ture—is generating imbalances that are not only puzzling to economists but increasingly disturbing to the markets themselves. Of course, the most significant imbalance currently is the US current account deficit, which has been 4 percent or larger since 2000, has recently surpassed six percent of GDP, and is still growing. Conventional forecasts project it to remain in this range for the foreseeable future. The US net international asset position has deteriorated from a positive net balance for most of the postwar period to a negative balance of about US$2.5 trillion at the end of 2004. While the world works on an international dollar standard, which means that the US faces no hard constraint since it borrows in terms of its own currency and can always pay its debt by printing more dollars, the US still does face an uncertain constraint in terms of the willingness of foreigners to hold its fiat money. Similarly, while a US dollar depreciation could correct its external asset imbalance, the foreigners holding net positions in US-denominated assets face a substantial capital loss if that happens. While to a large extent the resolution to this issue lies in a correction of the US internal savings-investment balance, insofar as part of the solution is to shift the burden internationally, the system faces an interesting adjustment, to say the least.

Thirdly, problems in the development process have emerged that our conventional economic theories simply did not anticipate. The basic theory of international trade, that of comparative advantage, does not suggest that some nations will be left behind; quite the reverse—even if a given state has an absolute competitive disadvantage in the production of every conceivable product, it would have a comparative advantage in some product and so would be able to participate in the global trading system. In a similar vein, going by the basic concepts of scarcity and diminishing returns, capital-scarce regions of the globe ought to offer high returns to capital while capital-rich countries ought to offer comparatively lower rates of return. But the direction of flow of international capital is not in line with these theoretical expectations. To be sure, theoretical refinements have been introduced to explain actual patterns and "save" the basic theory; the problem is that the "wrinkles" to the