



UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

# UNCTAD E-News

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## Trade and Development Report 2003 It is not enough to liberalize trade ...

This year's [Trade and Development Report](#), released on 2 October, "provides explanations that may challenge conventional points of view, and calls for new thinking on development strategies", said UN Secretary-General Kofi Annan.

The report looks at global economic trends and prospects, and examines the frail state of the trade-development relationship. It focuses its analysis on Latin America, where market-led trade reforms have gone furthest but where initial signs of success have not lasted.

Recent signs of economic recovery in the United States are to be considered with caution, warns the report. The fact that the economy has avoided a prolonged period of recession is largely due to growing consumer spending. Yet the current recovery, is only temporary; small wage rises, growing unemployment and exploding levels of private and public indebtedness are all ominous signs.

The report concludes that only coordinated expansionary policies among leading economies can bring about an orderly rebalancing of economic relations. UNCTAD warns that "if decisive action is not taken to restore stability in financial and currency markets, to start a global recovery and reverse the rapid rise in unemployment, there is a real threat that trade imbalances and the coexistence of continued rapid growth in some parts of the world, with stagnation, decline and job losses elsewhere, could deepen the existing discontent with globalization among a wide section of the world's population, triggering a political backlash and a loss of faith in markets and openness".

A case in point is Latin America, where, after two decades of reform, "the record in terms of growth, employment and poverty reduction has been disappointing", noted Rubens Ricuperro, Secretary-General of UNCTAD. In fact, many countries in the region are facing the same balance-of-payment and debt problems that contributed to the crisis of the early 1980s. Unlike Asia, which continued to industrialize after the debt crisis, many countries in Latin America have suffered a "premature deindustrialization" marked by sluggish growth and unemployment. Efforts to build technologically sophisticated sectors have been hindered, and weak productivity growth in labour-intensive industries has led to intense competition with cheaper-labour economies.



**The TDR 2003 (Sales No. E.03.II.D.7, ISBN 92-1-112579-0) is available for US\$ 39, and at a special price of US\$ 19 in developing countries and countries in transition, from UN Publications, Two UN Plaza, Room DC2-853, Dept. PRES, New York, NY 10017, USA; e-mail: [publications@un.org](mailto:publications@un.org), or Section des Ventes et Commercialisation, Bureau E-4, Palais des Nations, CH-1211 Geneva 10, Switzerland, e-mail: [unpubli@unog.ch](mailto:unpubli@unog.ch), Internet: <http://www.un.org/publications>.**



# Concrete proposals to tackle commodity problems



Mehmet Arda

## **Interview with Mehmet Arda, Officer-in-Charge of the Commodities Branch**

**UNCTAD:** Recently UNCTAD organized a meeting of eminent persons to examine the impact of commodity market problems on the development of commodity-dependent countries. How did this meeting differ from the expert working groups UNCTAD holds several times a year?

**MA:** Well first, this is not a meeting of experts; as its name says, it is a meeting of eminent persons. The difference basically is that the request came from the UN General Assembly. Last year, when the General Assembly examined the world commodity situation - based on a document UNCTAD had prepared - it decided that the commodity price situation and the commodity dependence of developing countries were serious issues that deserved attention at the highest level of the international community. The Secretary-General of UNCTAD was asked to convene a group of eminent persons and discuss commodity market problems, especially the price situation and what to do about it. But most importantly, the recommendations by this independent group will be submitted to this year's General Assembly in New York.

**UNCTAD:** To what extent were discussions influenced by the collapse of the Cancún trade talks a few days earlier?

**MA:** The coverage of the meeting went beyond the WTO issues and was not influenced directly by what happened in Cancún. The multilateral trade negotiations are, however, an important aspect of the commodities issue, and some of the items on the Cancún agenda were discussed by the eminent persons as well. For instance, agricultural subsidies and the initiative proposed by four African countries - Benin, Burkina Faso, Chad and Mali - to deal with cotton subsidies were both discussed at length. But other aspects of the World Trade Organization negotiations that affect the commodity sector were also examined: phyto-sanitary measures, intellectual property protection and tariffs on processed products that limit the diversification efforts of developing countries.

**UNCTAD:** The meeting recommended the creation of an International Diversification Fund. How would this new fund be implemented?

**MA:** Market access is extremely important. If you have something competitive to sell but have no market access, you will not sell anything! But the reverse is true as well. Even if you have all the market access you want, if you do not have a product to sell, or if your product does not meet consumer or purchaser requirements, you will not get it onto the market. Moreover, if developing countries were less dependent on a handful of commodities, they would be in a much better position. One solution would be for them to improve their supply capacity. In other words, producers should concentrate on products with more dynamic demand or go into processing and diversifying their output. They might also look at upgrading the original product.

Hence the idea of an International Diversification Fund. Rather than providing money to governments, the fund would focus on improving private-sector capacity and strengthening the institutions that provide support and services to the commodity sector so that they meet the conditions just mentioned. Naturally, this requires quite a bit of financing. The meeting looked at a number of suggestions. The scheme that attracted most attention called for developed countries to contribute to the fund on the basis of their share in the total imports from developing countries.



The idea of a diversification fund has been raised before, but I don't think there have been specific suggestions on how to finance it or why it is justified. In this respect, this proposal goes further than the previous schemes.

**UNCTAD: *The European Union and the International Monetary Fund have introduced compensatory financing facilities in the past. How would the scheme recommended by the group be more effective?***

**MA:** When countries have a big shortfall in earnings and a big increase in expenditures, they are faced with a big economic problem! Obviously, compensation will not solve the commodity problem, but will help cope with it in the short term. The EU's STABEX system and the IMF have both tried to tackle the problem, but with little success. For one, they were considered too cumbersome.

The compensatory financing proposed by the meeting brings new thinking and perspectives. It is also more user-friendly. In the old systems, compensation comes after the shortfall, and commodity producers have to go through a long, tedious process to prove there has indeed been a shortfall. This causes delays in getting the funds when they are most needed. The proposed system would be more automatic. The main purpose is to ensure that money is available without too much delay if the conditions are met. This of course implies that appropriate financial instruments are put in place.

## Cotton and coffee: Two commodities in distress

The prices of cotton and coffee have fallen sharply in recent years. According to UNCTAD estimates, if between 1999 and 2002 the prices of coffee and cotton had remained at their 1998 levels, coffee-producing countries would have earned US\$19 billion more than they actually did, and West African cotton-producing countries \$1 billion more.

Both commodities are of crucial importance to many developing countries. In both cases, the plight they are in today was caused mainly by an imbalance between supply and demand, with output far outstripping consumption.

But the parallel between the two commodities ends there. For one, the reasons for such increases in output are very different. In the case of cotton, subsidies provided to producers in developed countries, in particular the United States, have led to increased production in spite of stagnant demand and lower productivity compared to many developing countries. The reduction and eventual elimination of subsidies is essential to correct the situation and enable competitive cotton-producing countries, including some of the poorest countries of West Africa, to get a good return from their cotton sector.

Coffee is grown only in developing countries, and subsidies play no direct role in the sector's predicament. The current imbalance between supply and demand basically stems from lower production costs and higher output in two countries: Brazil and Viet Nam. The problem is aggravated by the lack of progress in other coffee-producing countries to either improve their productivity or move to other products, a situation which further exacerbates the fall in prices.

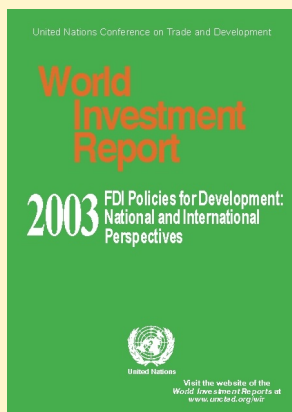
The [International Coffee Organization](#) (ICO) recognizes that dealing with the problem requires correcting the oversupply situation. Apart from initiatives to increase demand, it has started up a number of programmes on the supply side, such as taking bad-quality coffee off the market. But more has still to be done, including promoting measures to encourage diversification.

The UNCTAD [meeting of Eminent Persons on Commodities](#) (22-23 September 2003) recommended the elimination of cotton subsidies and compensation for the loss of earnings in developing countries. It also suggested that a fee on the issuing of certificates of origin be considered by ICO and that the proceeds be used to help alleviate poverty arising from low coffee prices.



## WORLD INVESTMENT REPORT 2003

### FDI POLICIES FOR DEVELOPMENT: NATIONAL AND INTERNATIONAL PERSPECTIVES



This year's [World Investment Report](#) focuses on the downturn in foreign direct investment (FDI). It looks at the reasons behind the downturn and the role of national policies and international investment agreements in attracting FDI. The report includes a rich statistical annex with the most recent data on FDI flows, FDI stocks and related indicators. It also lists the top 100 transnational corporations, ranked by foreign assets.

*The WIR 2003 (Sales No. E.03.II.D.8, ISBN 92-1-112580-4) is available for US\$ 49 (US\$ 19 in developing countries and economies in transition) from UN Publications, Two UN Plaza, Room DC2-853, Dept. PRES, New York, NY 10017, USA, e-mail: [publications@un.org](mailto:publications@un.org), or Section des Ventes et Commercialisation, Bureau E-4, Palais des Nations, CH-1211 Geneva 10, Switzerland, e-mail: [unpubli@unog.ch](mailto:unpubli@unog.ch); Internet: [www.un.org/publications](http://www.un.org/publications)*

## UNCTAD pioneers work on e-measurement

For the first time in an intergovernmental meeting, it was agreed that all countries would compile a set of common indicators to measure the use of information and communications technologies (ICT). This would be the initial step in creating a much-needed international database on ICT and e-business statistics. The meeting, the first of its kind on the statistical measurement of ICT and the Internet by businesses and households, was held in Geneva on 8-10 September 2003.

Very little is known about how much people, businesses and government actually use ICT. Yet internationally comparable data and indicators are crucial for monitoring and evaluating ICT and e-business policies and strategies. They are also essential for analysing their impact on economic development and growth. Policy makers, for instance, need to be able to benchmark their performance when comparing it with that of their trade partners or competitors.

The [Organisation for Economic Co-operation and Development](#) has been carrying out work in the field since the late 1990s, and a number of OECD countries are now collecting ICT statistics. Regional initiatives to introduce e-measurement are also starting in Asia and Latin America.

**During the World Summit on the Information Society (WSIS) to be held in Geneva on 10-12 December 2003, UNCTAD will co-organize a statistical side event on "Monitoring the Information Society".**

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