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**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:

The Secretary-General of
UNCTAD
Minister of Foreign
Affairs and Cooperation
of Spain
Afghanistan for the Asian
Group and China

Finland for the European
Union and the acceding
countries of Bulgaria
and Romania
India
United States
Japan

Australia
Sri Lanka
Egypt
Djibouti
O-i-C of GDS

Note for delegations

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

(Continued)

1. The **Secretary-General of UNCTAD**, referring to the speech by the Director-General of the WTO at the opening of the 53rd session of the TDB, expressed the UNCTAD secretariat's complete agreement with the assertion that trade was one of the ingredients of the policy mix that could contribute to development and poverty alleviation. This meant, according to the Director-General, "...no blind adherence to free trade. But this also means no blind adherence to Governments doing pretty much anything, and no blind adherence to protectionism". Acknowledging that trade liberalization would not be sufficient to achieve the economic growth and development needed to reduce poverty, and that the MDGs for 2015 could be met only if many developing countries grew at a faster rate, the Secretary-General said that economic policies would be needed in order to enable the developing countries to acquire the productive and trade capacities for coping with global economic interdependence. The aim of the *TDR 2006* was to explore the policies that had worked in a number of countries and to ascertain why similar policies had not succeeded elsewhere and what could be the alternatives. UNCTAD, being well placed to undertake rigorous analysis that would bear critical examination, had attempted such analysis in the report, and the latter should be seen as part of a package of UNCTAD publications that addressed the most serious challenges facing developing countries.

2. Analysing the last 15 years of traditional trade reforms, the Secretary-General acknowledged that they had resulted in positive but also in negative outcomes in terms of GDP and employment. By contrast, countries that had undertaken more cautious reforms and had applied proactive industrial policies had enjoyed remarkable success. The *TDR 2006* noted that developing countries that had diversified their industrial base and trade pattern had performed better than those relying mainly on commodities, especially the LDCs. He stressed that the recent windfall gains from increased commodity prices should not be a basis for sustained development, since they were subject to a long-term declining trend. Sound economic management and institutions remained crucial for economic growth, but proactive policies would also be of importance. The report examined those policies in a sample of developing and developed countries, showing that the use of subsidies and tariffs had been helpful in the past, and it also analysed to what extent the WTO rules affected the application of such policies today. This analysis had not been made for the sake of controversy, but in order to ascertain what would work and what would not. Furthermore, many policies, such as the promotion of cluster groups and technology, had not been affected by the WTO rules.

3. While policies that had succeeded in some countries might not be easily adopted in others, there were common principles applicable to all, despite the fact that policies should take into consideration countries' stage of economic and institutional development. Acknowledging that these policy options could not be agreed by everyone, he stressed that this was the point of the debate. The São Paulo Consensus had confirmed that there would be no one-size-fits-all approach — in other words, policy instruments should be chosen at the same time as the questions of the right dosage, right timing and right sequencing were addressed.

4. The **Minister of Foreign Affairs and Cooperation of Spain** said that UNCTAD was at a crossroads, but he was confident that the organization would take the necessary action to face in an efficient manner globalization processes and the new challenges of trade and development. UNCTAD needed to adapt to the emerging reality of interdependence. In this context, he emphasized the importance of the Report of the Panel of Eminent Persons as a starting point for reflection on the reorganization of UNCTAD in the run-up to UNCTAD XII. Interdependence was a feature of globalization that resulted in the creation of networks and new mechanisms for cooperation. These had been encouraged by scientific and technological innovation, as the major support for the new economy and for monetary and financial integration. But interdependence required the political commitment of the international community as well as policy innovation to complement national policies and to allow global imbalances to be corrected and managed. Despite positive and widely spread global economic growth in recent years, particularly in China and India, asymmetries were becoming more acute. This growth had not been accompanied by a fair distribution of its benefits, and it did not reduce vulnerabilities in developing economies, particularly in Africa.

5. Traditional economic reform programmes and trade liberalization had not produced the expected results. There was a need to study new formulas that adapted to the specific needs of every country and make them compatible with multilateral commitments. External factors, such as market access improvements, debt relief, increases in ODA, FDI and remittances, had promoted social and economic growth in developing countries. These should be reinforced with measures to foster competitiveness, capital accumulation, the creation of new economic and employment initiatives, technological innovation and productivity increases. Adequate policies were considered to be the basis for a sustained push for balanced development processes. These policies should include flexibilization of financial systems, as well as good governance, sound macroeconomic policies and solid, democratic and transparent institutions. The São Paulo Consensus's appeal for policies to promote investment, improve national capacities and integrate developing countries into the global economy would bear fruit only if there were political decisions to create the basic conditions for social development and sustained growth.

6. Effective multilateralism was regarded as the best guarantee for progress in democracy and development. UNCTAD's *Trade and Development Report 2006* advocated more flexibilities in the multilateral trading system. This was an invitation to reflect on the need to renew and to create more institutional instruments in support of more dynamic industrial and trade policies. Trade liberalization bore more fruit than protectionism for sustainable development. The multilateral trading system was considered to be an essential tool based on the non-discrimination principle. In this framework, there was also a need to apply special and differential treatment, particularly in LDCs. The scope of these flexibilities was one of the major points that required consensus. Additionally, proliferating regional or bilateral trade agreements, including those in respect of increasing South–South trade, should be a complement to, and not a substitute for, the multilateral system. Spain and the EU deemed it essential to resume the negotiations on the Doha Round with a view to its rapid and satisfactory conclusion, with the necessary political effort.

7. Regarding the commitment in respect of development cooperation, Spain considered collaboration with UNCTAD to be of great value and importance and supported its activities because it was the only UN organization that dealt with the interrelation between trade and development from an integrated perspective. The Minister appealed to the international community to continue to collaborate for the purpose of attaining the MDGs, including the

Global Partnership for Development. This would allow the imbalances and asymmetries resulting from globalization processes and their implications to be corrected.

8. The representative of **Afghanistan**, speaking on behalf of the **Asian Group and China**, noted that the recent rapid and broad-based growth of developing countries since 2002 had been driven mainly by China and India through their strong linkages with other developing countries, which would contribute to the attainment of the MDGs. However, he was concerned about global imbalances, as explained in the *TDR 2006*, which constituted a risk for the stability of growth. He called for a multilateral approach to macroeconomic policy coordination that would considerably increase the chances of redressing those imbalances without harming economic performance in developing countries. He commended the report for addressing the issue of proactive industrial and trade policies and related opportunities and challenges for developing countries, as well as for stressing that, as success stories in East and South Asia had shown, the market mechanism and public support policy would not be contradictory approaches. Recalling this important set of nation-specific arrangements, he reaffirmed that there was no "one-size-fits-all" approach. Also, he was appreciative of the attempt, considered to be valid and impartial, made by the report to operationalize the concept of "policy space", which provided a solid basis for future discussions. He expressed support for the idea that each country should determine the balance between national policy space and international discipline in accordance with its priorities. At the same time, policies at the national level must be complemented by policies operating at the international level. The report had rightly acknowledged problems and past errors regarding the multilateral trade system and the global governance of monetary and financial issues, so that this new knowledge would better help to redress global imbalances and asymmetries.

9. The representative of **Finland**, speaking on behalf of the **European Union and the acceding countries of Bulgaria and Romania**, said that as the scope of the *TDR 2006* was very wide, covering many different issues, the quality of analyses and the policy prescriptions presented were rather diverse. Support policies to spur domestic investment and productivity growth should not constitute inward-looking protectionism, but be complementary to policy measures to strengthen the creative forces of markets. As emphasized in the report, trade policy would not be sufficient by itself for achieving balanced integration into the world economy, requiring instead appropriate exchange rates and capital account policies to accompany it.

10. The speaker concurred with the report when it stated that external vulnerability would be a key challenge for developing countries and that the latter should mobilize domestic savings to a greater extent in order to avoid excessive reliance on foreign capital. But he disagreed with the report's argument that multilateral rules were inimical to development. Policy flexibility would not be the only possible remedy for development: soundly based and predictable competition policies could also ensure a more level playing field.

11. The speaker also questioned certain parts of the report, especially those on subsidies and intellectual property rights policies. He said that TRIMs, suggested by the report, would be dangerous for development since they could skew investment decisions and waste financial resources, and that their utility was far from being decisively proved by concrete evidence. The prohibition of export subsidies, based on the consensus view of WTO member States, should not be considered unduly restrictive for developing countries, since such

subsidies would have particularly distortionary impacts on both developing and developed countries.

12. Expressing the EU's concern about certain assertions in the report regarding governance, particularly the alleged lack of correlation between economic performance and good governance indicators at low levels of development, the speaker strongly reaffirmed the importance of sound institutions and good governance for achieving sustained growth and development.

13. The issue of flexibility had been part of the negotiations on special and differential treatment in the WTO. On that topic, the speaker acknowledged that some interesting ideas had been presented in the report. He agreed with the report regarding the importance of implementing a properly sequenced trade liberalization process within the broader context of development and poverty reduction. In conclusion, he expressed regret about the suspension of the Doha negotiations, and a commitment by the European Union that it would work for the successful conclusion of the Doha Round.

14. The representative of **India** observed that globalization and interdependence had constituted for developing countries both a new opportunity for growth and development and a difficult challenge. While recognizing the logic of globalization and its undeniable relevance in today's economy, she stressed the need for an international environment capable of taking into account developing countries' specific priorities. She also expressed appreciation for the *TDR 2006*, particularly its concern for an effective system of global economic governance to ensure the right balance between sovereignty in national economic policymaking and multilateral global governance. The report rightly emphasized the existing asymmetries between developed and developing countries and the varying impact of some international legal obligations, which were more burdensome for the developing countries. Arguing for continuing recognition of space for domestic development strategies within the framework of international discipline and commitments, she called for a better understanding of the concept of "policy space". This concept should not be considered inimical to the system of international economic relations. Regarding global financial imbalances, she called for an improvement in the democratic functioning and decision-making of the Bretton Woods institutions and a revalidation of their development dimension, with UNCTAD giving continuous attention to this issue. In conclusion, she emphasized the role of migrants' remittances within developing countries' capital inflows, as described by the report, and requested further research on the topic, especially with regard to legislative barriers and the fiscal costs of money transfers.

15. The representative of the **United States of America** welcomed all the work done to increase the collective understanding of the factors that had shaped trade policy and its role in promoting economic growth and reduction of poverty, and expressed her country's commitment to the international institutions charged with strengthening the global economy and laying the basis for broader prosperity. She expressed regret, however, regarding the recommendations made in the *TDR 2006*, stating that they would run counter to the foundations of sound economic and trade policy as well as the research results of other international organizations. She pointed to the recent trend in global growth experienced by developing countries, suggesting that it could be due to reforms based on sound economic policies in the 1990s. Her delegation shared the concerns of the European Union about the report's treatment of governance issues, and she said that the current global imbalances could

be addressed through private-sector-led growth and efforts to improve environments worldwide.

16. With regard to the discussion on policy space, it was a matter of concern that this discussion suggested that developing countries should opt out of their international commitments. The speaker said that she was disappointed about the North–South presentation of trade issues, which should reflect modern global trade. She expressed interest in more discussion of how UNCTAD could promote a greater volume of trade among developing countries, and pointed out that the report provided little discussion on the importance of infrastructure services liberalization as part of a development strategy.

17. UNCTAD should call for stricter discipline on subsidies so that investment in a country could be based in its comparative advantage rather than easy access to capital. In the analysis on subsidies, due consideration should have been given to recognition of the negative effects of fisheries subsidies. Effective discipline on those subsidies had been widely recognized as a winning strategy for trade, development and the environment. The speaker was concerned about the mischaracterization of the intellectual property rights provisions of US bilateral and multilateral trade agreements as harmful for development. She said that they would provide flexibility for the US Free Trade Agreement partners in developing strong intellectual property systems while taking into consideration their national interests. The speaker also echoed the comments made by the Director-General of WTO with regard to allowing developing countries to impose TRIMS that were contrary to their WTO obligations. In conclusion, she noted that the *TDR* had been successful in promoting discussion on important policy issues, and thanked the secretariat for its work.

18. The representative of **Japan** said that while it comprehensively summarized the problems related to the global economy and international trade, the analysis in the *TDR 2006* seemed to be somewhat incomplete. She expressed concern about the negative effect that the idea of policy space as described in the report would create. She stressed the belief that strengthening the multilateral trading system would provide developing countries with many opportunities, and said that it was in order to support that end that the Development Initiative had been launched during the Doha Round negotiations. Acknowledging that the large current account deficit of the United States and the large surplus of other countries constituted an important issue to be addressed, the speaker said that such imbalances should be addressed collectively by the international community, including the emerging economies. Although establishing a new framework or guidelines for special and differential treatment was interesting, the suggestions in the report would not adequately take into account the WTO's fundamental role as a provider of multilateral legal frameworks. The proposed agreement-specific approach that would set specific criteria for individual agreements, enabling member countries to opt out of obligations, would give rise to concern about "automaticity". The report's analysis would have been more comprehensive if it had dealt with positive aspects of the WTO agreements, for example the TRIMS and TRIPs agreements, and the Agreement on Subsidies and Countervailing Measures.

19. The representative of **Australia**, referring to the *Trade and Development Report 2006* as it related to multilateral trade rules and in particular to TRIPS, said that the title of the section addressing TRIPS, namely "Restrictions imposed by international agreements on policy autonomy", made it quite clear what conclusions would be reached. All international law contained policy space, but all countries signed up to international treaties because the benefits of doing so outweighed the restrictions imposed on policy space. Few would argue

that membership of the WTO could not be a positive advantage for developing countries, as it enabled them to shape international trade rules and benefit from trade openings. Furthermore, the TRIPS section in the report provided a one-sided account that gave little, if any, recognition to the intellectual property (IP) system as an incentive system or to the positive relationship between IP laws, foreign investment and technology transfer. The report devoted three lines to those issues and cited only one academic. While it was within the legitimate purview of UNCTAD to question conventional wisdom on economic policy and ask the hard questions, it would be important to have a balanced discussion on IP and development. This could enhance UNCTAD's influence and its contribution to the successful conclusion of the Doha Round, an objective shared by all.

20. The representative of **Sri Lanka**, drawing attention to UNCTAD's mandate to be an independent and innovative voice in research and analysis on trade and development issues, praised the *TDR 2006* for its innovative contents challenging conventional wisdom, and agreed with its main key ideas and conclusions. He emphasized in particular the need to find proper policy space in designing national development strategies and to strike the right balance between static and dynamic market forces. In conclusion, he expressed his hope that the Doha round of multilateral trade negotiations would be resumed, with fruitful results in the end for developing countries.

21. The representative of **Egypt** commended the *TDR 2006*, as it revealed that the conditions attached to international assistance to developing countries had prevented their Governments from studying the development policies that were perceived to be necessary. Furthermore, the gap between rigid evolving rules of the multilateral trading system on the one hand and lack of an international financial and monetary system on the other hand would allow the major economic players to use their financial and monetary instruments without sufficiently taking into account the impact of those policies on developing countries. Finally, the speaker stressed that UNCTAD should continue with trade and development analysis and related issues such as finance, technology, sustainable development and investment

22. The representative of **Djibouti** expressed his appreciation for the *TDR 2006*, particularly its analyses on a number of development-related issues which he considered to be of crucial importance, and he encouraged the secretariat to continue its research. The major problem for the LDCs and Africa was a lack of proper infrastructure, which had doomed to failure whatever technical assistance had been delivered to them. He advocated a change in the methods and objectives of technical assistance by both donor and beneficiary countries.

23. The **Officer-in-Charge of the Division on Globalization and Development Strategies**, in his final remarks, emphasized the obvious trade-off between multilateral rules and policy space. Multilateral rules must be fair and equitable in order to compensate developing countries for the unavoidable loss of policy space implied by membership of a multilateral system.

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