time, the TDR concluded that the potential for developing countries to benefit from strengthened South-South trade relations had been tapped only to a limited extent. It also noted that over and above direct benefits that could arise from such trade, there was also considerable scope for technological and technical cooperation. This potential is likely to have grown considerably over the past three decades. TDR 1983 also pointed to some possible indirect benefits that could accrue from economic cooperation among developing countries with similar structures and economic interests in terms of strengthening their bargaining power vis-à-vis other governments and transnational corporations – an aspect that the TDR raised in the context of FDI policies.

Having discussed the importance of regional dynamics in the East Asian growth process in 1996 (Part Two, ch. I), TDR 2007 (chs. IV and V) reviewed various aspects of regional cooperation among developing countries in greater detail. It may be worth building on some of these aspects in the future. The Report pointed out that for many developing countries at an early stage of industrial development a regional orientation involving countries at a similar level of development may be a more viable option than immediate integration into the world market to obtain access to a larger market as a means of achieving scale economies and diversifying production. It also noted that effective regional integration has sometimes occurred among countries without their first concluding formal preferential trade arrangements. It further underlined that regional integration means more than regional trade liberalization; there appears to be considerable scope for common public policies at the regional level in support of structural transformation, industrialization and faster growth. The need and scope for such policies deserve further attention. In the wake of the Asian financial crisis, TDR 1998 already recommended collaboration and consultation at the regional level as a means of preventing currency disorder and contagion effects (98:106). And TDR 2007 devoted an entire chapter to various types and options for regional financial and monetary cooperation. These could be explored further, taking into account changing conditions in the international financial system and the particularities of different regions.

A third important area of further research and analysis, building on earlier work in previous TDRs, concerns the issue of inequality. It is widely recognized that globalization has not narrowed the income gap between the poorer and the richer countries. On the contrary, that gap appears to have widened across countries, except for a few fast growing economies, and inequality has also increased within countries.

TDR 1997 undertook an analysis of the interactions between globalization, income distribution and growth. It showed that since the early 1980s the world economy has been characterized by rising inequality and slow growth. Income gaps between North and South have continued to widen: *In 1965, the average per capita income of the G7 countries was 20 times that of the world's poorest seven countries. By 1995 it was 39 times as much*. The Report also found that income inequality had increased within countries: *The income share of the richest 20 per cent has risen almost everywhere since the early 1980s, in many cases reversing a postwar trend. In more than* *half of the developing countries the richest 20 per cent today receive over 50 per cent of the national income. Those at the bottom have failed to see real gains in living standards, and in some cases have had to endure real losses* (97: IV).

At the time, the TDR noted that these international and national divisions might reflect merely temporary adjustments to a rapidly changing world economy, and be a prelude to rapid growth and the trickling down of income gains to all other socio-economic groups. As globalization has advanced further and several financial crises have occurred in the meantime, with worsening income distribution being both a cause and effect, further work in this area, examining more recent trends, their causes and their effects, could be highly relevant.

An important set of questions in this context is related to the extent to which capital income has gained in comparison with labour income, and how incomes from financial activity have evolved in comparison with profits from real productive activity and wages. For the poorer countries, growth of agricultural incomes remains a particular concern.

Another important question concerns the effects of increasing inequalities and their impacts on the level and structure of demand, output and accumulation of household debt. In 1997, the TDR noted that some of the factors that contribute to greater inequality in a globalizing world also deter investment and slow down growth. It saw the combination of increased profits, stagnating investment, rising unemployment and reduced pay as a major cause of concern.

A fourth theme that is likely to remain highly relevant is related to the relative roles of domestic and external demand, as well as domestic and external financing of investment, in the growth process in developing and emerging economies. Recent TDRs have indicated that a stronger reliance on domestic demand and domestic financing for development is probably an important element of more stable growth in developing countries in today's global economy. Economic conditions are characterized by global financial instability, limits to export-led growth and deflationary tendencies following the recent financial crises. A further study of policy options to sustain an expansion of mass incomes while maintaining price stability and high rates of investment is therefore of considerable relevance for future TDRs. This also applies to the question of how to shape national financial systems and fiscal policies in developing countries to support investment and growth.

In the context of national policies, an area of work which is likely to become topical relates to demographic changes. These may pose greater challenges in the future, not only for employment creation in countries with fast population growth, but also for the design of an international framework for migration. Another issue related to demographic change, especially urbanization, is the design of appropriate social security systems.