



# United Nations Conference on Trade and Development

Distr.: General  
26 March 2009

Original: English

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**Trade and Development Board**  
**Investment, Enterprise and Development Commission**  
**Multi-year Expert Meeting on International Cooperation:**  
**South–South Cooperation and Regional Integration**  
 First session  
 Geneva, 4–5 February 2009

## **Report of the Multi-year Expert Meeting on International Cooperation: South–South Cooperation and Regional Integration on its first session**

Held at the Palais des Nations, Geneva, from 4 to 5 February 2009

### Contents

	<i>Page</i>
Introduction.....	2
I. Chair's summary.....	3
A. South–South cooperation: myth or reality and future direction.....	3
B. South–South trade and the global financial crisis .....	5
C. South–South cooperation, regional integration and FDI .....	7
D. Regional monetary and financial cooperation – South–South solutions?.....	10
E. Concluding session: The way forward .....	12
II. Organizational matters .....	15
A. Election of officers .....	15
B. Adoption of the agenda and organization of work .....	15
C. Outcome of the session .....	15
D. Adoption of the report .....	15
<i>Annex</i>	
Attendance .....	16

## Introduction

1. At the opening session, the Secretary-General of UNCTAD, Mr. Supachai Panitchpakdi, stressed that the global economic crisis had worsened significantly in recent months, spreading from the financial sector to the real economy. Developing countries were being hit hard by the decline in trade, foreign direct investment (FDI) flows and revenue earned from commodity prices and migrant remittances. Economic cooperation among developing countries could be part of the solution to the crisis, by providing alternative export outlets and by being potentially a source of stable FDI flows, as South–South FDI was mostly financed by retained earnings. UNCTAD would enhance its work in this field by establishing economic cooperation among developing countries unit as provided for by the sixty-third session of the United Nations General Assembly.

2. The priority areas for action were to (a) harness South–South trade, particularly for countries that were dependent on demand from developed countries; (b) support South–South FDI with policies that favoured it; (c) ensure a sound financial environment for development, including the reform of international financial architecture; and (d) enhance international development cooperation, including South–South cooperation and triangular (South–North–South) cooperation, to help developing economies sail through the current global economic crisis.

3. The Chair – Mr. Debapriya Bhattacharya, Ambassador of Bangladesh and President of UNCTAD’s Trade and Development Board – raised four broad questions for consideration by experts, and to structure the debate:

- (a) Is South–South cooperation rhetoric or reality in terms of trade, investment, financial and monetary cooperation, South–South migration and the associated remittances? In the new era of globalization, how important is South–South cooperation?
- (b) Is there a new context for South–South cooperation? Many developing countries had experienced significant structural change as reflected in the greater importance of industry and services to gross domestic product (GDP). This structural change had led to different trade patterns and a growing role of the South–South dimension in FDI flows. Moreover, the accumulation of sizeable foreign exchange reserves by some developing countries provided a substantial amount of liquidity that could be used for developmental purposes. These new changes had to be taken into consideration within this new context, when developing future orientations to South–South cooperation and in coping with the impact of the economic crisis.
- (c) What are the new instruments of South–South cooperation that should be thought about? Examples of such instruments included regional development banks as a source of investment finance and technical support, technical cooperation, regional bond markets to reduce dependence on often costlier international financial sources, market access to other low-income countries and/or least developed countries (LDCs) in the face of diminishing developed-country import demand, and South–South sources of remittances. How could triangular cooperation fit in? How did that fit in the new context?
- (d) Are the new realities being facilitated by the current international governance structure? Is the South adequately reflected in the pursuit for solutions to the crisis? Is the South adequately reflected in the Group of Twenty (G-20)? Are LDCs’ concerns accommodated? There was a need to make the process of

international policy discussions more participatory and inclusive so that the “South of the South”, that is the poorest, could participate in this process.

## **I. Chair’s summary**

4. Experts were requested to make succinct analyses and attendant actionable recommendations that could be pursued at the national, regional and international levels – as well as through UNCTAD and other global institutions – to foster South–South trade, investment and finance in coping with the adverse impact of the economic and financial crisis. There was rich and extensive discussion on South–South cooperation and regional integration, and the impact of the global financial and economic crisis.

5. The sessions – moderated by ambassadors, with some 18 panellists – dealt with topics such as where the world currently stood, especially in the light of continuing global financial and economic crises, and future directions of South–South cooperation, South–South trade, South–South FDI, South–South monetary and financial cooperation, and the way forward.

### **A. South–South cooperation: myth or reality and future direction**

6. This session was moderated by the Chair, Mr. Debapriya Bhattacharya. The lead speakers were Mr. Roberto Carvalho de Azevedo, Mr. Achamkulangare Gopinathan and Mr. Eckart Guth.

7. Experts discussed the reality of South–South cooperation, its various practical manifestations, and traditional and innovative ways of revitalizing and strengthening its role promoting development in the current period of global economic malaise.

#### **1. Summary of debate**

8. Experts agreed that the crisis pushed them to simultaneously tackle economic challenges – taking immediate actions to quickly revive domestic demand and consumption on the one hand, and deal with the food crisis, energy crisis and other developmental challenges on the other.

9. The current global crisis should not obscure the need to advance international discussions on issues such as infrastructure, energy security, climate change and transfer of technology to developing countries. This was also the right moment to give greater weight to the concepts of global corporate governance and corporate social responsibility and examine how they could be implemented. Strengthening interdependence and partnerships, enhancing policy dialogue, addressing interrelated issues in development – such as migration, making technology more accessible and affordable, and enhancing capacity-building in developing countries – all had a place in this discussion of global governance and enhancing South–South cooperation.

10. Experts emphasized that it was important in the context of the current crisis not to lose sight of the need for reform of the international financial architecture with the heavy emphasis on revival of the global economy. It was especially important to address the issue of governance of that architecture. The discussion on the reform of the international financial institutions, including strengthening international financial regulation, should be advanced with the voice and participation of developing countries being integrated in decision-making, as was the case in the Monterrey Consensus.

11. The crisis also stressed the importance of concluding the WTO Doha Round of trade negotiations. Some experts, however, warned that certain coping measures used by countries to stimulate domestic economies went against the spirit of the WTO rules, making their commitment to the Doha Round appear somewhat rhetorical.

12. Experts agreed that cooperation and integration among developing countries provided one important element in the response to the crisis. The benefit of South–South cooperation was that the former could be facilitated by commonalities of problems faced, as well as commonalities in climatic, social and economic conditions. Examples of innovative South–South cooperation initiatives were presented in areas such as agriculture, energy (e.g. biofuels), infrastructure, financial arrangement and trade logistics, as well as in supporting small and medium-sized enterprises (SMEs) in intraregional trade,.

13. A major problem of South–South activities was the shortage of funding. Some experts argued that developing countries should be resourceful in mobilizing funds, including from international financial institutions and triangular cooperation.

14. Many experts stressed that South–South cooperation and integration were highly complementary to North–South cooperation. For instance, regional integration among developing countries was the cornerstone of the development cooperation policy of the European Union (EU). The EU's trade liberalization pacts with developing regions were accompanied with financial backing in the form of Aid for Trade, as demonstrated by the case of the economic partnership agreement (EPA) between the EU and CARIFORUM. It was recalled, however, that when the EU entered into separate interim agreements with members of the same regional integration scheme, this could counter the stated objective of favouring regional integration.

## **2. Recommendations on actions for strengthening South–South cooperation**

15. Experts made a number of policy recommendations in terms of coping strategies against the current crisis, and in terms of enhancing South–South cooperation as a part of such strategies.

16. On global policy issues, experts emphasized the need to strengthen the voice and participation of developing countries, including LDCs, in international decision-making bodies and institutions.

17. Successful conclusion of the WTO Doha Round of trade negotiations should not be delayed. This would rebuild confidence in the multilateral trading system.

18. Regarding South–South trade and investment, the following measures were suggested:

- (a) South–South trade, as an alternative outlet for exports, particularly those of developing countries dependent on exports, should be further encouraged by taking bold initiatives such as investing in integrated transport and communication networks and financing solutions (e.g. a regional clearance system that would allow use of local currencies in intraregional trade) among developing countries. These need to be devised and implemented, with international financial support;
- (b) To foster South–South trade, developing countries should conclude the São Paulo Round of negotiations of the Global System of Trade Preferences among Developing Countries (GSTP);

- (c) To foster integration of LDCs in trading networks, developing countries in a position to do, along with developed countries that had not yet done so, should provide duty-free quota-free market access to all products from all LDCs; and
  - (d) In terms of FDI flows, countries should put in place national and regional policies that would encourage South–South FDI.
19. On financial cooperation issues, the following were highlighted:
- (a) Aid for Trade should be made available to enhancing South–South cooperation;
  - (b) Regional development banks need to be recapitalized in order to help establish regional development funds. Such funds should take into account differences in income levels among them;
  - (c) Central banks of developing countries should pool their resources to provide regionally-coordinated support of exchange rates and balance of payments; and
  - (d) Developing countries could pursue macroeconomic cooperation to reduce fears that the benefits of economic stimulus packages would mostly leak abroad.

## **B. South–South trade and the global financial crisis**

20. This session was moderated by Mr. Kwabena Baah-Duodu. The panellists were Mr. Alberto J. Dumont, Mr. Waleed Al-Wohaib, Mr. T.C. Venkat Subramanian and Mr. Martin Khor.

21. Experts discussed South–South trade at the bilateral, regional and interregional levels and the role it could play in shielding developing countries from the global economic and financial crisis, and acting as a motor for trade expansion and economic growth.

### **1. Summary of debate**

#### **Development of South–South cooperation in trade**

22. South–South trade had rapidly expanded in the past decade and remained vibrant, as proven by trade statistic. Experts also noted that South–South economic cooperation was a reality and not just rhetoric. A large number of practical and tangible examples could attest:

- (a) Argentina had more than 25 years experience with the Horizontal Cooperation Fund, which financed more than 2,600 development projects in developing countries;
- (b) The Southern Common Market's (MERCOSUR's) Economic Structural Cooperation Fund (FOCEN) had been supporting Uruguay and Paraguay since 2007, at a total cost of \$170 million;
- (c) Brazil's Cotton Initiative provided various African countries with training and technical assistance in production, sales and marketing of cotton;
- (d) The IBSA Partnership for Trade and Development had helped LDCs such as Haiti and the Lao People's Democratic Republic;
- (e) The Associação Latino-Americana de Integração's (ALADI's) Agreement on Reciprocal Payments and Credits facilitated financial cooperation to settle trade transactions;

- (f) India had taken several initiatives to strengthen South–South cooperation. Those included India–Africa cooperation, through which India had provided over \$500 million of technical assistance to African countries. The Indian Exim Bank was providing long-term credits to developing countries, especially LDCs, amounting to around \$3.5 billion. India also provided an additional \$1 billion of development assistance to developing countries.

### **Impacts of the global economic crisis on South–South trade**

23. Experts argued that the current global economic slowdown and credit crunch had a serious negative impact upon the real economy of many developing countries, particularly the poorest and the most vulnerable ones. Export earnings of many developing countries had deteriorated via a fall in manufactured exports to developed country markets, a fall in commodity prices, or both. The global liquidity crunch made it increasingly more costly for developing country exporters to borrow from international financial markets or to apply for export credits and/or export insurance. It also reduced private and official capital inflows (e.g. FDI and official development assistance (ODA)) to developing countries, which constrained Governments' ability to mitigate the negative impact upon domestic market or industries. The recent economic stimulus measures taken by developed countries to bail out ailing banks and industries (including through subsidies) were needed, but caution was required, as those could constitute “new” protectionism, negatively impacting on developing countries.

24. In the context of such global economic malaise, some experts cautioned that the global economic crisis could force developing-country Governments, which faced rising domestic concerns such as unemployment, to be more conservative towards South–South initiatives. On the other hand, there were suggestions that South–South trade expansion comprised an integral aspect of development strategies to respond to the crisis and sustain economic growth, particularly for developing countries that would not be able to withstand the crisis individually. South–South trade would also contribute to global economic recovery.

## **2. Recommendations on actions for strengthening South–South cooperation**

25. Experts suggested the following actions to support South-South cooperation in trade.

26. Trade agreements among developing countries comprised key instruments for effective South–South cooperation, thus should be further encouraged. A successful conclusion of the São Paulo Round of negotiations on the GSTP was important in this regard. The provision of tariff-free and quota-free access to exports of LDCs was an important vehicle for strengthening the participation of LDCs in South–South trade. A number of developing countries had started to provide such preferences. Free trade agreements (FTAs) and regional trade agreements (RTAs) could encompass measures to enhance a wide range of economic cooperation among developing countries.

27. Harnessing South–South cooperation in improving access to export credit and insurance services was crucial. It had become more vital than ever to developing-country exporters, particularly SMEs engaged in South–South trade, in mitigating the rising cost of acquiring funds from international financial markets. Existing successful examples – such as the International Islamic Trade Finance Corporation or G-NEXID – showed that expanded financial services among developing countries could effectively reduce the transaction costs of trade and spur and stabilize the growth of trade among their members. It would also enable participating banks, entities and countries to become better prepared for risks, which in return would

enable them to provide longer-term credits to projects (investment) necessary for improving export capacity of developing countries in a variety of sectors.

28. Trade-related infrastructure linking developing countries regionally or intraregionally need to continually rehabilitated, built up and improved. The needs of landlocked developing countries, as well as transit developing countries, deserved particular attention in such infrastructure development.

29. In addition, some specific proposals included:

- (a) Regularly monitor trends and the impact of the crisis as it evolved, including impacts on production, productive capacity-building and trade (especially exports) of developing countries. UNCTAD had an important contribution to make in that regard;
- (b) Assess the impact of global economic crises on migrant remittances, which constituted an important source of capital inflow for many developing countries, and identification of potential remedies to the problem. UNCTAD's analyses on this issue would be important;
- (c) Create a platform for exchanging views among developing countries on flows of trade, finance and investment in the South, including through G-NEXID. It would support developing countries in coordinating their actions as appropriate in areas such as trade logistics, commodities, services and migrant remittances; and
- (d) Create a task force ("emergency crisis clinic") within UNCTAD, in collaboration with relevant United Nations organizations, to assist developing countries in elaborating country- and region-specific diagnostic kits to cope with the crisis. The thrust behind this proposal was the importance of the South to be able to think for itself and identify (i) causes and effects of the crisis; (ii) transmission mechanisms; and (iii) national, regional and international coping measures. The task force should propose response measures – including through South–South cooperation and regional integration – as well as longer-term measures for ensuring growth and development. It should also propose ways to coordinate national strategies at the regional and international levels in order to achieve policy coherency. In doing so, the task force could identify elements required in the international monetary, financial and trade architecture, including the trade conditionalities of the International Monetary Fund (IMF) and the World Bank, and revisit the contents of North–South free trade agreements.

### **C. South–South cooperation, regional integration and FDI**

30. The session was moderated by Mr. Dennis Francis. The panellists were Ms. Axèle Giroud, Mr. Alessandro Teixeira and Mr. Frank Bartels.

31. Experts discussed the development of South–South cooperation, particularly with respect to the relationship between South–South FDI and regional integration. The implications of the ongoing economic crisis on South–South FDI flows were also addressed.

#### **1. Summary of debate**

##### **Development of South–South FDI**

32. It was noted that FDI from developing countries had grown rapidly over the previous two decades, with its share of world outward FDI stock rising from 8 per cent in 1990 to 14.7 per cent in 2007. The number of investing countries from the

South had also increased: in the 1990s the newly industrialized economies of Asia and Latin America were the main ones investing substantially abroad, but over the last decade, a more diverse set of outward investing developing countries – such as China, India, South Africa and others from West Asia and Latin America – had become significant players.

33. A significant proportion of FDI from developing countries was to other developing countries, particularly neighbouring countries, giving it a South–South and regional characteristic. South–South FDI had increased sharply during the previous two decades, from \$3.7 billion in 1990 to \$73.8 billion in 2007. These figures probably understated the reality of South–South FDI because of the lack of precise data.

34. South–South FDI was a substantial source of FDI for some LDCs, such as the Democratic Republic of the Congo, Lesotho, Malawi, Cambodia and the Lao People’s Democratic Republic. It was pointed out that in sub-Saharan Africa there were companies increasingly investing in other African countries, although this was not yet fully captured in the dataset.

35. Many FDI flows from the South were undertaken by SMEs. Efforts in promoting SMEs would also help promote South–South FDI.

36. Southern transnational corporations (TNCs) had some characteristics that differed from those of their developed country counterparts. They operated in a wider range of industries with concentration in some, had comparatively fewer affiliates, and their share of foreign assets in total assets was smaller, but increasing much faster than those of developed country TNCs. In particular, they were regional players, and often invested substantially in regional markets. The range of players in South–South FDI increasingly included State-owned enterprises and sovereign wealth funds, as well as smaller entrepreneurs, such as in sub-Saharan Africa. Those investors also engaged in South–South FDI activities. Sectors in which South–South FDI was concentrated included extractive industries, agriculture and infrastructure, and – in specific regions – industries such as automotive, food and beverages, financial services and electronics.

#### **FDI and regional integration**

37. The impact of regional integration on FDI varied across regions, depending on the depth of integration and economic complementarities. On the whole, regional integration could have a positive influence on FDI, primarily through increasing the market size, and the positive perceptions associated with the integration process among the business community. Regional integration also often facilitated cooperation in infrastructure development, which in turn had a positive impact on inward FDI. The main driver behind South–South FDI within a regional context was geographical proximity, because of regional firms’ familiarity with neighbouring markets, and their ability to take advantage of existing regional agreements. TNCs adapted their strategies to the new economic realities of regional groupings, often through reorganization and rationalization processes, such as the creation of regional production networks across – and often spilling beyond – a region.

38. Intraregional FDI as a share of total South–South FDI varied from region to region, with Latin America and South-east Asia demonstrating the highest share of intraregional South–South FDI. This reflected the depth and extent of current regional integration, particularly within MERCOSUR and members of the Association of South-East Asian Nations (ASEAN). Regional integration in those two regions could enhance intraregional trade and investment flows because of complementarities of production and products among the constituent countries. The regional integration experience of the East African Community also showed how



putting resources together could help to improve the economic space of an area and its potential to attract investment.

39. A reason for the relatively lower level of intraregional trade and investment in Africa was the lack of economic and production complementarities. Industrial and economic complementarity in Latin America had contributed to intraregional trade and investment flows, including regional investment strategies pursued by “translating” TNCs in that region. One expert stressed that some countries in Latin America were putting in place complementary industrial and production policies through their regional associations, which had not prevailed in the past. Brazil and the Bolivarian Republic of Venezuela were working on developing complementary sectoral networks; such efforts were also taking place between Brazil and Argentina.

### **Impact of the global economic crisis on South–South FDI**

40. The current economic crisis was likely to affect South–South FDI flows, with a variation in the level and types of impacts to be expected between and within regions. Those impacts depended upon the current integration of a region in global networks, and the existing level of interdependence with developed countries. Positive factors, which could lead to increases in South–South FDI, included continued growth in the South, as well as the potential for further investment by TNCs from the South, including sovereign wealth funds. They were relatively cash-rich and would seek out opportunities, as well as continue with existing strategies. The patterns of that FDI would vary, including by region, depending on whether it was market-seeking, resource-seeking or efficiency-seeking.

41. Experts agreed that South–South FDI could help developing countries insulate themselves to a degree against the vagaries of the global economic system. Developing countries exhibited an active role in the new dynamic of international trade and investment flows.

42. It was observed that Africa, especially sub-Saharan Africa, was not a key part of global production networks and might not therefore be as severely or directly impacted by the crisis through the transmission mechanism. However, the region was likely to suffer from falling commodity prices and declining ODA, as well as the higher cost of borrowing in the international financial markets. FDI flows to Africa were likely to decline, but the decreases would not be equally distributed across the region.

43. The impact of FDI flows on poverty reduction, especially in Africa, needed to be assessed – it was a concern that FDI flows might increase in the region but poverty might also increase. The impact of FDI instruments such as bilateral investment treaties and investment policy reviews in attracting investments should also be analysed and measures suggested to improve FDI inflows.

## **2. Recommendations on actions for strengthening South–South cooperation**

44. Experts agreed that South–South initiatives on investment should be actively promoted. In order to attract FDI – including South–South FDI – and participate in global production value chains, countries needed to ensure a secure and stable investment environment, with ease of doing business, so as to reduce transaction costs. Reducing investment impediments to facilitate value chain development and attracting FDI were also important considerations.

45. A number of participants expressed the importance not just of promoting South–South FDI, but also South–South cooperation in technology transfer. It was felt that countries should also enhance their absorptive capacities, and at the same time attract FDI that brought with it technology that may have been suited to their

needs, or which could be adapted to the prevailing endowments of recipient developing countries.

46. It was essential to further study trends and developments in South–South FDI by examining the phenomenon on a country-by-country basis. The value of examining South–South FDI using a sectoral approach, which would help pinpoint sectors in which South–South FDI could be further developed and encouraged, from the point of view of enhancing country and regional development, was also underscored.

47. A number of specific recommendations to facilitate the growth of South–South FDI and increase the contribution of South–South FDI to regional integration included:

- (a) At the regional level, economies should encourage the participation of low-income countries in South–South cooperation in promoting FDI, without, however, creating unrealistic expectations of investment gains;
- (b) Further economic integration should focus on pursuing trade and FDI liberalization, providing support to region-wide activities by TNCs, improving physical infrastructure, and harmonizing rules, standards and procedures;
- (c) At the national level, individual economies could provide measures such as creating a favourable climate for investment, improving supporting firms' competitiveness, strengthening the domestic industrial structure, and building or enhancing hard and soft infrastructure;
- (d) In promoting intraregional trade and investment in Africa, the policy response should focus on, among other things, FDI in infrastructure, particularly distribution, logistics and transportation, as well as energy and extractive industries. Regional integration in Africa would be enhanced through a process focusing on rationalizing the multiplicity of overlapping African RTAs;
- (e) UNCTAD should undertake further analytical research work on South–South FDI and regional integration, including examining the precise nature of salient impacts and effects on individual countries and regions; and
- (f) UNCTAD should also assess the impact of bilateral investment treaties and investment policy reviews in attracting investment, on a South–South basis.

#### **D. Regional monetary and financial cooperation – South–South solutions?**

48. This session was moderated by Mr. Arsene M. Balihuta. The panellists were Mr. Mauricio Montalvo, Mr. Hakim Ben Hammouda, Mr. Milko Matijascic, Mr. Ivan Korolev, Mr. Alphious Ncube and Mr. Edonias Niyongabo.

49. Experts discussed the impact of the financial crisis on developing countries – especially through the finance channel, existing arrangements in the area of money and finance for South–South cooperation – and potential further measures in this area that could be taken to deal with the adverse effects of the crisis.

##### **1. Summary of debate**

50. Regarding the impact of the global economic crisis through the finance channel, experts mentioned that the spreading of the current global economic crisis should be seen in the context of the debate on “de-coupling” that had attracted a lot of interest in 2006–2007. That hypothesis stated that the economic cycle in developing countries had become independent of that in developed countries, due to the greater role of developing countries in global economic growth, as well as the

greater role of South–South trade and FDI. Following that hypothesis, it was expected that the impact of the crisis and the ensuing economic slowdown in developed countries would have little effect on developing countries.

51. That expectation had proven wrong. Regarding finance, there had been three channels of transmission, namely the repatriation of portfolio investment by developed country investors, losses of developing country portfolio investors in developed country markets, and more difficult and expensive access to foreign financing. Those financial effects had been transmitted further to developing countries' real economies, though each country was affected differently, depending on both the degree of international integration and production structures.

52. South–South and regional cooperation could help alleviate the adverse effects from the global economic crisis because, in spite of the economic slowdown, economic growth in developing countries was still relatively strong.

53. However, many developing countries had so far reacted to the crisis mainly through national measures, aiming at both preserving the domestic banking and financial system and stimulating domestic aggregate demand. Support to the domestic productive sector to an extent similar to what was being done in developed countries was proving difficult because many developing countries did not have sufficient fiscal space to do that, and because some countries were experiencing relatively high levels of inflation, in spite of the economic slowdown.

54. Examples for cooperative South–South and regional measures included the agreement between Argentina and Brazil to eliminate the dollar in bilateral trade transactions, a regional initiative to buy bonds in local currencies and the creation of the Bank of the South. Some experts argued that, while the clearing arrangement between Argentina and Brazil had helped alleviate downward pressure in international trade flows, its effects had been limited, given the great importance of trade by Argentina and Brazil with other countries. Nonetheless, discussions had been held as to an extension of the arrangement to MERCOSUR and eventually to other Latin American countries.

## **2. Recommendations on actions for strengthening South–South cooperation**

55. Experts emphasized the urgent need for a new international financial architecture. It should include alternative institutions, such as the Bank of the South. Launched in 2007, the bank had seven South American countries as members. It aimed to become (a) a regional development bank operating with regional currencies; (b) a central bank managing the Latin American Fund of Reserves and the Financial Fund for the Development of the Plata Basin; and (c) a common monetary scheme to foster the development of interregional trade. It also aimed to foster SME development and thus assist in combating poverty. Eventually, it should become the central bank of a future common currency.

56. Experts also stressed that regional development banks should take a greater role – in particular regarding the financing of infrastructure investment and the provision of credit, including trade credit – at better terms than available from global markets.

57. The need to address the link between subsidies and tariffs, including through reform of the international trading regime, was also emphasized.

58. It was felt that UNCTAD should continue to undertake further analytical work on South–South and regional monetary and financial cooperation, including the examination of both more general and region-specific features.

59. UNCTAD could also continue providing countries with a forum to exchange experience in this area.

## **E. Concluding session: The way forward**

60. This session was moderated by Mr. Debapriya Bhattacharya. The panellists were Ms. Margareta Drzeniek Hanouz and Mr. A. K. Khatua.

### **1. Summary of debate**

61. Recapping the deliberations in the previous sessions, experts discussed the way forward, in terms of new development challenges brought about by the ongoing global economic crises, and the role of international and South-South cooperation to help developing countries overcome the challenges.

#### **New development challenges facing developing countries**

62. Challenges faced by developing countries included: (a) demand stagnation and decline in major developed economies, with consequent depressed demand for exports from developing countries; (b) shortage of credits for trade finance; (c) protectionist reflexes around the globe due to worsening crises and lack of progress in the WTO Doha Round; (d) decline in official and private capital inflows, including fewer remittances and less income from tourism; (e) risk of building up budget deficits; and (f) increase in unemployment rates, including among women, bringing about social instability.

63. All of those scourges would affect developing countries at the level of national economies, productive sectors, enterprises, and family. The impact on the poorest and weakest, especially LDCs and small and vulnerable economies, would be accentuated, given that they had the least endogenous resources to cope with the crises. This could increase income inequalities and place many people under poverty line, reversing efforts to attain the Millennium Development Goals.

64. The most worrying was the credit crunch in the international financial market. There was no sign of counter-cyclical financing support provided to developing countries. Worse, the financial market was crowded out by claims for financial support from developed economies' banking and industrial sectors. That could result in massive reduction in official and private funds for investment projects needed to create social infrastructure and improve productive capacity. The financial crisis could thus lead to long-term development crisis in developing countries.

65. At an international level, policymakers seem to converge on the importance of maintaining open global markets to stop the current recession from becoming a full-fledged depression. Some experts expressed however that anti-crisis remedies proposed and adopted by developed-country Governments showed a "de-globalization" trend, i.e. tended to be inward-looking. Those economic stimulus measures could have adverse knock-on effects on developing countries, such as in restricting their exports, and reducing FDI inflows.

#### **Role of international cooperation, including South-South cooperation**

66. Experts stressed that this was the moment when the necessity and relevance of international development cooperation and official development assistance (ODA) became most acute.

67. The crisis called for revisiting development strategies, especially in terms of the concept, paradigm and instrumentalities of the developmental State, policy space and other concepts for strengthening inclusive development and growth. The international community had to honour its commitments to development, and find

ways of sustaining financing for development assistance to developing countries, particularly LDCs, to support their efforts to counter the economic crisis and promote development.

68. South–South cooperation, as a complement to traditional North–South cooperation, could be an important vehicle to strengthen domestic capacity, especially in the financial sector, which had been left under-developed during the previous decades. It could be used to sustain South–South trade linkages that had already been established, such as for trade facilitation and transport.

69. The fact that some developing countries were continuing to experience positive growth, and could continue to play the role of demand engines for other developing countries, provided an avenue to be tapped. In fact, the catalyst for global demand growth in the period of crisis was most likely to come from developing countries that were equipped with an increasing population and middle-income group with purchasing power. Developing countries themselves should benefit from the growing demand potential in their own national economies and in other developing countries.

70. Furthermore, the food, fuel and energy crises could also be addressed through South–South cooperation. That was because the South had emerged as a major producer *and* consumer of food and fuel, a fact that provided tremendous South–South complementarity.

## **2. Recommendations on actions for strengthening South–South cooperation**

71. Experts called for increased coherence in global actions in continuously tracking the impact on economic growth (GDP) as well as on financial conditions (credit crunch, trade finance, balance of payments and budget deficits). There was a need to monitor impact on trade and FDI with both general and sectoral perspectives, including movement of labour and remittances. Such tracking could then provide the basic data and analysis needed to develop coping strategies at the national, regional and global levels, including through South–South cooperation.

72. At the same time, consultations on the impact of the crisis upon development must continue at various levels. In addition to the consultative mechanism of the G-20 or the United Nations General Assembly, there was a need for wider and continuous consultative discussions at the subregional, regional and interregional levels on the problems faced by each country. It was felt that the South–South initiatives could strengthen such consultations.

73. Confidence-building measures were required to help restore faith in the international trading, financial and monetary system, and in policies for development. In that context, experts believed that a timely and successful conclusion of the WTO Doha Round of trade negotiations was absolutely necessary. WTO member States had reached convergence on a number of negotiation issues, and could resolve those that were important for development, such as duty-free and quota-free market access to all products from all LDCs, and special and differential treatment for developing countries.

74. Also stressed was the need to conclude the GSTP second round of negotiations. Finalization of the negotiations would benefit all developing countries.

75. Bilateral and regional trade agreements among developing countries could make a positive contribution to development, especially when the content of such trade agreements allowed for promotion of exports and export diversification of lower income countries.

76. Further, in the area of trade, the availability of credit facilities and trade financing must be urgently increased through national, regional and global financing mechanisms.

77. In maintaining the upward trend of South–South investment, there was a need to ensure that such investment was contributing substantially toward generating employment and reducing poverty in host countries. Investment should help growth-oriented policies, increase production, create employment and increase regional integration.

78. The issue of strengthening South–South cooperation should be one of the central issues in the agenda of the United Nations – especially UNCTAD – and other international organizations. Any international forum for international cooperation to revive the global economy (including the forthcoming G-20 summit meeting in April 2009 in London) should consider seriously the role and contribution of South–South cooperation.

79. The experts felt that UNCTAD must play a role in supporting developing countries assess the impact of the crisis and develop coping policies and strategies to rejuvenate growth and development. Some actions by UNCTAD could include analyses and economic forecasting (including in cooperation with other international organizations) on the following to strengthen South–South cooperation and regional integration:

- (a) Diagnosis of the impact of crisis tailored to different groups of developing countries (e.g. small and vulnerable economies in Latin America and in other regions, LDCs, and landlocked and transit developing economies). It should propose coping strategies with a work plan for their implementation to meet the Millennium Development Goals. It could also provide sectoral analysis, such as the impact of the crisis on the tourism sector or on migration and remittances, where a large number of countries face rapid and substantial reductions in revenues;
- (b) Assessment of anti-recessionary packages and the impact on developing countries' trade prospects, and proposal of other measures that could foster growth and development, such as the proposed New Green Deal by the United Nations Environment Programme, supported by UNCTAD and other international organizations;
- (c) Assessment of systemic issues in the trading system – such as the mismatch between the stimulus packages and the WTO rules, and the complementarities between North–South or South–South FTAs and RTAs and the multilateral trading system;
- (d) Facilitation of consultation among developing countries concerning the reshaping of international financial and monetary architecture, and provision of policy and technical inputs to such questions. UNCTAD could facilitate such consultation, as it continued supporting the South–South consultation processes through organizations such as the G-24, the G-20, and the G-77 and China;
- (e) Monitoring, taking stock and reporting on trends in the South and South–South cooperation facing the crisis. Specific focus may be given to (i) growth and patterns of trade in specific sectors (e.g. commodities, manufactures and services); (ii) growth and patterns of investment (FDI) flows; and (iii) primary and secondary effects of the crisis on the financial sector in the South; and

- (f) Assistance to developing countries in sharing experiences and expertise on negotiating FTAs and RTAs, in a manner that no country loses policy space or policy options.

## **II. Organizational matters**

### **A. Election of officers**

80. At its opening plenary meeting, the multi-year expert meeting elected the following officers:

Chair: Mr. Debapriya Bhattacharya (Bangladesh)

Vice-Chair-cum-Rapporteur: Mr. Johan van Wyk (South Africa)

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

81. At its opening plenary, the multi-year expert meeting adopted the provisional agenda for the session (contained in TD/B/C.II/MEM.2/1). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. South–South cooperation and regional integration: where we stand and future directions
4. Adoption of the report of the meeting

### **C. Outcome of the session**

82. At its closing plenary meeting, on Thursday, 5 February 2009, the multi-year expert meeting agreed that the Chair should summarize the discussions (see chap. I).

### **D. Adoption of the report**

83. Also at its closing plenary meeting, the multi-year 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 attended the session:

Afghanistan	Iran (Islamic Republic of)
Algeria	Italy
Angola	Lesotho
Argentina	Madagascar
Azerbaijan	Mali
Bangladesh	Mexico
Bolivia	Moldova (Republic of)
Brazil	Morocco
Bulgaria	Mozambique
Burkina Faso	Namibia
Burundi	Nepal
Cameroon	Nigeria
Chile	Pakistan
China	Philippines
Colombia	Qatar
Comoros	Romania
Congo	Russian Federation
Côte d'Ivoire	Rwanda
Cuba	Saudi Arabia
Czech Republic	Senegal
Democratic Republic of the Congo	South Africa
Djibouti	Spain
Dominican Republic	Sri Lanka
Ecuador	Sudan
Egypt	Switzerland
El Salvador	Syrian Arab Republic
Ethiopia	Thailand
Finland	Turkey
Germany	Uganda
Ghana	United Republic of Tanzania
Holy See	United States of America
Honduras	Venezuela (Bolivarian Republic of)
India	Yemen
Indonesia	Zimbabwe

2. The following observer State was represented at the session:

Palestine

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

African Union  
Agency for International Trade Information and Cooperation  
Arab League

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



Common Market for Eastern and Southern Africa  
 Communauté économique des Pays des Grands Lacs  
 European Community  
 Organisation internationale de la francophonie  
 Organization of the Islamic Conference  
 Pacific Islands Forum  
 Sistema Económico Latinoamericano y Caribe

4. The following United Nations organization attended the session:  
 International Trade Centre UNCTAD/WTO
  
5. The following specialized agencies or related organizations attended the session:  
 Food and Agriculture Organization of the United Nations  
 International Atomic Energy Agency  
 United Nations Educational, Scientific and Cultural Organization  
 United Nations Industrial Development Organization
  
6. The following non-governmental organizations were represented at the session:  
*General Category*  
 Ingenieurs du monde  
 International Bar Association  
 Third World Network  
 Transnational Institute  
 Village Suisse ONG
  
7. The following panellists were invited to the expert meeting:  
 Mr. Roberto Carvalho de Azevedo, Ambassador of Brazil to the United Nations, Geneva  
 Mr. Achamkulangare Gopinathan, Ambassador of India to the United Nations, Geneva  
 Mr. Eckart Guth, Ambassador, Head of the Permanent Delegation of the European Commission  
 Mr. Kwabena Baah-Duodu, Ambassador of Ghana to the United Nations, Geneva  
 Mr. Alberto J. Dumont, Ambassador of Argentina to the United Nations, Geneva  
 Mr. Waleed Al-Wohaib, Chief Executive Officer, International Islamic Trade Corporation, Jeddah, Saudi Arabia  
 Mr. T. C. Venkat Subramanian, Chair and Managing Director, Eximbank, and President of G-NEXID  
 Mr. Martin Khor, Director, Third World Network  
 Mr. Dennis Francis, Ambassador of Trinidad and Tobago to the United Nations, Geneva  
 Ms. Axèle Giroud, European Vice-President: Euro-Asia Management Studies Association Manchester Business School  
 Mr. Alessandro Teixeira, President, WAIPA and Brazilian Trade and Investment Promotion Agency  
 Mr. Frank Bartels, Unit Chief and Deputy to the Director, Strategic Research and Regional Analyses Unit, Research and Statistics Branch, UNIDO

Mr. Arsene M. Balihuta, Ambassador of Uganda to the United Nations,  
Geneva  
Mr. Mauricio Montalvo, Ambassador of Ecuador  
Mr. Hakim Ben Hammouda, Director, Institute for Training and Technical  
Cooperation, WTO  
Mr. Milko Matijascic, Chief Economist, Institute of Applied Economic  
Research (IPEA), Brazil  
Mr. Ivan Korolev, Deputy Director, Institute of World Economy and  
International Relations, Academy of Science of the Russian Federation  
Mr. Alphious Ncube, Director, Financial Sector Management Programme,  
Macroeconomic and Financial Management Institute of Eastern and  
Southern Africa (MEFMI)  
Mr. Edonias Niyongabo, Chief of staff, Ministry for Regional Integration and  
East African Community Affairs, Burundi  
Ms. Margareta Drzeniek Hanouz, Director, Senior Economist, World  
Economic Forum  
Mr. A. K. Khatua, Joint Secretary, Trade Policy Division, Department of  
Commerce, India

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