



**United Nations
Conference
on Trade and
Development**

Distr.
LIMITED

TD/B(S-XXIII)/L.6/Add.2
9 October 2006

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Twenty-third special session, Part III
Geneva, 3–10 October 2006
Agenda item 7

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

Held at the Palais des Nations
from 3 to 10 October 2006

Rapporteur: Mr. Levan Lomidze (Georgia)

Coherence for development

Speakers:

Minister of Trade of
Ghana

Secretary for Economic
Policy of Argentina

Secretary-General of
UNCTAD

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 **Tuesday, 17 October 2006** at the latest, to:

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

**COHERENCE FOR DEVELOPMENT BETWEEN NATIONAL
DEVELOPMENT STRATEGIES AND INTERNATIONAL
ECONOMIC PROCESSES**

(Subtheme 2)

1. The **Minister of Trade of Ghana** highlighted several points that were fundamental for developing countries to be able to grow out of poverty and examined how these issues interfered with the concept of policy coherence between national development strategies and international economic processes. Firstly, lack of coherence set very serious limitations on the capacity of developing countries to initiate national policies that created growth. Two types of processes should be considered. There were rule-based processes, which were intrinsically limited and left little room for manoeuvre, but there were other economic processes that did not create limitations and allowed enough policy space for developing countries to fashion their own national development strategies. In this regard, it was the responsibility of developing countries to provide visionary leadership resulting in policy innovation. The issue of policy innovation was closely related to policy reform, which was essential in order for developing countries to take advantage of the dynamics in the international environment. Another critical factor was the role of foreign private capital. Investment was what induced growth, and Africa was still the poorest continent because of its inability to attract significant investment flows. The fact that Africa only attracted some two per cent of FDI flows constituted a challenge for UNCTAD, which had a critical role to play in helping developing countries resolve this issue.

2. Entrepreneurship and enterprise development were strongly linked to investment and growth. UNCTAD already had leadership in that area, especially through the EMPRETEC programme, and he called for a strengthening of relevant initiatives. Another critical factor of success was the development of exports. African markets were very limited, and this implied exploring opportunities in the global market. Regional integration and the development of exports were interrelated, and it was not certain that developing countries were limited when defining regional integration programmes and protocols. Finally, concerning the relationship between aid and development, the end objective of aid was to help countries to develop, but this required that developing countries get their development partners to target their programmes in such a way that they assisted developing countries in building their productive capacity to take advantage of global opportunities. The role of UNCTAD was to assist developing countries in policy formulation. The HIPC Initiative in Ghana had provided an example on how the right policy choices had led to transformation.

3. All the discussions taking place during the third part of the Mid-term Review would have an impact on UNCTAD XII, to take place in Ghana in 2008. The Minister informed the Board that extensive preparations had already begun in Ghana to ensure that the Conference would be a success, and in particular a number of task forces had been set up to work on critical and substantive issues. He called for the implication of all member States and of the secretariat in the preparations for the Conference. Recalling that Ghana had thrown its support behind UNCTAD XII because of the need to find a new paradigm to bring Africa out of underdevelopment, he stressed the need for certain structural transformations at UNCTAD XII, and he hoped that discussions at future mid-term review processes would be more practical than conceptual.

4. The **Secretary for Economic Policy of Argentina** took up the issue of the capacity of countries to adopt proactive policies and the interrelationship between those policies and the world at large. The case of Argentina and its recovery from the economic crisis in 2002

showed how the national and global dimensions needed to be intertwined in order to embark on a long-term path of sustainable growth while handling short-term needs. Short-term policies should be part of a long-term strategic vision. Current problems were the consequence of past decisions, and the future would depend on current decisions and actions. Debates like the UNCTAD Mid-term Review helped to configure the vision of the future for countries, the multilateral system and the world.

5. The experience of Argentina highlighted the importance that middle-income countries attached to analysing the coherence between the economic and social dimensions of the development process. In the last 25 years, the country had virtually stagnated, with average GDP and population growth rates of one per cent. At the same time, it had signed 19 agreements with the IMF. This opened up the question of the need to adopt appropriate policies that took into account the specific realities of each country. There had been the illusion that external resource inflows could make up for a lack of internal savings, but this policy had led to increasing debt, provoked exchange rate problems and discouraged domestic production. Argentina's crisis had been deeper than some other crises, but the solution had been found more quickly and had been more sustained. Economic policies had been adopted to reverse the fall in production, the increase in deficits, capital outflows, the reduction in foreign reserves and the increase in unemployment, the aim being to move from a deficit to a surplus situation, both in the national budget and in the balance of payments, in order to service debt without affecting economic growth. As a result, Argentina had been meeting its commitments, and its debt indicators had improved. Additionally, the budgetary surplus was being used both to correct inefficiencies in resource allocation and to promote social development so as to prevent the social deterioration and lack of equity that generated conflict. Argentina must compete not on the basis of low-cost labour but using the high skills of its people, with education playing a fundamental role. The country was also emphasizing the promotion of science and technology, regional division of labour and the development of infrastructure in communications, energy and transport to improve competitive capacity. In short, competitiveness was seen as being based on skills, exploitation of natural resource advantages, energy diversification, and intelligence and creativity as a product.

6. There had been a change in the productive paradigm in the world, from an industrial society to a knowledge-based society, and this changed relations among countries and posed challenges. The phenomenon of globalization seemed to concern predominantly the financial sphere, and agricultural subsidies had prevented economic globalization and the reduction of poverty. There was a need to tackle seriously the paradox of assisting countries to reduce poverty and at the same time providing agricultural subsidies. There was also an absence of social globalization, which was of course difficult to attain. In addition, regional integration was strongly modifying the world economy. Infrastructure had to be planned in the framework of the potential evolution of world trade in a world in transformation. At the same time, local factors must not be neglected, for example products involving cultural identity. It was in that context that Argentina had adopted specific policies focusing on economic growth with social development. Finally, UNCTAD had a major role to play, since its mandate covered all dimensions of development, a fundamental aspect being the financial architecture required to enable sustainable development to happen.

7. The **Secretary-General of UNCTAD** shed light upon the comprehensive framework that UNCTAD used to address the issues and difficulties raised in the discussions throughout the Mid-Term Review, particularly in relation to the uneven effects of globalization and the key issues of coherence between national policy making and international commitments that had an impact on domestic policy making. Aside from the

empirical evidence of the unequal benefits from globalization, UNCTAD had been concerned with potential threats that might not be so obvious. Concern should focus not only on the current trade imbalances but also on financial imbalances and on the consumption and savings side. The current state of global imbalances was not sustainable in the long term, and the risks associated with the adjustment process would negatively impact on all countries, particularly those that had very little room for manoeuvre, namely developing countries and the LDCs. How the adjustments took place would have an impact in terms of reaching the MDGs. Additionally, the deadlock in the Doha negotiations did not show any signs of being resolved. Ultimately, the discussion on globalization centred on the objective of creating productive employment. The issues of job creation, enterprise development, creative industries, creative productive investments, productive capacity and productive capital formation were all linked together. In that connection, all UNCTAD reports shared a common thread, with a singular emphasis on promoting productive capital formation. They also raised awareness of the issues surrounding FDI to complement domestic savings, financial questions and the new geography of international trade.

8. Whatever the topic in the globalization debate, there was adherence to belief in the strength of markets and the multilateral system. UNCTAD's recommendations with respect to public policies did not mean a move away from strengthening market rules and multilateral rules, nor did they mean advocating protectionism. The fundamental strength of the multilateral system was that it was rules-based, transparent and non-discriminatory, and those characteristics should be further enhanced. In discussions about coherence, improvements in the external environment were talked about, but it was necessary to examine the needs of developing countries to ensure that they were in command of their own policy making. This did not mean that participation in an international organization put an end to a country's independence in terms of determining its own national policy, but it did have some impact on it. The question was how could rules help developing countries to enhance their ability to design their own development strategies. Of course, there was some room for flexibility within rules, and there were instances where countries were not aware of the leeway available to them.

9. UNCTAD had also worked towards raising awareness about the asymmetries between financial and trade rules. On the trade side, the multilateral rules were hard, fast and legalistic and could be handled through the dispute settlement system, but that was not the case in the financial system. Developing countries had little leeway in financial arenas where financial policies and adjustment were carried out, even although these adjustments could have a strong impact on trade. UNCTAD's work had also drawn attention to the development impact of issues relating to capacity building, supply constraints, diversification, energy constraints, new and dynamic industries, non-tariff barriers, services trade, and international migration. Finally, with respect to Aid for Trade, while it was not hard to understand the content of the initiative, the important thing was its operationalization. In UNCTAD, capacity building was the mainstay of the organization, with trade regarded as an instrument for enhancing a country's development strategies. It would be important for UNCTAD to play a central role in Aid for Trade.

President's summary

10. There was wide agreement among delegations on the need for greater coherence for development between national development strategies and international processes. Developing countries had undertaken a wide range of economic reforms under orthodox development strategies, but the outcome had been mixed and in many cases countries had failed to benefit. This demonstrated that there was no one-size-fits-all policy for development

and called for a shift in policy direction so that strategies could be tailor-made to the specific socio-economic situation of each country. It was emphasized that policies must seek to achieve a balance between social equity and economic efficiency.

11. The *Trade and Development Report 2006* had drawn attention to the debate on the virtues of using orthodox macroeconomic policies that relied primarily on market forces as opposed to heterodox policies that required a more proactive approach by Governments. The experience of many countries, particularly in South-East Asia, had shown that there was room for a mixed approach. Market forces should continue to play a leading role in the efficient allocation of resources, but this alone would not guarantee sustainable development. In a globalized and competitive world, there was a need to integrate proactive trade and industrial policies into development strategies, with a focus on capital formation, development of productive capacity and technological upgrading. According to this view, the Government should play a role in stimulating the dynamism of the private sector for national growth, but this did not imply interventionism. With regard to technologies, a well balanced industrial policy should address the capability to innovate and to develop and apply the appropriate technology. Policies should focus on strengthening the domestic economy while maintaining openness to the global economy. It was also important to make economies less vulnerable to external shocks. For one delegation, the key question was how developing countries could make the best use of policy options in order to make the right policy choices based on well founded analysis and how to implement policies through well functioning institutions.

12. Many delegations pointed to asymmetries that were undermining multilateral rules governing world trade and finance, which were biased towards the interests of developed countries and posed challenges to sustained economic growth. These asymmetries came mainly from the lack of multilateral financial rules and from the fact that trade rules were equally binding for all countries in legal terms but posed stricter constraints for developing countries in economic terms. Given the systemic aspect of the coherence debate stemming from the relation between trade liberalization and monetary and financial policies, it could be necessary to discipline and regulate international financial flows to avoid their potential damaging effects on other economic flows, such as trade. Another asymmetry came from the lack of negotiating capacities in many developing countries, and the latter should be more engaged in the rule-setting process. There was therefore a need to mitigate the impact of such asymmetries, but the question was how to do this without reducing the policy space available to developing countries. The answer was not to alter existing structures or replace them but to create the space for adjustment in accordance with development needs and priorities. This in turn did not mean greater protectionism, as it was clear that trade could be beneficial for development. International rules were needed, and the multilateral system had to be strengthened.

13. Existing WTO rules and commitments provided some policy space for developing countries to follow sensible industrial policies in offsetting market failures. But the increasing interdependence of national economies and the intensification of discussions on rules-based regimes had meant that the space for national development policy was often framed by international commitments and global market considerations. Governments needed to assess the trade-off between the benefits of engaging in multilateral rules and losing policy space. Policy space was needed to help protect infant industries and for the transfer of knowledge. Countries acceding to the WTO were forced to make commitments that went beyond those made by founding members and to give up their autonomy. Several delegations also highlighted the importance of regional integration processes in this connection.

14. At the same time, the creation of a regulatory environment was considered of paramount importance for development. Comprehensive reforms in different sectors should be implemented in line with good governance practices. Good governance should not be limited to the national level, but should also apply at the global level. Delegations emphasized the importance of a global partnership between the different stakeholders, including civil society, to achieve development objectives. While developing countries had the responsibility for their own development, developed countries had the responsibility of fostering an enabling international environment.

15. International processes should support and complement national development objectives to help countries diversify away from commodities, to stimulate domestic accumulation of technology and foreign investment, to improve productivity and to build productive capacities. Many delegations also emphasized the need to prioritize education and human resources development, as well as know-how and technology transfer on concessional and preferential terms; it was also essential to bridge the digital divide, since ICTs had a fundamental role to play in attaining the MDGs and preventing further marginalization of developing countries. Mutually beneficial transfer of technology should include aspects of firm-to-firm transfers, capacity building, private and public partnerships, technical assistance and greater access to intellectual property.

16. UNCTAD had an important role to play in the debate on coherence between national policies and global processes for development and on policy space. The trading, financial, monetary and intellectual property systems must be coherent for development to be possible. The need for development-oriented coherence within all structures of international economic governance must be addressed urgently. UNCTAD's policy analysis and consensus-building work could contribute to global economic processes, including multilateral trade negotiations and the follow-up to the Financing for Development Conference, with a view to bringing greater clarity and balance. Its ahead-of-the-curve analytical work and innovative approaches to global problems had a tradition of excellence, establishing the organization as a source of intellectual input for developing countries. It was necessary to restore the position of UNCTAD after the recent erosion of its role and visibility. This called for greater engagement of private, academic and government research institutions with a view to challenging conventional wisdom when necessary. The secretariat should further enhance its intellectual integrity, excellence and independence. UNCTAD should also assist developing countries in building institutional structures and a framework to ensure that trade-related policies and processes maximized development gains and contributed to poverty eradication. It could also help in understanding the capacity of countries to absorb aid and investment in order to generate a virtuous circle of production.

17. One delegation drew attention to the erosion of policy space as a result of unilateralism and the use or threat of use of commercial coercive measures by some countries against other countries. UNCTAD should study the impact of such coercive policies and draw lessons in order to help avoid arbitrary action.

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