



# United Nations Conference on Trade and Development

Distr.: Limited  
24 September 2008

Original: English

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## Trade and Development Board

Fifty-fifth session

Geneva, 15–26 September 2008

### **Draft report of the Trade and Development Board on its fifty-fifth session**

Held at the Palais des Nations, Geneva, from 15 to 26 September 2008

*Rapporteur:* Ms. Andriani Falkonaki-Sotiropoulos (Greece)

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## II. President's summary (*continued*)

### **Interdependence: Mobilizing resources for development – commodity prices, productive capacity, supply and distribution**

1. In the discussion on chapters 1 to 3 of the *Trade and Development Report, 2008*, delegations broadly welcomed the report and its focus on the mobilization of resources for development. The report prepared the groundwork for forthcoming discussions on the achievement of the Millennium Development Goals and the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus. It provided (a) a clear assessment of the current economic situation, including a useful and pertinent analysis of the recent financial turmoil; (b) a detailed discussion of the policy implications of recent increases of commodity and food prices; (c) rich and comprehensive insights on crucial matters for the economies of developing countries; and (e) an excellent basis for a better informed debate.

2. Delegations were concerned about the deterioration of the global economic situation due to the financial crisis in the United States and its possible repercussions for other countries, especially developing countries. There were fears about the increasing risks that the slowdown in developed countries would be transmitted to developing countries. In general, developing countries were considered to be better prepared to face the crisis than in the past, because they had recently recorded robust external financial gains, as reflected in their current-account surpluses and their accumulation of reserves. Those countries had become less dependent on foreign capital inflows, and the risk of contagion from financial crisis was low. However, developing countries would be more affected by indirect effects stemming from the real sector, as demand for goods would be reduced as a result of the global economic slowdown.

3. As for policies to respond to the crisis, some delegations questioned the usefulness of bailouts of financial institutions in developed countries, but such bailouts were in the end considered useful for public interest purposes, as financial institutions fulfilled an important service function for the productive sector. Bailouts also tackled systemic risks, as their costs were less than allowing the crisis to spread further. Nevertheless, it was agreed that public assistance should not be free of charge and that there was a need to increase regulation in financial markets in order to prevent the recurrence of financial crises. There was also broad agreement that market discipline was not sufficient and that there was a need for a more proactive role of the State in monitoring financial markets and preventing financial crises. Governments should even in some cases properly target important prices such as interest rates and exchange rates.

4. Many delegations agreed that the solution to the financial crisis should be global, in the form of increased international macroeconomic policy coordination. Reform of the international financial architecture was considered a priority. However, it was pointed out that developed countries had repeatedly refused to put such reform on the international agenda. Global macroeconomic coordination implied that surplus countries, particularly the European Union, should take a more proactive role, adopting policies to counter the recessionary trends and expand demand. It should also include coordination of exchange rate policies. Divergence of the monetary policies of central banks in major countries might invite new speculation and further destabilize the system. Some delegations also emphasized the importance of regional monetary and financial cooperation as a response to the financial crisis. Delegations agreed on the relevance of regional cooperation for

development in other areas, such as trade and infrastructure development, as well as addressing the global food crisis.

5. There was broad agreement on the importance of commodities for development in developing countries and the need for a multifaceted approach to commodities. Price increases had benefited many commodity-producing developing countries, with the corresponding improvements in their terms of trade and current-account balances. However, many other developing countries were facing the challenge of increasing food and energy prices, particularly in Africa. Delegations widely agreed that speculation had been a major factor behind the surge in commodity prices. That reflected the closer links between commodity markets and financial markets. It was also highlighted that the surge in commodity prices did not necessarily translate into increased revenues in commodity-exporting developing countries, but was often absorbed by an increase in transnational corporations' profits.

6. Many delegations agreed that restrictive monetary policies in response to commodity price increases could pose a considerable recessionary risk. In addition, commodity price volatility remained a major cause of vulnerability in developing countries. Price increases might not be sustainable, as reduced demand following global economic slowdown, delayed supply responses and speculation might lead to a weakening of commodity prices. Delegations agreed on the pertinence of the *Trade and Development Report, 2008* recommendation regarding the improvement and creation of mechanisms to tackle commodity price volatility. An additional possible measure to reduce such volatility was to limit excessive speculation in commodity markets. At the national level, some types of commodity stabilization funds were considered useful. There was wide agreement that the solution to commodity dependence in developing countries would come through diversification and industrialization, which would require increasing investment in productive capacities.

7. There was broad consensus that the food crisis and its social consequences were a major challenge for developing countries, particularly low-income countries. That crisis was critically endangering progress towards achieving the Millennium Development Goals. The role of biofuel demand, together with speculation and climate change, in food price increases was emphasized. The solution to the food crisis should also be global, helping developing countries to enhance food production capacity, and the needs of small farmers should be addressed, with a focus on sustainable agricultural production. Regional approaches to food security were also considered of interest. Measures to restrict trade in food products should be avoided and agricultural subsidies in developing countries eliminated. Official development assistance should be increased to address both emergency needs and long-term agricultural production constraints.

8. Even in light of capital flowing "uphill", development assistance and debt relief were still required to achieve the MDGs in many developing countries, to step up domestic investment, support social expenditure and carry out structural change beyond 2015. Delegations widely supported the call made in the *Trade and Development Report, 2008* to increase official development assistance to developing countries and to properly target it to growth-related activities. One delegation added the qualification that the latter should not undermine aid for social purposes. There was wide agreement on the need to reinforce the Global Partnership for Development, including civil society and the private sector, in order to tackle the global challenges stemming from both the financial and the food crises.

9. Delegations emphasized the relevance of the Accra Accord mandate and welcomed the initial steps taken by UNCTAD to implement it. There was a need to

strengthen the integrated and holistic approach to development for which UNCTAD was traditionally known. It should continue its independent research and analysis work, and contribute to fostering greater coherence among the multilateral trading, financial and monetary systems for a more stable and development-friendly global economic system. UNCTAD should also continue providing important policy advice for developing countries to help them better address the challenges and opportunities posed by globalization and interdependence.

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