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Agenda item 12

**DRAFT REPORT OF THE TRADE AND DEVELOPMENT BOARD
ON ITS FIFTY-THIRD SESSION**

Held at the Palais des Nations
from 27 September to 2 October 2006 and 10 October 2006

Rapporteur: Ms. Ana Inés Rocanova (Uruguay)

Agenda item 2 (Interdependence)

Speakers:

O-i-C of GDS

Pakistan for the Group of
77 and China

Angola for the African
Group

Russian Federation

Belarus

Argentina for the Latin
American and Caribbean
Group

Islamic Republic of Iran

Benin for the LDCs

Iraq

Senegal

South Africa

China

Bangladesh

Norway

Note for delegations

This draft report is a provisional text circulated for clearance by delegations.
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by **Tuesday, 17 October 2006** at the latest, to:

UNCTAD Editorial Section, Room E.8106, fax no. 917 0056, tel. no. 917 1437.

**INTERDEPENDENCE AND GLOBAL ECONOMIC ISSUES FROM A
TRADE AND DEVELOPMENT PERSPECTIVE: GLOBAL
PARTNERSHIP AND NATIONAL POLICIES FOR
DEVELOPMENT**

(Agenda item 2)

1. For its consideration of this agenda item, the Board had before it the following documentation:

Trade and Development Report, 2006 (UNCTAD/TDR/2006 and Overview).

2. The **Officer-in-Charge of the Division on Globalization and Development Strategies** said that the good growth performance of most of the developing countries could be attributed mostly to the commodity price hike in the last four years and the turnaround of macroeconomic policy after the currency devaluations following the financial crises. Contrary to widespread expectations, poor countries were now exporting capital to the rich countries. Competitive positions had improved after devaluation, with positive effects on exports and growth. However, these improvements in developing countries had contributed to huge and rising global imbalances, with the United States bearing most of the deficit burden, and he questioned whether this was sustainable. He underlined the need for an effective multilateral financial system, even if such a system reduced the policy space for many developing countries. The stated desire of developing countries to gain more room for domestic economic policies was justified in general, but a better mix between macro policies on the one hand and industrial policies on the other would be needed in the future. As for industrial and trade policy, the proactive involvement of Governments in fostering innovation and investment had produced positive results. At the same time, the empirical evidence on the role of governance in growth was inconclusive, and the static idea of “getting the prices right”, part of the so-called Washington consensus, did not produce convincing success. With regard to the question of policy space for developing countries, what was meant was that the right balance had to be found between international disciplines in the financial system and more flexibility in the multilateral trading system.

3. The representative of **Pakistan**, speaking on behalf of the **Group of 77 and China**, commended the UNCTAD secretariat for its good work on the *TDR 2006*, which contained a critical analysis and interesting proposals for reorientation and recalibration of macroeconomic and trade policies for the developing countries that faced the challenge of globalization. His group's view was that the current trajectory of globalization constituted a far more serious situation than the one described in the São Paulo Consensus. The international monetary, financial and trading systems were skewed against developing countries, and this constituted a danger not only for equitable and sustainable development but also for global peace and security. A development-oriented coherence between international monetary and trading systems should be sought as an ingredient of a sustainable world economy with decreasing imbalances, otherwise policies could lead to instability and disruption. More concretely, agreements concluded at the WTO in terms of restrictions imposed on developing countries, as analysed in the *TDR 2006*, ruled out the use of the very policy measures that used to be instrumental in today's developed countries. In order to give the developing countries the same possibilities, the multilateral trading system should have a sufficient degree of flexibility to reflect the needs of all its members.

4. UNCTAD's research and analytical pillar must do more with regard to evolving practical solutions and options that would create more space and flexibility within the existing international economic disciplines. The organization should identify areas where more space and flexibility could be made available, and operationalized through enhanced capacity-building activities. Most importantly, UNCTAD should help preserve this space and flexibility in future norm-setting vis-à-vis international monetary, financial and trading systems, as a natural leader and trendsetter in the international discourse on development.

5. The representative of **Angola**, speaking on behalf of the **African Group**, said that Africa had achieved better growth performance since 2003 due to certain improvements in the external environment. The rising export volumes and the provision of debt relief, combined with the rise in the global market prices for oil and minerals, had contributed to that performance. However, there had been few improvements in market access conditions in developed countries, where the bias against exports from developing countries remained. He agreed with the *TDR 2006* that the present pattern of economic growth accompanied by widening imbalances was unlikely to continue. A significant slowdown in the world economy could not be ruled out, and the scenario would be extremely negative for African countries. He acknowledged the general improvement in Africa's debt situation over the last three years, due to higher GDP and exports, as well as the cancellation of most official debt through the HIPC initiative. Nevertheless, many African countries remained severely indebted, and in fact their debt had increased dangerously, requiring urgent implementation of the Multilateral Debt Relief Initiative (MDRI), the full implementation of the HIPC initiative, and greater grant-based financing for most African HIPCs if they were to achieve the MDGs. He also underlined the importance in Africa of a new policy stance to support innovative private enterprises that would mobilize underutilized factors, as well as national institutional arrangements that would allow effective policy formulation and implementation.

6. The representative of the **Russian Federation** commended the *TDR 2006* for its analysis of challenges facing the world economy, such as those related to multilateral trading, international investment and currency markets. He agreed with the report regarding the need for a collective and multilateral approach to the management of global problems. Given the absence of a universal economic model ensuring economic growth, he stressed the need to take account of the cultural and political conditions in each country in the determination of growth-oriented policies. He also underlined the importance of energy supply security and diversification, and added that his country aimed to become a reliable and resourceful partner in world energy supply. In addition, he drew attention to the importance of accumulation and dissemination of knowledge to strengthen human development, a point addressed at the G-7 summit in St. Petersburg. He outlined his country's approach to communicable diseases, and suggested the provision of health protection to trade partners. His country would continue to contribute to the global debt relief problem, and was in third place among countries granting debt relief to poor countries. In conclusion, he highlighted the importance of the greater involvement of international organizations in the search for a way to balance the current world economic situation.

7. The representative of **Belarus** commended UNCTAD for the good quality of the *TDR 2006*, which addressed issues of global partnership and national policies. He was particularly appreciative of its timely Russian translation, which had enhanced the accessibility of its analyses in many CIS countries. He concurred with the report on the failure of reforms proposed by the Washington Consensus in CIS and transition economies in reducing the gap vis-à-vis the developed countries. He stressed that the Washington

Consensus had led to a decline in the quality of life and in output, as well as an increase in inflation, in the CIS and transition economies, and as a result they were the only region in the world in the 1990s where the human development indicator had fallen. He emphasized the significance of appropriate national development strategies, particularly during difficult periods, relying on both market forces and government intervention. The TDR report had failed to pay much attention to economic development in CIS countries, even though attention had been drawn to this issue during the review of the São Paulo Consensus in May 2005. In conclusion, he said that the highly analytical framework of UNCTAD should be used to address topical questions in developing countries as well as in countries in transition.

8. The representative of **Argentina**, speaking on behalf of the **Latin American and Caribbean Group (GRULAC)**, referred to the statement by the Group at the Board's opening session, which had highlighted the relevance that the Group attached to the *TDR 2006* and its excellent contents. GRULAC considered that the report made an important intellectual and analytical contribution when referring to policy space and specifically addressing as a key idea the need for active government policies in the macroeconomic, trade, industrial and institutional policy areas. These policies could be seen as instruments to foster investment, innovation and productive transformation in developing countries, and in particular in member countries of the Group. The rich contents of the report fed the debate on what was the margin of manoeuvre for developing countries to implement those policies and pursue their own development policies in the framework of the international economy. He emphasized that it was in the context of UNCTAD that the debate on policy space had relevance in the regional and international context.

9. The existing institutional arrangements in the international financial system could not influence the causes of international financial imbalances, while the international trading system, first with the GATT and then with the WTO, was much more complete and effective with rules that could be applied to all members and dispute settlement mechanisms. The report had also highlighted the fact that international rules and commitments placed all countries under the same legal obligations, but they could impose more stringent restrictions on developing countries in economic terms, as in the TRIPS and TRIMS agreements. In the macroeconomic area, the report showed that it was possible to choose from among different exchange rate regimes and to defend in a pragmatic way an exchange rate that would work for economic policy objectives. Monetary and fiscal policies could play an important role in supporting investment, without the pro-cyclical bias that had been experienced in the past with adjustment programmes. In the production and trade areas, WTO could bring about an adaptation of promotion policies and a choice from among a smaller number of instruments than before, but it did not eliminate the possibility of putting those policies in place. Innovation and growth policies had to adapt to the specific situation and needs of each country and discourage unproductive use of resources.

10. For the *TDR* to retain its value as a reference the secretariat should continue to work on those concepts, and next year the report should present a practical analysis of facts and examples of where the concept of policy space could be viewed in a tangible manner. It should materialize the concept in specific situations and draw lessons. It should also take the GRULAC region into account in its analysis: the inclusion of a specific section on trade and development in the Latin American and Caribbean region, with particular attention to regional integration processes, would be useful. Also, the next session of the Trade and Development Board could include a specific segment on the region.

11. Referring to the analysis on Argentina in the report, the speaker said that the ways out of the crisis at the end of the 1990s and at the beginning of the new millennium in different countries had been adapted to the different situations of those countries. The analysis on Argentina showed that there could be no universal solution. The use of active industrial and labour policies led to economic, industrial and trade growth and to the absorption of employment. Finally, responding to the comments of the Director-General of the WTO, he highlighted the need to address the difference between policies related to TRIMS and those related to subsidies, as they had different fiscal implications. Concerning the former and the suggestion that a comparison be made in terms of tariff policies, this would assume that countries had flexibility in that connection, which did not seem to be the case.

12. The representative of the **Islamic Republic of Iran** said that his delegation greatly valued the role of UNCTAD in stimulating fruitful discussions with the aim of finding practical policy options for developing countries and transition economies so that they could cope effectively with their own development challenges. He stressed the need for a comprehensive assessment of the existing disciplines and arrangements in order to evaluate to what extent they had been dealing effectively with the globalization process and addressing the needs of those countries. While conducting a comprehensive review covering all the major past and present policies that policymakers had used in formulating various rules and legislation at national and international levels would be very challenging, it would be necessary in the process of transforming the policies and guiding them towards achieving various development objectives. This would allow the existing institutions and arrangements to equip themselves with the resources and capacities to implement those new policies. Referring to the *TDR 2006*, which dealt with, inter alia, the issue of asymmetries in global economic governance and the need to strike a balance between national policy space and international disciplines and commitments, the speaker said that the asymmetries in global economic governance had resulted in international rules and practices that tended to address mainly the priorities and interests of developed countries. While acknowledging that multilateral arrangements would contribute to greater stability, and would also prevent disruption and chaos in international relations, he suggested that developing countries, which after all were primarily responsible for designing their own policies and arrangements to achieve their development objectives and goals, should be given sufficient flexibility in these disciplines.

13. The representative of **Benin**, speaking on behalf of the **LDCs**, said that the LDCs were pleased to be part of the emerging new international order, characterized by interdependency and the universality of political and economic liberalism. He stressed, however, that the benefits of interdependency were random, and the gap between countries in the North and the South tended to persist, betraying national and international efforts to reduce it. This, along with the marginalization of LDCs in international trade, meant that attention should be given to reinforcing the productive and supply capacities of these countries as the prerequisite for their integration into the world economy. Aid designed to enhance the export capacity of LDCs had often been forgotten, despite the fact that trade-related infrastructure would be crucial in overcoming underdevelopment and attracting investment for sustained growth in the future. Financing such infrastructure should therefore be a very high priority. He underlined that the internationally agreed ODA commitment of 0.7 per cent of GDP should be met.

14. Acknowledging the importance of increased preferential market access for LDCs in international markets, as well as the need for greater participation of LDCs in world trade, he looked forward to a rapid recommencement of WTO negotiations. The LDCs were convinced that international trade could contribute greatly to poverty reduction through its impact on growth, productive capacities and employment. Increasing productive capacities would be a means to create jobs for the active population, but it would be very important for policy makers to identify the sectors with the largest potential. A new departure for the LDCs would not be possible without an in-depth reorientation of international development cooperation or a real partnership between the North and the South. He reiterated the need to maintain preferential market access for LDCs, and he emphasized that debt relief remained illusory for many LDCs.

15. The representative of **Iraq** expressed his appreciation for the detailed analysis in the *TDR 2006* of global economic conditions — including the obstacles facing developing countries — and of some successful experiences of countries in taking advantage of globalization through improvement of economic policies, as well as for the discussion of various instruments deemed necessary in applying those policies in the multilateral trading system. He stressed that UNCTAD should continue to serve as an international forum to address various challenges of economic globalization, to nurture consensus on policies related to trade and development, and to conduct research activities on the best measures for enhancing development. These roles should be particularly pertinent as challenges facing developing countries had become more complex and interconnected than ever before in the history of UNCTAD.

16. The representative of **Senegal** emphasized that the *TDR 2006* was a good and concrete outcome of one of the three principal mandates of UNCTAD, namely the research and analysis pillar, presenting a pertinent analysis of recent economic policies. Referring to the analysis of workers' remittances presented in the report, he encouraged UNCTAD to pursue this analysis further, especially regarding how and for what kind of activities the remittances should be employed in order to accelerate economic development. Furthermore, the adjustment policies applied in the 1980s and 1990s in Senegal by the World Bank had had their limits, and the Washington Consensus was not a "miracle recipe" for development. The developing countries had often been a laboratory for economic policies, where Governments had been left on their own to deal with their consequences. In conclusion, the representative noted that poverty reduction in Senegal had been lower than expected, even though the country had had an average economic growth of 5 per cent in the last five years.

17. The representative of **South Africa** said that the analysis and recommendations contained in the *Trade and Development Report 2006* had been presented at an opportune time, since significant challenges continued to confront the international community in its quest to achieve a more equitable global economic order. The *Report* highlighted the challenges that smaller and vulnerable economies, particularly in Africa, faced in achieving the targets of the Millennium Development Goals (MDGs). As the *Report* indicated, the attainment of the MDGs would depend on the ability of developing countries to achieve higher economic growth based on increased capital accumulation and productivity. Of particular importance was a country's ability to develop specific policy measures to meet its own requirements for generating economic growth. She expressed concern regarding the potential constraining impact of the rising number of bilateral and regional trade agreements highlighted in the *Report*, and noted that the disproportional impact of multilateral trade rules — which varied depending on a country's level of development and capacity constraints —

should not be ignored. Moreover, the *Report* properly identified the structural vulnerability of developing economies to external currency shocks and the need to consider appropriate multilateral arrangements to avoid financial crises and to maintain economic competitiveness. The *Report* could serve as a means for UNCTAD to intensify research and analysis on the interrelationship between effective economic national policies and the global financial and trade system. Recognition of the importance of that link and of the need for a more structured system of global economic governance could set developing countries on a more sustainable growth path.

18. The representative of **China** emphasized the importance of the agenda item on interdependence in the light of deepening global economic interdependence and the emergence of opportunities and challenges deriving from the latter. Noting that the *TDR 2006* had examined the current important global economic issues from a development perspective, he said that this type of research and analysis should help member countries, particularly developing countries, to have a better understanding of issues related to world economic development. He expressed his appreciation for this undertaking by the UNCTAD secretariat. Acknowledging that the views expressed in the *TDR 2006* did not apply to all countries and that the research findings and conclusions drawn would not automatically become solutions to emerging problems, the speaker said that the report's analysis should help developing countries have a better grasp of the relevant issues. Therefore, the secretariat should be encouraged to continue to enhance its analytical work so as to facilitate consensus-building and to implement more effectively the three functions of UNCTAD, namely policy analysis and research, intergovernmental debate and technical cooperation.

19. The representative of **Bangladesh** said that his delegation agreed with the WTO Director-General about the need to ensure better market access for developing countries and to eliminate various distortions in the international trading system, as well as giving developing countries more policy space in multilateral negotiations. UNCTAD should come up with answers and suggestions on these issues.

20. The representative of **Norway** expressed her hope that the *Trade and Development Report* could become "the" annual report on trade and development through the enhancement of its analytical quality and country coverage, and with its objectivity being retained. She noted that development economists in her country had found the report to be a valuable complement to other publications covering important topics, including the discussion on MDG 8. She commended the report's coverage of the idea of coupling debt reduction with ODA and of the potential development effect of remittances. With particular reference to the latter topic, the speaker urged that the TDR make further contributions.

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