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**Contribution by the UNCTAD secretariat to the High-level Dialogue of the General Assembly on Financing for Development (New York, 27-28 June 2005)**

**Trade as an Engine of Development**

Improved and expanded trade of developing countries can substantially bridge the financing gap for the timely implementation of Millennium Development Goals (MDGs) and the follow-up to the Monterrey Consensus. According to UNCTAD estimates, the liberalization of trade in goods and services of interest to developing countries can generate an additional financial flow in the range of US\$310 billion.

Since 1990, international trade has witnessed major changes. International trade in goods and services grew from over \$US 6 trillion in 1995 to more than \$US 9 trillion in 2003, exhibiting an annual growth rate of 6 per cent. Developing countries' share of world trade of 23 per cent in 1990, increased to 29 per cent in 2003. A new geography of trade is becoming more prominent, while the importance of the South as a producer, trader and consumer in global markets is more visible and rising. However, many developing countries, including African countries, LDCs and small, vulnerable States continue to remain marginalized in the international trading system.

At the multilateral level, the current Doha Round formally placed the needs and interests of developing countries at the heart of negotiations. However, this remains the key objective to be fulfilled. The adoption of the framework agreement of 1 August 2004 (the "July package")<sup>1</sup> has raised new hopes that the development objectives of the Doha Ministerial Declaration may be attained in time for the MDGs deadline (i.e. 2015). Much should be achieved in 2005. In particular, export subsidies maintained by developed countries in agriculture should be totally and definitively eliminated within a short time period (e.g. 5 years). The "end-game document" should be agreed at the Sixth Ministerial Conference (13-18 December 2005, Hong Kong Special Administrative Region (SAR) of China) to allow the negotiations to proceed and complete in 2006.

**Options for Actions**

- ***Action 1: Achieving a truly "open" multilateral trading system***
  - The multilateral trading system (MTS) to be truly "open" and "development-oriented" should provide enhanced and stable market access in all areas of export interest to developing countries, in agricultural and industrial goods, and in services. Market access is important but alone it will remain largely problematic for many export products of developing countries unless concrete steps are taken to deal with market entry barriers that prevent effective market access (like product standards and regulations; and sanitary and phytosanitary measures).
  - At the South-South level, the strengthening of the Global System of Trade Preferences among Developing Countries (GSTP) can provide a potentially dynamic avenue to increase and expand inter-developing country trade and its

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<sup>1</sup> For a discussion of the "July package", see: World Economic Situation and Prospects 2005, Chapter II, UN, New York, 2005

predictability. The current round of GSTP negotiations should deliver substantial trade liberalization gains by 2006.

- In parallel, interregional, regional and bilateral free trade agreements and negotiations on a North-North, South-South and North-South basis have been proliferating to become the most dynamic trend in the international trading system. This relatively new phenomenon needs to be constantly monitored internationally to ensure coherence and openness with the multilateral trading system.
  - The “universality” of the MTS requires facilitating the accession of least-developed, developing countries and remaining countries with economies in transition to the WTO on balanced terms.
- ***Action 2: Achieving an “equitable” multilateral trading system***
    - An “equitable” multilateral trading system should fully take into account the level playing field issues arising from the inherent and continued asymmetries between developing and developed countries, including their supply capacity; size of their economies and industries, ability to subsidize economic sectors and other factors. Accordingly, the rights and obligations arising from WTO Agreements should, on the one hand, endow developing countries with greater policy space and flexibility, including operational SDT and, on the other hand, provide them with the capacity to implement their WTO obligations.
  - ***Action 3: Enhancing The effectiveness and predictability of trade preferences for LDCs***
    - As already committed internationally, OECD countries should provide *quota-free, duty-free market access for all exports of LDCs*, as soon as possible and not later than the end of the Doha Round. The same appeal is strongly emphasized in the recent report by the Secretary-General of the United Nations "In Larger Freedoms: towards development, security and human rights for all".<sup>2</sup>
    - Such preferential treatment should cover all exported products of LDCs without exception. Furthermore, such preferences should be bound under the WTO schedules, while their operational conditions should be simplified by user-friendly rules of origin. Developing countries in a position to do so should also offer preferential market access to LDCs at the multilateral level or through South-South trade agreements.
  - ***Action 4: Enhancing the viability of the commodity sector as a engine for development***
    - Dealing with the major national and international commodity issues requires focus on: diversification of production to reduce dependence on just a handful of commodities; dealing with the long-term trend of declining prices, and the high volatility of the prices of especially agricultural commodities; developing

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<sup>2</sup> Doc. A/59/2005, 21 March 2005, paragraph 55.

a new generation of commodity financing schemes; and building the supply capacity and competitiveness. UNCTAD is setting up an International Task Force on Commodities (ITFC) to pursue such integrated approach. Apart from an institutional support, financial support will be required from the international community, bearing in mind that the resources that can be allocated by the UNCTAD secretariat to the servicing of the ITFC are quite limited.

- ***Action 5: Building supply capacities at the national level***

- Developing countries should be able to translate improved market access and entry conditions into actual exports on the basis of their improving supply capacity. Among the most important policy elements are: a stable macroeconomic, regulatory and financial environment; strategic use of complementary policies (e.g. trade, industrial, financial and technology policies); targeted use of social policies; strengthen the ability of firms to innovate and integrate technology towards specialization in higher-value-added goods and services; establish strong networks of enterprises, particularly small and medium-sized ones, which are effectively linked to world markets; ensure greater access to specialized information, including market intelligence, greater supplier–producer interaction; and other factors.

- ***Action 6: Establishment of an “Aid for Trade Fund”***

- It is now more widely recognized that short- to medium-term adjustment assistance to trade shocks is indispensable to developing countries to facilitate economic, social and political sustainability of trade liberalization and the ability to deliver development and financial gains. The multilateral trade agreements of GATT/WTO were traditionally silent on the issue of adjustment, leaving it entirely for national policies to address. Multilateral trade agreements, in particular, should include provisions and specific measures to deal with adjustment costs.<sup>3</sup>
- One of the most recent ideas is to establish a temporary international “Aid for Trade Fund” to support developing countries in addressing adjustment costs associated with the implementation of the Doha negotiations. Such a fund, however, could go beyond adjustment costs and should have under its auspices separate windows for seeding supply capacity building projects in LDCs, financing trade-related infrastructure, including standards-related infrastructures that can help LDCs to upgrade their supply-capacity. It is crucially essential that such new funding must be non-debt creating and additional to current development aid flows.

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<sup>3</sup> Some recent initiatives address this issue: a temporary “aid for trade fund” was proposed by the UN Millennium Project’s Task Force on Trade in its Report on Trade For Development, 2005, while P. Mandelson, EU Trade Commissioner, proposed on 4 February 2005 to establish a special Trade Adjustment Fund to “help the poor to trade more effectively and ease the social costs of adjustment”. Similar ideas were contemplated in the UK Government “Africa Commission Report”.

## Investment

While global FDI flows to developing countries picked up in 2004, FDI remains highly concentrated, and efforts are needed to ensure greater development benefits from the activities of transnational corporations (TNCs). For many low-income countries, including most LDCs, it is a question of fostering more FDI that can contribute to economic growth, diversification, and development.

Beyond capital, FDI can bring technology, market access and other benefits, and be an important complement to the domestic enterprise sector. However, neither FDI inflows nor positive impacts from such investment are automatic. In order to leverage TNC activities, appropriate policies are of essence. While national policies that create an enabling environment for domestic private investment are also conducive to FDI, a number of measures targeting specifically FDI can bolster its contribution as a source of finance and as a tool for promoting development. As part of broader development strategies, countries need to define in particular in what way FDI can contribute to development objectives and take coherent policy actions that foster closer interaction between foreign affiliates and the local economy. Building upon the assessments and recommendations contained in the Monterrey consensus, the Sao Paulo declaration and the Secretary-General's Report, action by the international community should be considered in the following areas: risk mitigation, home country measures and corporate social responsibility

In a number of developing countries, especially the LDCs, the perception of a high degree of risk deters foreign investors. Recent experiences in some industries (especially infrastructure) may have heightened this perception. In addition, the types of risks faced by investors are evolving: the distinction between political and economic (commercial) risk is becoming increasingly blurred and existing risk mitigation mechanisms may not be fully adapted to this new reality. A group of experts should undertake a review of such mechanisms and their effectiveness to suggest possible options to improve risk mitigation. This applies in particular to infrastructure investments which are essential for growth and developments but entail huge financial requirements.

On the developing countries' side, investment disputes in the context of international investment agreements are posing increasing risks. The number of such disputes has increased significantly over the past few years. The underlying capacity-building needs of developing countries to deal with this problem require urgent attention. A systematic technical assistance programme could address issues related to the effective and efficient negotiation of such agreements, the adequate and coherent implementation of international obligations at the national level, and the setting up of appropriate means for effective dispute-settlement management.

Addressing the investment gap in many poor countries effectively requires the direct and active involvement of home countries of TNCs in facilitating flows of foreign direct investment, including the technology transfer associated with it. Providing tax breaks for SMEs in developed countries that are willing to invest in developing countries could stimulate FDI flows in these countries. Incentive schemes to stimulate linkages between foreign affiliates and domestic firms in developing countries, including in as far as technology transfer is concerned, could help developing countries benefit more from FDI.

The establishment of a global linkage fund patterned on the model Business Linkages Challenge Fund established by the UK Department for International Development could also be considered.

Finally, encouraging and facilitating the development contributions that TNCs can make is another essential ingredient of the development and investment interface. The corporate sector could assume a more pro-active role for instance in supporting the implementation of the MDGs. This could be achieved through further examining the contribution of corporations to the economic development of host developing countries and disseminating best practices in this matter. Corporations should also be encouraged to include reporting on their MDG contributions in their annual reports. Finally the application of initiatives on transparency-related codes of conduct in the extractive industries (e.g. the Extractive Industries Transparency Initiative) should be encouraged, and the feasibility of their application to other sectors examined.