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**Trade and Development Board**
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**Expert Meeting on the Contribution and Effective Use of External Resources for Development, in Particular for Productive Capacity-building**
Geneva, 22–24 February 2010

# Report of the Expert Meeting on the Contribution and Effective Use of External Resources for Development, in Particular for Productive Capacity-building

Held at the Palais des Nations, Geneva, from 22 to 24 February 2010

## Contents

# I. Chair's summary

1. The single-year Expert Meeting on the Contribution and Effective Use of External Resources for Development, in Particular for Productive Capacity-building took place from 22 to 24 February 2010 at the Palais des Nations in Geneva. Dr. Supachai Panitchpakdi, Secretary-General of UNCTAD, gave an opening statement, in which he praised the meeting's participants both for the impressive array of experts assembled and for the pertinence of the topics to be covered. He said that the aim of the expert meeting was not only to discuss and analyse the current state of external resources in the post-financial crisis era, but also to raise questions and highlight challenges facing external resource flows over the coming decade.

## A. Session 1 – Capital flows uphill: implications for macroeconomic policies and development strategies

2. The experts felt that the current global economic crisis not only posed a challenge for industrialized and developing countries in fighting the overall economic downturn, but also offered an opportunity to rethink the different development strategy paradigms. Discussions centred on (a) the changing dynamics of capital flows; (b) the latest policy responses in developing countries in addressing emerging global financial and monetary pressures; and (c) the implications for macroeconomic policies and development strategies.

3. Experts first examined the dynamics of capital flows and the extent to which, in contrast to expectations of conventional economic theory, they had shifted to a flow from poor to rich economies ("uphill"). At the aggregate level, empirical evidence showed that, in the previous 15 years, the net flow of capital had been from developing to developed countries. But one expert contended that that effect was primarily driven by the performance of two major economies, the United States and China, with significant capital flowing from the latter to the former. When that special case was excluded, net capital flows had been in the direction of the poorer counties.

4. However, it was pointed out that the empirical evidence for that conclusion only held until 2002. Signals that the global financial balance was shifting were found in the high growth rates in many Asian economies, higher than in most developed countries. UNCTAD's *Trade and Development Report 2008* (UNCTAD/TDR/2008) demonstrated that change in the world economy: several middle-income countries, mainly in Asia, were growing much faster than other countries, without the benefit of net capital inflows.

5. During the previous 50 years, developing countries had to deal with the pressure of global liberalization of trade accounts and the idea that growth could best proceed through mobilizing foreign savings. Most development economists shared the strong belief that capital rich countries should transfer their surplus capital to poorer countries to fill the savings gap. That idea had been questioned since the turnaround at the beginning of the century as that policy preference began to be challenged in practice in several major emerging developing economies.

6. An expert stressed that, although the current financial crises showed the vulnerability of developing countries to the reversal of capital inflows, that did not imply that capital inflows had to be avoided absolutely. Rather, it was necessary to figure out conditions under which capital inflows were converted to investments in order to create growth. Many factors had to be considered to better manage the vulnerability of the reversal of capital inflows, i.e. the composition of capital inflows and regulatory and institutional frameworks.

7. Another expert noted that discussing the direction of those flows was not a crucial debate in itself. When discussing capital flows and their macroeconomic implications, it was more important to assess whether those flows were directed to strategic, productive, capacity-building purposes or to mere speculation and short-term gain. That naturally led to an assessment as to whether there was a strong or non-existent link between capital inflows and economic growth.

8. Experts presented opposite views on that issue, depending on the time period and region examined. One expert presented evidence for three different regions which exhibited high growth rates but different patterns of capital inflows, suggesting a non-robust link between capital inflows and growth. Another argued that the exceptional increase of net private capital flows was a relevant factor in the growth boom of several developing countries from 2003 to 2007. From that viewpoint, concerns were justified regarding the impact of the crisis on developing countries due to lower volumes of capital flows, both private investment and official assistance.

9. Yet another viewpoint emphasized that long-term growth of developing countries was not primarily dependent on mobilizing foreign savings. Rather, the growth of investment, fiscal responsibility, monetary policy space and the role of the State in promoting private investment were paramount. That highlighted the evolution of the prevailing development policy paradigm and the need for building a new “developmental” State.

10. That implied that high growth in middle-income countries was a consequence of ignoring the previous paradigm. In fact, that result was due to the fact that fast-growing Asian economies started to learn how to neutralize the tendency of overvaluation of exchange rate. In the same vein, it was emphasized that fast-growing Asian economies did very well keeping a competitive exchange rate and financing growth with domestic investment. Therefore, by the time the economic global crisis erupted, fast-growing Asian economies were hit less hard than developed economies.

11. As for the experience of emerging European countries before the global financial crisis, one expert contended that the region exhibited an exception to the evidence found on the link between growth and capital inflows. Driven by broad financial integration, emerging Europe experienced a beneficial period of growth. Therefore, the current task for policymakers was to ensure a development policy that made it possible to benefit from capital inflows through growth, but prevented unsustainable imbalances such that the benefits of financial integration outweighed the disadvantages.

12. Several experts examined the link between growth and the specific allocation of capital flows. When used for speculative purposes, large capital inflows could give rise to unsustainable situations for some economies. The boom and recent collapse of several eastern European economies was an example. Those countries had received large capital inflows, creating an overvaluation of their currencies, leading to a loss in market shares. The combination of huge current account deficits and currency overvaluation created a situation of special vulnerability. With the lack of “confidence” of market participants against the background of the financial crises, those countries were suddenly confronted with severe constraints on financing pressing budget deficits and other counter-cyclical measures.

13. While discussing the way forward, different analyses led to different conclusions, including the following:

(a) For those concluding that foreign finance had a relevant impact on growth, policy responses should be based on achieving the pre-crisis levels of capital inflows and better managing them;

(b) From the viewpoint that the impact of capital inflows on growth could only be strengthened if those inflows were directed to productive purposes, policymakers should primarily address this issue when setting development strategies;

(c) For those who concluded that capital inflows were risky and often dispensable, policy strategies should focus on strengthening domestic investment;

(d) As for the belief that external capital had been a sideshow in economic development, policymakers should focus their attention on other factors, such as institutions, education and healthcare expenditures.

## B. Session 2 – Ensuring debt sustainability in the wake of the crisis

14. Experts first analyzed the impact of the current crisis on low-income countries, differentiating between countries that had benefited from the Heavily Indebted Poor Country (HIPC) Initiative and those that were not part of the HIPC group. Although projections showed that the growth rate of HIPC countries would decline in the wake of the crisis, their debt service would remain stable. On the other hand, non-HIPC countries would show a stronger growth rate, accompanied by increasing debt service. Those projections varied from country to country, and would change significantly if domestic debt were to be included. In fact, the lack of reliable data on domestic debt was a serious constraint for conducting proper debt sustainability analysis in low-income countries. Debt sustainability exercises should include information on domestic debt.

15. It was noted that the crisis had a small impact on low-income countries, because of their more limited integration with international markets. However, low-income countries had experienced exchange rate appreciation, sluggish capital flows and low remittance flows due to ineffective monetary policies. Low-income countries in the Middle East/North Africa region were shown to be very vulnerable to exchange rate and interest rate risks. It was suggested that they should alter their debt structure to longer maturity, and possibly convert their foreign debt to domestic currency debt. They would also need to properly manage their assets, enhance existing capital markets and introduce flexibility in their exchange rate regime. A distinction was made between oil and non-oil producing Middle East/North Africa countries: the former needed to continue government spending and enhance capital markets while the latter should exploit fiscal space as well as monetary policy to the extent possible.

16. As for African HIPC countries, the case of debt sustainability in Chad highlighted the exposure of many of them to exogenous shocks. The country experienced a decline of oil export revenue in 2009 by more than 50 per cent, but its debt was deemed sustainable and expected to remain so at least until the oil reserves declined. The country was striving to maintain a prudent borrowing policy and seek concessional resources from multilateral donors.

17. Several experts highlighted the role of the international community in helping the developing countries achieve debt sustainability in light of the current crisis. A concern was raised regarding the Debt Sustainability Framework (DSF), based on the subjective Country Policy and Institutional Assessments (CPIA) rating provided by World Bank economists. The CPIA scored a country’s policies and institutions, on the basis of which the threshold of a country’s indebtedness was established. In 2009, as the World Bank and International Monetary Fund recognized that low-income countries needed more aid, some adjustments were made to the DSF to make it more flexible. The two main modifications were firstly that the DSF would recognize public investment impact on growth and secondly, that under certain circumstances it could exclude State-owned enterprises in order to lower private external debt threshold. It was added that low-income countries governments could instead

choose to tax any excessive external borrowing from the corporate sector. Those two changes, however minor, showed the Bretton Woods institutions' will to change their position, although not always in the right direction.

18. Another concern was raised regarding the ability of the low-income countries to repay their debt. As they often could not do so except through further borrowing, it was stressed that those countries should receive more grants from developed countries. Also, a debt moratorium such as the one proposed by UNCTAD could be a solution for some low-income countries, but certainly not all, as it could further exacerbate already-existing inequities resulting from debt relief initiatives. It was suggested that the debt moratorium should focus on debt service that was beyond a certain level. Another solution would be to link debt sustainability with the Millennium Development Goals (MDGs), grants and loans being used to finance the MDGs, as donors would lend less and use the remaining funds to provide grants instead. In many African countries, as in the case of Chad, the MDGs were already included in the national economic and budgetary policies. Another suggestion was to strengthen for a new issuance of special drawing rights (SDRs), which would provide developing countries with additional liquidity and development assistance. Finally, it was urged that better use be made of the United Nations specialized agencies, such as the Food and Agriculture Organization of the United Nations, the International Fund for Agriculture Development and the International Food Policy Research Institute.

19. Several experts noted that emerging middle-income developing economies had recovered faster from the crisis than developed markets. Only a few years before the recent crisis, there were doubts about the sustainability of emerging markets' growth.

20. Experts argued that the ability of some emerging market countries to weather the latest financial storm remarkably well was the final proof of the evolving nature of some of those countries. They highlighted three major structural (i.e. permanent) changes to explain this evolution: (a) the build-up of war chests in a number of emerging market countries during the boom years through financial de-dollarization and deleveraging, coupled with the hoarding of liquid foreign assets; (b) the embracing of macroeconomic stability and the enhancement of monetary and fiscal policy track record; and (c) the surge of China as an economic superpower, large enough to become the key global driver of growth in emerging market Asia and commodity-exporting countries. These changes, mostly driven by lessons from preceding crises, neutralized the domestic amplifiers of external shocks that triggered contagious emerging market crises in the past, allowing many emerging market countries to conduct countercyclical policies for the first time since the inception of the asset class. Experts argued that these "advanced" emerging markets were halfway between the traditional emerging market and developed open economies, such as Australia or Canada, and needed to be examined by investors and researchers in a different light.

21. That context, coupled with the resort to counter-cyclical policies, explained why emerging markets recovered earlier and with greater vigour from the current crisis than other parts of the world. Countries such as Brazil mitigated the impact of global markets using foreign exchange reserves to buffer exchange rate volatility and therefore limited and controlled financial disruption. Although the total level of debt of emerging economies had increased, the composition of debt remained the same.

## C. Session 3 – Foreign direct investment for productive capacity-building

22. Experts deliberated from different angles the link between foreign direct investment (FDI) and productive capacity-building, particularly through the former's potential role as a transmitter of capital, technology, know-how and access to markets. Experience had shown that the promises of FDI were not always realized. A number of developing countries had difficulty in not only attracting FDI but also in taking advantage of it.

23. In certain sectors, such as the manufacturing of equipment, the attempts of foreign firms to take over the leading Chinese champion firms had raised deep concerns regarding the monopoly in the industry and potential threat to economic development.

24. There was a broad consensus that the absence of a minimum level of domestic capacity would limit FDI inflows and their impact on development. Experts agreed that transnational corporations (TNCs) were profit-seeking companies whose investment was not aimed at promoting development and growth. Their entry could generate positive impacts in some cases, but could also aggravate existing problems or generate new ones in others. Experts gave theoretical examples where the entrance of TNCs could inhibit the development of local capabilities: (a) TNCs' entry could cause adverse competitive environments for local companies and crowd them out; (b) tight intellectual property regimes needed to attract FDI could hinder local learning; (c) subsidies and incentives given to TNCs could cancel out the social returns of FDI and discriminate against local companies; and (d) the concentration of FDI in natural resources could cause "Dutch Disease", which hindered competitiveness in other sectors and adversely affected economic diversification.

25. They stressed the responsibility of governments in creating an enabling environment. One expert suggested that the role of FDI should be seen as that of a catalyst for development, which could enhance local productive capacity through promoting greater utilization and more efficient allocation of resources as well as inducing technological and organizational efficiency.

26. Another expert questioned the potential of markets and of firms' strategy to promote development, arguing that what was good for firms was not necessarily good for countries. He highlighted the importance for countries to have an industrial policy in the first place that identified priorities and defined the patterns of an industrial strategy. While he agreed that FDI could play an important role in the industrialization of developing countries, he argued that the design of FDI policy should come afterwards, as a "second order" strategy and within a broader strategy for development.

27. These views were interpreted by another expert as counterpoising industrial policy with FDI policy. He argued that that did not reflect the story of a number of successful countries in Latin America and Asia. He added that countries with the capacity to successfully carry out industrial policy were precisely those that would be able to attract FDI and have it provide benefits, while countries that did not have the capacity to successfully manage FDI could not carry out industrial policy successfully either.

28. Experts also discussed the policies needed to maximize the contribution of FDI to productive capacity-building. They stressed the importance of investing in education, not only in science education, but also in secondary and tertiary education. One expert argued that diaspora FDI should be targeted as it often had higher social rates of return due to the embedded knowledge of local cultures and conditions. He highlighted research that showed how TNCs from the South tended to contribute more to developing country economies than those from the North. They tended to source more of their key resources in the local market and to upgrade local human capital. One delegate argued that local firms could do better than foreign firms in term of their impacts on productive capacity-building, and suggested avoiding discrimination against local firms through excessive incentives to TNCs and asked for giving equal treatment to foreign and local firms.

29. Taking on this view, one expert advocated establishing a common tax policy between all the developing countries, with the help of international organizations. He suggested including FDI, along with trade, in World Trade Organization rules, with dispute settlements mechanisms, although he expressed his doubt about the support that that kind of initiative would receive from some developing countries that were becoming important

outward investors. Finally, with regard to the comparison between local, foreign, diaspora, South and North investment, one expert highlighted the need to avoid discrimination and provide equal treatment for all.

30. Another expert proposed the emulation of the experience of successful developed and developing countries and suggested four main policy orientations that governments should adopt to secure a positive contribution of FDI to productive capacity-building and economic development: (a) avoid adopting tight intellectual property right regime; (b) implementing strong technological policy; (c) controlling exchange rates to avoid overvaluation; and (d) providing a temporary protection to infant industries, because the learning process was not immediate and local companies needed time to create and consolidate new capabilities that could then absorb the benefits of later FDI flows. He admitted that infant industry policy could be risky in that regard, as argued by one expert, but that the Washington Consensus policies were not the answer.

## D. Session 4 – Official development assistance: securing growth towards 2015 and beyond

31. It was clear to all that the continuing debate over the link between aid and growth had been undermined by the lack of conclusive econometric analysis and, more importantly, definitive empirical support. Nevertheless, it was widely accepted that ODA increased imports of capital, allowed for technological spillover and played an important humanitarian function at times of crisis and disaster.

32. Although the levels of ODA had been increasing since 2004, those levels were still far below the target of 0.7 per cent of Organization for Economic Cooperation and Development countries' gross domestic product. The composition of ODA continued to be diversified, with increasing levels of aid being channelled towards social expenditure, economic growth and infrastructural development. These were aimed at supporting the achievement of the MDGs. In recent years, "development aid" had been scrutinized for not achieving many of its stated developmental objectives. In response to this, there was an increasing advocacy of ownership and concessionality of aid, and UNCTAD had called for an appropriate mix of aid towards expanding productivity and bolstering social expenditures, arguing that both categories could reinforce one another.

33. Aid dependency and aid fatigue had become significant issues as well. The ratio of ODA to gross national income was very high in some developing countries, highlighting the importance of the issue of aid absorption capacity. In order to increase that capacity, it was essential for aid to be driven by the needs of the recipient country – and not the political and ideological interests and tendencies of donors. The recipient country's national development strategy should define the strategic priorities of aid to that country. Aid fatigue had risen particularly after the onset of the financial crisis, which pointed towards the dangers of "procyclicality" of aid, with ambitious aid commitments made in "good times" being undermined by lack of donor financial resources in "bad times". Reducing the volatility of ODA and breaking the procyclicality of aid was of central importance, particularly to protect developing countries in times of global economic downturn.

34. One expert stated that a discussion over the role of external resources in development was essentially one of the link between a "means" (in this case ODA) and an "end" (growth). In order to explore that link, an in-depth understanding of the "end" was essential. In that context, the question which remained was not one of the impact of ODA *per se* on growth, but what could outsiders do to encourage growth?

35. At the current time, it was widely accepted that long-term growth depended on a number of factors: (a) good institutions to increase investment and economic activity; (b)

macroeconomic stability; (c) moving from agriculture to manufacturing and manufacturing exports; and (d) avoiding Washington Consensus-style liberalization and privatization. Many of those factors were circumstance-specific; for example, not much was known about how to create good institutions, which institutions to promote, what form should institutions take, and so on. Those were very country-specific and could not be applied across all developing countries. For example, the township and village enterprises in China would not have been recommended to China by the Washington Consensus 20 years ago as a preferred institutional structure; nevertheless they played a significant part in China's economic development.

36. In that context, there was no conclusive empirical evidence that external resources could promote growth. In fact, economic history showed that countries that exported private capital and relied on fewer foreign resources grew faster. Evidence suggested that external resources and ODA could slow the process of indigenous economic growth because of two main factors:

(a) ODA severed the accountability link between the State and its people. In addition, the domestic resources which were spent on meeting aid conditionalities and complementing donor-financed project diverted resources away from the country's developmental priorities;

(b) ODA could negatively affect growth through creating disincentives to increasing recipient countries' manufacturing exports. Aid inflows also led to overvalued exchange rates which reduced the country's export competitiveness and revenues.

37. It was suggested that the focus of aid studies should move from one of "aid effectiveness" analysis to one of how the "outsiders" could help the recipient country's growth or, simply, "do no harm". To that end, a "non-aid agenda", although politically controversial, should be the way forward. There would be political opposition to such an agenda, both from developed countries whose activities and interests as donors would be undermined, and the developing countries that did not have the political power to push forward such an agenda.

38. Another expert offered a comprehensive account of the aid debate in recent decades, pointing out that, since the 1960s, prejudice, ideology and selective glimpses had remained the determining factors behind foreign aid. There was an increasing consensus about the need to focus on increasing aid effectiveness and to scale up aid towards MDGs. However, there was less of a consensus about the effect of aid in poor policy environments. In that context, what was essential was a healthy combination of mobilizing domestic government revenues (resources) while benefiting from the positive aspects of external financing.

39. The recent global financial crisis provided an opportunity for reexamining the aid architecture and looking for new forms and sources of development finance. It was nevertheless essential to acknowledge that aid as a simple transfer of money and capital was insufficient for promoting growth and productivity, unless it was disbursed in a targeted manner in line with the recipient's developmental needs and priorities. This was to ensure that aid did not delay the country's indigenous institution-building efforts and its development trajectory. This was particularly important in the post-financial crisis era, whereby aid volatility and unpredictability could endanger the countries' efforts towards achieving the MDGs.

40. Another expert presented one donor country's measures aimed at increasing the effectiveness of aid to developing countries. Those measures included (a) improving guidelines for development aid; (b) specific country programmes which aimed at meeting the recipient's specific developmental priorities; (c) expansion of coordination and cooperation among multilateral cooperation and donor agencies; (d) simplification of the

aid processes; and (e) revision of aid evaluation guidelines to ensure that partner countries had an active part in evaluation of aid projects.

## E. Session 5 – Building productive capacities in developing countries

41. It was stressed that the key objective of developmental strategy was to keep the economy as close as possible to its full employment and full capacity utilization, while fostering the long-term expansion of that productive capacity. In that respect, investment and accumulation of capital played a crucial instrumental role. In view of this, balanced public and external accounts, as well as low inflation, should not be viewed as viable policy objectives but instead as potential constraints on reaching the state of full employment and development.

42. In view of that process, the orthodox view epitomized by the Washington Consensus maintained that the State should minimize distorting interventions and focus on "getting prices right". There were, however, two problems underlying that approach: (a) How should "right prices" be determined? (b) Were these so-called "right prices" conducive to development and income expansion? On top of that, historical evidence contrasted with the orthodox view, since the golden age of growth occurred under the classical development paradigm, and surely not in the previous 30 years of the Washington Consensus. In many cases, external finance provided to developing countries was not used for financing investment in the real sector, but for the financing of consumption and speculative activities, with negative impact on exchange and interest rates.

43. It was underlined that raising the rate of investment and accelerating capital accumulation did not depend primarily on private capital inflows. In any case, domestic expenditure for productive capacity-building could and should be financed domestically, while external borrowing should only be used for the financing of capital goods imports required for the creation and upgrading of productive capacities, and in situations where the necessary foreign exchange could not be generated through exports. Experience had shown that the propensity to invest in developing countries could not be raised by keeping inflation low, cutting taxes and maintaining budget balance. By contrast, it could be influenced positively through proactive monetary and financial policies aimed at stabilizing the real exchange rate, avoiding currency overvaluation, and through countercyclical stabilization of domestic demand. It could also be supported by the provision of appropriate infrastructure and public services. Growth-oriented monetary policies and development of the domestic financial sector, which had been neglected in the previous three decades, were considered to be of key importance for the provision of the necessary financing of investment and may also have had to include public financing of socially desirable projects in building productive capacities.

44. One expert argued that, in line with the above analysis, indicators such as low inflation targeting and fiscal deficit reduction as part of the policies of the Washington Consensus had not been not conducive to building productive capacities. Rather, those policies often reduced the propensity to invest and contributed to prohibitively high costs of domestic credit for investment. He argued that international organizations should support national policy priorities that allowed countercyclical macroeconomic policies. In the question and answer session, it was argued that the monetization of public debt incurred for the financing of domestic public investment spending should not be a taboo, as it was no more inflationary than the financing of such expenditure with external borrowing. It was also argued that, if at all, the theory of comparative advantage would make sense only in a world without money. In the real world, international competitiveness and trade patterns were heavily influenced by financial flows and their impact on exchange rates.

45. According to another expert, the global crisis, as was often the case in history, caused economics to redefine itself as a discipline, and practitioners should not miss the chance to move to a truly empirically-based approach. In the same vein, the expert argued, the historical record invariably showed that the relatively few countries experiencing sustainable catching-up did so by fostering structural change and spurring productive investment in the real sector. Harnessing the dynamic gains of Schumpeterian imperfect competition – whose scope lay mainly in the industrial sector – represented the crucial issue in economic development for reaping the benefits of increasing returns through a continuous process of innovation and successive emulation.

46. The experts argued that, given that not all economic activities offered the same scope for this continuous learning process, it was important to notice that the social return in some sectors may differ from the private profitability. In that respect, governments could act proactively by establishing Schumpeterian institutions that harnessed the potential of dynamic rent-seeking instead of focusing on static rent-seeking, which could be detrimental to economic diversification.

47. Finally, the expert underscored that the Schumpeterian process of "innovative destruction" required a minimum efficient size for emulation to occur; small developing countries should therefore aim at deeper regional integration while preserving the policy space to nurture those sectors with greatest potential in terms of innovative dynamism.

48. The panel agreed on the importance of recognizing that the World Trade Organization needed to conform more to the developmental agenda of the Havana Charter (1948), including the importance of achieving employment and manufacturing growth, even if that would be, in the short-term, at the expense of free trade.

## F. Session 6 – Special round table: follow-up to the United Nations Conferences on Financing for Development and the Global Financial and Economic Crisis

49. In a presentation on the issue of development financing in the post-global economic crisis era, Mr. Jomo Kwame Sundaram, the Assistant Secretary-General for Economic Development for the United Nations Department of Economic and Social Affairs (DESA), highlighted the importance of the Monterrey Consensus for a discussion of the role of external resources for development. The consensus covered six major issues: domestic resource mobilization (tax cooperation), capital flows, trade, ODA, debt, and a range of other systematic issues. He explained how, in all the areas progress in delivering on the promises of Monterrey had been insufficient to address the key problems still besetting global development finance.

50. A range of systematic reforms in line with the Monterrey Consensus were still required in order to maximize the contribution of external resources to development. At the heart of those, he argued, was a more inclusive multilateralism which took a more effective account of the priorities and needs of the developing economies. In view of that and the recent financial crisis, it was important to ensure the comprehensiveness of the international institutions' reform efforts to ensure the creation of a financial system which was much more developmental and inclusive, and benefited from greater policy coherence. In that regard, reforms of the Financial Stability Board and of multilateral financing instruments were important developments. In recent years, there had also been much interest in regional financial integration, but this had had limited success rate.

51. The current financial crisis therefore was an opportune time for reinforcing the multilateral regulatory reform which so far had not been developmental. Key steps to be taken at that time of crisis should aim to (a) contain the spread of the crisis both across

borders (contagion) and to the real economy (ensuring liquidity); (b) reflate the economy via fiscal and (fiscal space) and monetary measures (monetary space); and (c) reinforce appropriate regulatory reform at the national and international levels. Those were, however, challenging tasks, particularly in view of major constraints on developing countries' response capacities, which were caused by systemic, market and institutional pro-cyclicality, lost productive capacities due to liberalization experience and openness, and donor fiscal conditionalities.

52. Therefore, the focus of a systematic reform agenda at present should be on (a) macro-financial stability with counter-cyclical macroeconomic policies; (b) prudential risk management, including capital controls; (c) finance growth (output and employment) through a developmental financial system; (d) ensuring a more inclusive global financial system; (e) maintaining Monterrey policy coherence via aligning the International Monetary Fund and the World Bank with the United Nations development agenda; and (f) supporting the United Nations specifically to continue as a universal and legitimate forum for leading a comprehensive reform process of the multilateral system.

53. In response to comments and questions that followed, Mr. Kwame Sundaram highlighted the significance of French President Nicolas Sarkozy's recent declaration regarding the need for new global monetary governance. He also commended the first steps towards financial sector regulation, in particular the proposals by United States President Barack Obama based on the so-called "Volcker Rule". He argued that it was important that such declarations gain space at the G-20 and beyond. Since the G-20 did not adequately represent the developing countries, Mr. Kwame Sundaram appealed for serious consideration of German Chancellor Angela Merkel's proposal for a Global Economic Council. If such a body were to be part of a United Nations framework, it would require a major charter change; however, it was possible to envisage interim measures which could be implemented very quickly. For example, the General Committee of the General Assembly, which met annually, included a number of major countries and representatives of other key constituencies of the international community. Given that level of membership, the General Committee could take on this proposed role and, for example, meet on the eve of General Assembly and at other times, as required. Furthermore, since such a meeting was at the summit/leaders level, it could easily supplement the G-20 or any other self-selected committee. Such alternative arrangements would enjoy legitimacy and a strong sense of representation.

# II. Organizational matters

## A. Election of officers

54. At its opening plenary meeting, on Monday, 22 February, the expert meeting elected the following officers:

| | |
|---|---|
| Chair: | Mr. Mauricio Alfredo Pérez Zepeda (Honduras) |
| Vice-Chair-cum-Rapporteur: | Mr. Semere Tesfaye (Ethiopia) |

## B. Adoption of the agenda and organization of work

55. At its opening plenary, the expert meeting adopted the provisional agenda for the session (contained in TD/B/C.II/EM.1/1). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Contribution and effective use of external resources for development, in particular for productive capacity-building
4. Adoption of the report of the meeting

## C. Outcome of the session

56. At its closing plenary meeting, on Wednesday, 24 February 2010, the expert meeting agreed that the Chair should summarize the discussions (see chap. I).

## D. Adoption of the report

57. Also at its closing plenary meeting, the expert meeting authorized the Vice-Chair-cum-Rapporteur, under the authority of the Chair, to finalize the report after the conclusion of the meeting.

# Annex

## Attendance*

1. Representatives of the following States members of UNCTAD attended the expert meeting:

Algeria
Argentina
Austria
Bangladesh
Brazil
Cameroon
Canada
Central African Republic
Chad
Cuba
Djibouti
Dominican Republic
Ethiopia
France
Germany
Haiti
Holy See
Honduras
India
Iran (Islamic Republic of)
Italy
Jordan
Luxembourg
Malaysia
Morocco
Myanmar
Nigeria
Peru
Portugal
Saudi Arabia
South Africa
Spain
Sudan
Swaziland
Thailand
Togo
Turkey
United States of America
Zimbabwe

2. The following intergovernmental organizations were represented at the session:

African Union
European Bank for Reconstruction and Development
European Union
Organisation internationale de la francophonie
World Customs Organization

3. The following United Nations organization was represented at the session:

Economic Commission for Latin America and the Caribbean
United Nations Department of Economic and Social Affairs

4. The following specialized agencies or related organizations were represented at the session:

World Bank
World Trade Organization

5. The following non-governmental organizations were represented at the session:

Al Hakim Foundation
Ingénieurs du monde
Third World Network

* For the list of participants, see TD/B/C.II/EM.1/Inf.1.

6. The following panellists were invited to the expert meeting:

Mr. Dilek Aykut, Senior Economist, World Bank, Washington, D.C.
Mr. Luiz Carlos Bresser-Pereira, Professor Emeritus, Fundacao Getulio Vargas, São Paulo, Brazil
Mr. Jeromin Zettelmeyer, Director for Policy Studies, European Bank for Reconstruction and Development, London
Mr. Bernhard G. Günter, President of the Bangladesh Development Research Centre, Falls Church, VA, United States
Mr. Simon Neaime, Professor and Chair, American University of Beirut
Mr. Eduardo Levy Yeyati, Director of the Centre for Financial Research, Universidad Torcuato Di Tella, Buenos Aires
M. Rubain Adoumtogue, Economiste, Analyste évaluateur des projets, Ministère de l'économie et du plan, N'Djamena
Mr. V.N. Balasubramanyam, Professor, Department of Economics, Management School, Lancaster University, United Kingdom
Mr. Stephen Gelb, Economics Department, University of Johannesburg and the EDGE Institute, Johannesburg, South Africa
Mr. Mario Cimoli, Director, Division of Production, Productivity and Management, Economic Commission for Latin America and the Caribbean, Santiago de Chile
Sr. Conrado Falco, Jefe de Información y Estudios Económicos de la Agenda Peruana de Promoción de la Inversión Privada, Lima
Mr. Arvind Subramanian, Senior Fellow, Peterson Institute for International Economics, Washington, D.C.
Mr. George Mavrotas, Chief Economist, Global Development Network, New Delhi
Mr. Donald Ndwandwe, Principal Economist, Aid Coordination Management Section, Ministry of Economic Planning and Development, Mbabane
Mr. Erik Reinert, Chair, the Other Canon Foundation, Oslo
Mr. John Weeks, Professor Emeritus, School of Oriental and African Studies, University of London
Mr. Ruhul Amin Sarker, Joint Secretary, Foreign Trade Agreement Wing, Ministry of Commerce, Dhaka
Mr. Jomo Kwame Sundaram, Assistant Secretary-General for Economic Development in the United Nations Department of Economic and Social Affairs (via videoconference from New York)

7. The following individual was invited to the expert meeting:

Mr. Hourik Hayrbedian, Professor, Department of Economics, American University of Beirut