



**United Nations  
Conference  
on Trade and  
Development**

Distr.  
LIMITED

TD/B/48/L.2/Add.1  
5 October 2001

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD  
Forty-eighth session  
Geneva, 1-12 October 2001

**DRAFT REPORT OF THE TRADE AND DEVELOPMENT BOARD ON ITS  
FORTY-EIGHTH SESSION**

Held at the Palais des Nations  
from 1 to 12 October 2001

Rapporteur: Mr. Federico Perazza (Uruguay)

Speakers:

Third World Network	Bahrain
European Community	Cuba
Senegal on behalf of the African Group	Brazil
Egypt	United States of America
World Bank	Facilitator of the Board of the Preparatory Committee for the High-level
Pakistan	Intergovernmental Even on Financing for Development
Islamic Republic of Iran	
Bangladesh	

**Note for delegations**

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments to statements by individual delegations should be communicated by **Wednesday, 17 October 2001** at the latest, to:

UNCTAD Editorial Section, Room E.8102, Fax No. 907 0056, Tel. No. 907 5654/1066.

## Chapter I

### INTERDEPENDENCE AND GLOBAL ECONOMIC ISSUES FROM A TRADE AND DEVELOPMENT PERSPECTIVE: FINANCIAL STABILITY: REFORM OF THE INTERNATIONAL ARCHITECTURE AND THE ROLE OF REGIONAL COOPERATION

(Agenda item 2 - continued)

1. The representative of the **Third World Network** addressed a number of current problems regarding the WTO and the future shape of the multilateral trading system. Bringing proposed new issues into the WTO was inappropriate, since even without those issues, the present agenda of the WTO was very full. There were a number of reasons why extension of the WTO agenda was inappropriate, and one particular problem would be the need for a consensus on the part of all member States on the matter. Concerning investment, he questioned the desirability of a decision at the Doha Ministerial Meeting to begin negotiations on an investment agreement or investment rules. He emphasized the need to rethink the nature and timing of liberalization in trade and to reorient the work of the WTO towards giving greater priority to development. Further consideration should also be given to the precise scope of the WTO's mandate and the role of other international agencies in the areas of trade and related subjects.

2. The representative of the **European Community** said that the European Commission had been actively promoting a development-centred new round of trade negotiations in the WTO. The active participation of developing countries in the multilateral trading system was essential, but their interest in a new round was affected by capacity constraints that could jeopardize their effective participation and their implementation of the outcome. The Commission provided negotiation support to ACP countries, and implementation capacity would have to be taken into account as an issue during the negotiations. Reaping the benefits of trade also required regulatory and administrative capacity, the creation or improvement of which was often outside WTO competence, expertise and resources. The Commission remained committed to the Integrated Framework for Technical Cooperation, through which least developed countries had incorporated trade considerations into their development strategies. The upcoming WTO Ministerial Meeting and subsequent negotiations would have to take decisions on customs valuation, TRIMs, subsidies, anti-dumping, and the special and differential treatment provisions in the WTO. For developing countries, improved market access to the markets of both developed and other developing countries in sectors such as textiles and agriculture would be the core element of a new Round. The Commission rejected any use of environmental standards for protectionist purposes but was in favour of clarifying (i) the relationship between current rules and multilateral agreements on the environment, (ii) the application of basic WTO principles to ecolabelling schemes, and (iii) measures taken for precautionary reasons. The Commission also suggested negotiations on rules for investment, competition and trade facilitation. Regarding investment, the Commission proposed negotiating a basic framework based on non-discrimination, predictability and transparency, taking an approach similar to that of the GATS with sectoral commitments, while on

competition it supported an agreement on adoption and enforcement of domestic legislation, taking into account constraints on capacity for implementation. The Commission expected a decision from the Ministerial Meeting to the effect that the trade elements of the recently adopted Programme of Action for Least Developed Countries be included in the WTO work programme.

3. The representative of **Senegal**, speaking on behalf of the **African Group**, stressed that interdependence among nations was ever more central to analyzing and solving problems related to global political, economic, financial and social issues. This interdependence could be analyzed from the point of view of trade, money and finance, and development. However, trade was not a goal *per se* but a vehicle to achieve poverty reduction through sustainable development.

4. Interdependence through trade was regulated and supervised by the WTO. The active participation of individual developing countries in the WTO's proceedings was inhibited by their limited capacities, a situation which created a division between "drivers" and "passengers". The WTO should fully recognize that member countries were at different stages of development, and thus that a mechanism for gradual and progressive implementation of its agreements was necessary. Technical assistance was of particular importance in this connection. There should also be a more comprehensive role for the WTO in the sector of primary commodity exports, particularly in the stabilization of their prices.

5. As private capital flows accounted for an ever bigger share of development finance, it should be recalled that they had always followed and never preceded ODA. This should be a reminder for donor countries to achieve the ODA targets set by the United Nations. Liberalization of capital controls in developing countries, as advocated by international financial institutions, had often led to speculative movements without any real benefits to the economies affected. The reform of the international financial system should entail not only the adjustment of national policies in developing countries, but also obligations for the major players, i.e. the United States, Japan and Europe, whose macroeconomic policies significantly affected capital movements. The private sector also had to be involved.

6. Africa's low domestic savings and low inflows of FDI had led to a financing gap for durable growth. To attain the poverty reduction levels set for 2015, Africa needed a yearly growth rate of 7 to 8 per cent, which could only be achieved through increased mobilization of domestic savings, significantly higher inflows of FDI and debt reduction and, most importantly, better access to developed markets. Improvements on these fronts needed to be accompanied by technology transfer and associated financing to improve productive capacities, as well as more participatory, transparent and equitable governance of international organizations.

7. For developing countries, regional integration constituted a fertile learning ground for eventual adaptation to the more stringent rules applied in multilateral agreements, and it was therefore an instrument for the better integration of such countries into the world economy. The decision taken by African countries during the Lusaka Summit to create an African Common Market clearly reflected this thinking. Existing experiences with regional

integration provided useful lessons, but there should be more widespread efforts to include services and capital movements in their purview. A number of questions remained as to the possible future of a common currency for Africa, such as what kind of policies on capital flows would be needed and what would be the links to developed and other developing countries. Under the New African Initiative, which would explore the possibilities for a common currency, similar experiences elsewhere were being studied.

8. Finally, he endorsed the statement by the Secretary-General of UNCTAD in Abuja to the effect that the conditions that had triggered the Marshall Plan after the Second World War applied today in Africa.

9. The representative of **Egypt** emphasized that, as a result of the interdependence between the international financial system's stability and economic growth, financial stability was a prerequisite for achieving growth, and strong economies were better placed to withstand global economic and financial recessions. The Asian financial crisis had demonstrated the urgent need for macroeconomic policy coordination at a global level. At the same time, the developing countries' capacity to withstand and recover from global economic and financial recessions, especially those stemming from the three major economies, had to be improved.

10. International monetary institutions provided a mechanism for ensuring the stability of the international financial system, but their effectiveness depended on their reform, which should result in greater collective influence for developing countries. There was also a need to embark on a search for a mechanism to ensure that fluctuations in exchange rates did not exceed certain limits, thus contributing to the stability of developing countries' currencies. Crisis management should not be limited to safeguarding the interests of creditors.

11. Most of the responsibility for financial stability lay with developed countries, which should consider the effects of their economic and financial policies on developing countries for the purposes of macro-economic policy coordination. At the same time, developing countries' national policy autonomy remained essential.

12. The representative of the **World Bank** said that the plethora of governance structures of development institutions was a source of benefits for developing countries because it provided multiple capacities to address different issues. However, there was a need for research on the impact of governance on the benefits resulting from international cooperation. The nationality of the President of the World Bank and the influence of its shareholders had been overplayed, overshadowing such issues as the need for a coherent communications strategy, an aspect of its work that the World Bank was trying to improve. The World Bank was contributing to the strengthening of the international financial architecture and was helping countries to assess social and structural sources of vulnerability, to strengthen their economic and financial governance, and to manage the consequences of crises through improvements in their capacity for diagnosis, country-owned action plans, technical assistance, and financing arrangements. In the 1990s, least developed countries had experienced a reduction in net ODA of nearly 50 per cent in real terms, the impact of which had been exacerbated by conflicts and weak policies and institutions in some countries. Least

developed countries could escape this vicious circle if they adopted sound domestic policies and mutually accountable aid relationships, and if donors increased their access to markets and foreign investment and provided debt relief. Other prerequisites were a hospitable economic environment and integration into the world trading system. The recent terrorist attack in the United States would cause slower growth in income and global trade, hurting developing countries worldwide in 2001 and 2002. These developments would condemn as many as 10 million more people to poverty and hamper the fight against childhood diseases and malnutrition, mainly in Africa. All countries should do their utmost to ensure that an economic rebound occurred in 2002 and continued into 2003. The World Bank stood ready to do its part.

13. The representative of **Pakistan** said that the danger of global recession since the terrorist attacks in the United States was clear and present, and the developing countries feared that they would be primary victims in this slowdown. Poor countries usually failed to benefit fully in times of prosperity and were the most seriously affected in times of recession.

14. Three factors had been identified by various analysts as principal causes of the present global downturn, namely excessive dependency on the United States economy, globalization of finance and investment, and the effects of the operations of large TNCs. The current downturn was not a cyclical phenomenon but a consequence of systemic weaknesses in the international system. Developing countries considered it bizarre to place primary emphasis on finance and balance sheets rather than on production and consumption.

15. With regard to the need to develop a “global community”, as emphasized by United Kingdom Prime Minister Tony Blair in a recent keynote address at the Labour Party convention, the development of such a community should take into consideration a number of points. First, there must be a coherent and effective strategy for the reduction and eventual elimination of the huge debt burden of the developing countries. The HIPC initiative should be deepened, broadened and accelerated to cover at least all the poorest developing countries. Second, there was a need to devise ways and means at the international political level to increase FDI and ODA to developing countries not benefiting from market-driven investment flows. Large populations in the lowest-income countries represented potential customers and producers and could contribute significantly to the regeneration of sustained growth in the world economy. Third, the forthcoming WTO Ministerial Meeting should take steps to make the multilateral trading system more equitable and open to the developing countries. The steps should include (1) accelerated implementation of the agreement on textiles and clothing, (2) bringing agriculture under WTO disciplines, (3) the removal of tariff peaks and tariff escalation, especially where directed against the developing countries, (4) the application of special and differential treatment in new agreements such as TRIPS and TRIMS, (5) liberalization of labour movements, (6) coherence in addressing trade, development and finance issues to promote cooperation among international institutions, and (7) avoidance of new protectionism in the guise of environmental, social and labour standards. Fourth, the strategy should promote social equity alongside globalization through the paradigm of international solidarity.

16. The representative of the **Islamic Republic of Iran** said that the international financial system should be development-friendly. Any attempt to reform the international financial system should thus be supportive of the overall development agenda of developing countries. The current circumstances of the world economy, especially following the recent events in the United States, had underscored the need for such a system.

17. Reform efforts should address (i) the necessity for sustained and predictable transfer of external financial resources, especially on concessional terms, to developing countries, (ii) the need to help developing countries harness and mobilize their actual and potential domestic resources, especially through a new approach to solving their external debt problems, (iii) the need for crisis prevention and management measures to mitigate risks generated by economic and financial crisis, especially measures for emergency financing, (iv) the need to secure the share of the developing countries in global trade revenues, (v) the necessity for a code of conduct for international investors, including TNCs, and (vi) the need for a more inclusive and transparent decision-making system for the international financial system.

18. These efforts would not result in tangible achievements unless supported by sound national monetary policies. Regional cooperation could also contribute to national and international efforts in respect of development financing and the reform of the international financial system as a whole. UNCTAD was well placed to advise countries on regional coordination, drawing on the successful experiences in the area of regional monetary and financial cooperation.

19. The representative of **Bangladesh** said that the 49 least developed countries were in a dismal state. Nowadays the conventional wisdom was that trade was the engine of growth, but the functioning of this engine depended on countries' capacity to participate in trade, and least developed countries were constrained in this respect. According to the World Bank, trade barriers cost developing countries \$100 billion in lost business, twice the amount of official aid. The share of least developed countries in global trade had been 0.8 per cent at the start of the 1990s, but at the end of the decade this figure had fallen to 0.4 per cent. This trend had to be reversed, and development partners should help to tackle the problem. Least developed countries were striving hard to mobilize domestic resources, but these had to be supplemented by external finance, and ODA to least developed countries was declining in real terms. At the Brussels Conference on the Least Developed Countries, there had been no additional commitment but only a reiteration of the earlier commitment made in the 1990 Programme of Action. This commitment was that development partners should allocate at least 0.15 to 0.20 per cent of their GNP to ODA for least developed countries, but this goal had not yet been met. Private financial flows also had an important role to play, but in 1998 least developed countries had received barely 1 per cent of total private financial flows to developing countries. Such trends had to be reversed if sustainable economic expansion were to be achieved in least developed countries.

20. The representative of **Bahrain** said that his country shared the view of the Secretary-General of UNCTAD that terrorism, the situation in the Middle East and ethnic conflicts were major reasons for the downturn in the world economy's prospects. However, analysis of

the reasons should be followed by identification of effective solutions through international cooperation. Globalization policies should be accompanied by mechanisms for strengthening macroeconomic policy coordination, a subject that should be addressed in the upcoming WTO Ministerial Meeting in Doha.

21. The adverse effects of the tragic events in the United States on the world economy could be avoided by increasing investment and financial flows and improving market access, especially for the developing countries. Bahrain attached great importance to investment as a major engine for growth. In this context the country's economic policies were geared to attracting FDI and encouraging a greater role for the private sector in economic development.

22. The representative of **Cuba** noted that the monetary and financial disruptions of the last decade had highlighted the vulnerability of the world economy as it underwent liberalization and globalization, thus demonstrating the need for cooperative measures on macroeconomic policy and the control of financial flows.

23. The effects of these disturbances were well known, but the causes were not yet fully understood. Current thinking argued that the faults lay in national policies and not in the functioning of international financial markets. However, without a complete transformation of the financial system, structural weaknesses would continue to affect the main currencies of the developed countries and the banking systems of developing countries, aggravating their difficulties in servicing their debts.

24. International financial organizations currently lacked the capacity to provide long-term solutions to financial crises, despite the contagion of the Mexican crisis in 1994. Moreover steps taken to deal with these problems so far were asymmetric in their impact between creditors and debtors. Furthermore, developing countries were unjustly excluded from international financial governance. An outstanding example of such exclusion was the Group of 7, which gave itself exclusive rights and powers over decisions that were then imposed on the international community.

25. The current debate on international financial reform could be analysed from two main perspectives, of which one emphasized partial and isolated actions and the other, a more integral one, sought long-term solutions. The second approach was preferable and would lead to a more democratic and coherent character for international institutions. Developing countries were currently viewed as mere clients of the IMF and were at the mercy of creditors. An external mechanism needed to be created to monitor the IMF and to evaluate the influence it had on the economies of its member countries. The international conference on Financing for Development would be an occasion to move towards a new paradigm for development and equity.

26. The representative of **Brazil** noted that the Board's informal meetings on reform of the international financial architecture and the role of multilateral institutions in crisis prevention and management had suggested a number of points: firstly, developing countries should not count on new international compensatory facilities but rather design their own contingency plans; secondly, even if financial self-reliance was given a greater role, various

international policy measures remained necessary to avoid recourse to ad hoc and emergency measures; thirdly, not only should the quantity and direction of FDI flows be the object of attention but also their effective use. The conference on Financing for Development should take up these and other ideas and address technical economic issues in such a way that the developing countries could derive maximum benefit from solutions proposed.

27. The representative of the **United States**, commenting on interventions by other speakers, first took up the issues of transparency and changes in the international financial institutions. He applauded the efforts made by these institutions to increase their transparency in recent years, although there was still room for further improvements. The United States Treasury Secretary had been advocating changes in IMF conditionality and in World Bank lending and grant programmes. However, such changes concerned the membership of these institutions and not UNCTAD. There was a great deal of overlap between their membership and that of UNCTAD, and member States of these institutions should advance their views on how to make the institutions more effective for all, the appropriate forum being the meetings of these institutions and their Boards.

28. With regard to FDI and ODA, the United States certainly favoured trying to help those in greatest need, but it was true that market forces tended to direct resources to places where they could be best used and not necessarily to those most in need. Thus there were a number of capital-poor countries to which capital was not flowing. Concerning the best use of ODA, recent research indicated that it could make a significant beneficial impact in countries that put these resources to good use, but ODA directed to countries where this did not apply could actually diminish the quality of government and lead to a deterioration in the quality of investment. An appropriate area of study for UNCTAD would be to contribute to a better understanding of how ODA resources could be used more effectively, and how conditions could be changed or improved to attract higher flows of FDI to capital-poor countries. UNCTAD's work in this area could be accompanied by analysis of why, of the great number of developing countries, only some had achieved significant economic and social development, and of how the international community could best help countries to make the best use of the opportunities available to them.

29. The **Facilitator of the Bureau of the Preparatory Committee for the High-level Intergovernmental Event on Financing for Development** introduced the text of the draft outcome prepared for the Event.