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Fourth session
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Report of the Multi-year Expert Meeting on International Cooperation: South–South Cooperation and Regional Integration on its fourth session

Held at the Palais des Nations, Geneva, from 24 to 25 October 2012

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I. Chair's summary

A. Opening statements

1. The fourth session of the Multi-year Expert Meeting on International Cooperation: South–South Cooperation and Regional Integration focused on trade financing and the role of regional financial institutions in promoting South–South trade and investment.

2. In his opening remarks, the Deputy Secretary-General of UNCTAD, Mr. Petko Draganov, suggested that the impact of the crisis has raised serious questions about the resilience and effectiveness of the international financial system, including its ability to support the expansion of international trade. However, recent initiatives pointed to gains in South–South integration and cooperation in the post-crisis environment. Several developing countries had increasingly turned to regional arrangements in order to strengthen the links between trade, finance and development, and there had been considerable debate about how best to combine multilateral and regional structures in support of sustainable and inclusive development. The emergence of new growth poles in the South had raised interest in such arrangements and in the scope for South–South initiatives to sustain growth in the global economy. At the same time, the diffusion of global value chains had enhanced the scope for new avenues for development through participation in the lower rungs of these chains. However, the benefits to developing countries from such participation had not been automatic, and they were vulnerable to disruption through finance and trade shocks.

3. The Chair of the meeting, Mr. J. Manzou, reviewed the work of UNCTAD on South–South cooperation, with emphasis on its implications on building up productive capacities in developing countries, and how to increase linkages among countries with different endowments, capacities and institutional histories. He stressed the importance of examining how the reduction of trade finance that had followed the crisis would affect long-term development and how the impact of the crisis could best be addressed by means of South–South and inter-agency cooperation.

B. Regional arrangements to promote trade and development

4. In the first session, experts introduced some of the main trends and challenges relating to trade and development in developing countries. The keynote speaker, Mr. José Luís Silva Martinot, Minister of Foreign Trade and Tourism, Peru, examined the scope for South–South cooperation in support of development, and the rising importance of the South in the global economy, particularly, in global trade. He presented the case of Peru in detail, explaining how planned economic opening and constructive agreements with other countries, especially in the South, could contribute to economic growth and social welfare improvements.

5. The commodity boom and the rising trend of commodity prices had generated additional resources that could be used to support economic diversification. Nevertheless, the recent volatility in commodity markets had had adverse consequences for Peru and other developing economies The experts analysed that and other difficulties faced by developing countries due to international financial and currency arrangements, focusing on the importance of regional monetary and financial cooperation to overcome them. They examined the impact of financial crises and balance of payments crises for developing countries, including the implications and the broader lessons of the eurozone crisis. Unrestricted capital flows, especially in the current circumstances of global crisis, had created serious difficulties for developing countries, either through the lack of development

finance, or through excessive and speculative capital inflows, which tended to misalign exchange rates and could create difficulties for stable foreign trade relations and the domestic financial system. They discussed the scope for further financial and monetary policy cooperation among developing countries, in particular, the potential advantages of trading arrangements allowing those countries to avoid the need for currency settlement in the traditional international currencies.

6. A look at trade patterns across different regions showed that the least developed countries continued to suffer from a lack of export diversification, both in terms of goods and markets, although the latter had been ameliorated recently by the growing participation of Southern countries in global trade. The experts highlighted the need to diversify the economy away from the roots of its fragility and foster structural transformation and industrialization to sustain the growth gained during the last decade. To achieve this, policy space and funding were needed to tackle the root structural problems. Financial arrangements of global financial institutions, however, were likely to resort to policy conditionality that narrowed the space for unorthodox policy experimentation and creativity. Regional financial institutions, on the contrary, could effectively support developing countries in having greater policy space to experiment with alternative strategies of development. Regional financial arrangements had been implemented in Asia, Africa and Latin America, with greater success in Asia and Latin America, and with broad scope for further progress in Africa.

7. The experts also considered the role and the need for closer financial and monetary policy cooperation in the South, and the advantages of setting up common reserve funds and regional development banks among developing countries. Regional networks of cooperation concerning monetary, financial, reserve and exchange rate policy could support developing countries in their efforts to achieve greater financial and balance of payments security. Those initiatives could also increase economic efficiency and reduce production costs for firms operating in developing countries. In addition, they discussed the recent initiatives of the member States of the Bolivarian Alliance for the Americas, or ALBA.

C. Trade finance: Challenges and opportunities

8. The second session discussed the contribution of Southern development finance institutions, in particular export-import (EXIM) banks, to trade finance. It provided the perspective and insights from trade finance experts from different developing regions and countries, who elaborated on recent trends in world and South–South trade, obstacles facing trade finance and new forms of cooperation among EXIM banks and development finance institutions from the South.

9. The experts documented the impressive expansion of South–South trade that had grown twice as fast as North–South trade in the 1990s and 2000s. Although trade finance had been a major contributing factor to that trade expansion, the current trend was not very positive and the growing trade finance requirements in the South remained partially unmet. The experts linked this lack of trade finance to weak global recovery and the deleveraging by eurozone banks. They also stressed the role of risk aversion and higher risk premiums.

10. With regard to Africa, unfavourable global macroeconomic conditions had exacerbated problems in the following areas: a chronically underdeveloped financial sector, the limited capacity of banks to structure trade and project finance deals, low banking capitalization and limited national institutional support for trade finance (15 out of 54 African countries had no export finance institutions, and only 4 countries had fully fledged trade finance institutions and supporting mechanisms). On the regulatory front, the experts suggested that the changes from Basel I to Basel II represented another important factor inhibiting trade finance and making it more costly. In fact, Basel II had introduced the

concept of sovereign ratings, which in turn had raised the cost of trade finance, especially for developing countries.

11. The overall assessment of the experts was that the price of trade finance for many developing countries did not reflect the true risks faced by lenders, particularly given the low risk of default. With regard to the role of the leading credit rating agencies, all located in the advanced countries, the experts suggested that further research on the issue was urgently needed.

12. There had been growing cooperation between development finance institutions and EXIM banks to overcome these difficulties and support South–South trade. Such cooperation had taken place in part under the Global Network of EXIM Banks and Development Finance Institutions, or G-NEXID, an UNCTAD-led initiative aimed at pooling financial and technical resources to support South–South trade and investment flows. The Network had been very active by providing bilateral lines of credit in support of trade, especially during the 2008–09 global financial crisis. Increased cooperation among Southern agencies had also included development banks from Brazil, the Russian Federation, India, China and South Africa (BRICS), which had promoted local currency finance; the EXIM Bank of India, which had given technical assistance to other developing countries – for example, sharing experiences in structuring trade finance products; and the Asian EXIM Banks Forum, which had provided technical information support to member countries to develop programmes aimed at financing trade. Cooperation at the level of national governments had included the Asian Clearing Union and Argentina-Brazil Bilateral Currency Settlement Agreement to facilitate trade settlement.

13. Other positive developments included the creation of mechanisms to channel a portion of the large amounts of foreign reserves held by developing country central banks to finance trade and development in the South. The African Export-Import Bank had established the Central Bank Deposit/Investment Programme, with the aim of mobilizing part of Africa’s international reserves held by the region’s central banks to finance trade and other projects in Africa.

14. Regional banks played a critical role in promoting South–South finance and South–South cooperation; hence the urgent need to strengthen such trade and development finance institutions in the South. For example, governments should improve the risk-taking capacity of economic cooperation agreements by making extra capital available. In addition, the experts proposed to strengthen the use of bilateral payment arrangements among Southern economies, to set up a new capital market fund devoted to South–South trade and investment, to enhance the capacity of commercial banks in developing countries to work together and to create innovative mechanisms to channel financial resources accumulated in the South to support trade and development.

D. Are Southern Development Banks changing the financial landscape?

15. Regional development banks were well positioned to deal with the uncertainty of long-term, large-scale strategic projects in support of trade and development and could help developing countries overcome critical limitations in credit provision. In recent years, and partly in response to perceived shortcomings in existing arrangements, new South–South financing mechanisms had begun to emerge in order to mobilize resources for infrastructure and sustainable development projects. In the third session, experts discussed the new experiences of, and prospects for, Southern development banks.

16. The experts described the worldwide rapid accumulation of foreign exchange reserves by developing and emerging countries that had taken place during the last decade, part of which were invested in their sovereign wealth funds. The main reasons behind this

impressive accumulation were the boom in commodity prices, particularly that of oil, and the hoarding of international assets by non-commodity-exporting countries running persistent current account surpluses. A large share of these assets, however, was currently invested in the financial markets of developed countries. Part of the long-term foreign exchange assets, especially those in sovereign wealth funds, could be more fruitfully allocated in Southern regional development banks – or more ambitiously in one South–South bank – that could lend across the developing world. These would be more efficient also from a purely financial perspective of portfolio diversification since developing countries offered higher returns from long-term investments, and their growth performances tended to be uncorrelated with those of advanced economies.

17. Enhanced Southern development banks would facilitate export diversification in developing countries and therefore increase macroeconomic stability; they would also foster intraregional and South–South trade – and in turn, trade-partner diversification – and would offer a reliable source of long-term development finance that was needed especially during crises, since private-sector and multilateral donors funds were highly pro-cyclical. Southern development banks might also work to develop local currency markets that were of critical importance in reducing currency mismatches. Finally, they would integrate private sources of finance that generally failed to provide adequate funding for regional infrastructures (because of externalities), for very poor economies (because of informational asymmetries on the risks related to lending) and for green technologies, since they represented international public goods.

18. The development of regional and Southern development banks would also indirectly benefit advanced economies. The 2009 United Nations Conference on the World Financial and Economic Crisis and Its Impact on Development had recognized that by reinforcing autonomous growth poles in the South, those banks could make a significant contribution to improve the resilience of the world financial system to potential future crises.

19. Some regional development banks were already operating in the South, mainly at the intraregional level, to sustain long-term development projects, and offered a countercyclical shield during financial crisis. The experts focused on two experiences in Latin America: the Andean Development Bank, also known by its Spanish acronym CAF, and the Bank of the South, or Banco del Sur.

20. The Andean Development Bank was a leading multilateral financial institution that mobilized resources from international markets to Latin America and the Caribbean to provide multiple banking services to both public and private clients in its shareholder countries. It aimed to foster macroeconomic stability in the region, social equity and inclusion, economic integration and productive transformation, and long-term environmental sustainability. It had launched its operations in 1970 but had grown exponentially, especially in the last two decades. It boasted 18 member countries; 90 per cent of its capital was from Latin America.

21. Three valuable lessons could be drawn from the Bank's success. First, the commitment of the member countries was of key importance: they always gave great autonomy and independence to the Bank, while at the same time never defaulting on their financial obligations. Second, financially sustainability was crucial to ensure relatively cheaper funds on the private markets. Third, promoting South–South projects jointly with other development banks from the South could help expand economic integration beyond the borders of the continent.

22. The Bank of the South, founded in 2007, had been currently ratified by five members: the Bolivarian Republic of Venezuela, the Plurinational State of Bolivia, Ecuador, Argentina and Uruguay. It aimed to finance the economic, social and environmental development of members in a balanced and stable way; to reduce regional

asymmetry and to promote an equitable distribution of investment among member countries. In particular, it was working to create markets for local currency-denominated bonds of Latin American countries and to free up the foreign exchange reserves of borrowing countries for productive investments. During the session, the experts highlighted some important governance innovations that characterized the Bank of the South. Although it was financed by capital contributions that varied from member to member like most multilateral development banks, the Bank of the South distributed the decision power more equally across its members, since most of its decisions were based on simple-majority voting. Furthermore, the typical collective action problems affecting multilateral banks were more easily resolved because member countries had various similarities and a common developmental vision.

23. The experts agreed that there was a window of opportunity to make significant public investments in development since public banks and sovereign wealth funds from the South had accumulated a great deal of assets and, at the same time, there was relative low confidence in private allocation mechanisms. They also agreed on the priorities that should be followed by policymakers to use that window: expanding the capital base of regional development banks that were already operating, creating new regional development banks in those regions where they were not yet operating and creating a broader South–South interregional bank.

E. Trade and finance in the context of global value chains

24. In the last two decades, advances in information and communication technology, coupled with a gradual reduction in policy-driven trade barriers, had allowed the production process to be sliced up into discrete economic steps and separated geographically. That had provided new trading opportunities for developing countries, including in more dynamic products. While global value chains were often thought of as self-financing, their balance of payments impact was not straightforward nor was their link to financial deepening. In the fourth session, experts explored the issues surrounding the links between trade and finance in the context of global value chains, considering the potential for scaling up value chains in developing countries through South–South integration and cooperation.

25. The experts suggested that the benefits of global value chains had been highly uneven across regions. Most value chains were North–North in the sense that leading firms originated from advanced countries, and final products were sold to advanced countries with low value-added processing taking place in the Southern links. In recent years, however, there had been a proliferation of Southern linkages with an increasing specialization in the division of economic activities. Manufacturing exports from developing economies had increased fourfold and accounted for 60 per cent of total increase in global trade. The share of developing countries had also increased, accounting for up to 50 per cent of world network trade, mainly in intermediate goods and components. Four fifths of global network trade was taking place in Asia, mainly in the apparel, electronic and automobile industries.

26. The experts examined various conventional views on the benefits associated with value chains and related flows of foreign direct investment (FDI). The experts observed, first, that FDI tended to be a lag variable in the growth process, in the sense that successful countries attracted FDI, rather than the contrary. Second, excessive optimism for value chain development had come from the experiences of the Republic of Korea, Hong Kong, China and other first-tier newly industrializing economies that had been able to develop and diversify rapidly because of extensive policy intervention. Other countries, however, had experienced a middle-income trap, as they made large gains in the initial participation in chains but had found it difficult to climb to higher value added activities, as, for example,

with regard to Malaysia, Thailand and Costa Rica. Third, the progressive financialization of the global economy had had a significant bearing on the operation of supply chains and FDI, particularly over the last decade, as many transnational corporations had become dominated by new corporate strategies emphasizing short-term profitability. As a result, the translation of chain participation into economic and social benefits for host countries had become even more difficult. In particular, off-shoring had pushed leading firms to increase their own markups and to transfer risk to chain producers.

27. The experts recommended that developing economies should focus not only on how to attract FDI, but on more holistic development goals, diversification and technological upgrading in order to actually benefit from participation in international value chains.

28. In line with this analysis, global value chains had brought tangible economic benefits, mainly in Asia and to a lesser extent in Africa. Nevertheless, value chains and FDI inflows were not a substitute for sound development policies; instead they were complementary to the strategies and the industrial policies implemented by a development-oriented State. Those must include precautionary measures against fluctuating FDI and policies designed to foster production diversification.

II. Organizational matters

A. Election of officers

29. At its opening plenary meeting, the multi-year expert meeting elected the following officers:

Chair:	Mr. James Manzou (Zimbabwe)
Vice-Chair-cum-Rapporteur:	Mr. Alfredo Suescum (Panama)

B. Adoption of the agenda and organization of work

30. At its opening plenary, the multi-year expert meeting adopted the provisional agenda for the session (contained in TD/B/C.II/MEM.2/10). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Trade financing and the role of regional financial institutions in promoting South–South trade and investment
4. Adoption of the report of the meeting

C. Outcome of the session

31. At its closing plenary meeting on Thursday, 25 October 2012, the multi-year expert meeting agreed that the Chair should summarize the discussions.

D. Adoption of the report

32. Also at its closing plenary meeting, the multi-year expert meeting authorized the Vice-Chair-cum-Rapporteur, under the authority of the Chair, to finalize the report after the conclusion of the meeting.

Annex

Attendance*

1. Representatives of the following States members of UNCTAD attended the session:

Angola
Bangladesh
Belarus
Burkina Faso
Côte d'Ivoire
Cyprus
Democratic Republic of the Congo
Dominican Republic
Ecuador
Ethiopia
Finland
Haiti
Holy See
India
Indonesia
Iraq
Ireland
Italy
Jordan
Kenya
Kazakhstan
Lesotho
Libya
Madagascar
Malaysia
Maldives
Mauritius
Morocco
Myanmar
Panama
Peru
Philippines
Saudi Arabia
South Africa
Spain
Sri Lanka
Thailand
Viet Nam
Zimbabwe

2. The following Intergovernmental Organizations were represented at the session:

African, Caribbean and Pacific Group of States
African Export-Import Bank
African Union
Commonwealth Secretariat
South Centre

3. The following United Nations organs, bodies or programmes were represented at the session:

International Trade Centre

4. The following specialized agencies and related organizations were represented at the session:

International Labour Organization
World Trade Organization

5. The following non-governmental organizations were represented at the session:

Ingénieurs du Monde
International Centre for Trade and Sustainable Development
International Network for Standardization of Higher Education Degrees
International Co-operative Alliance
Organisation Camerounaise de Promotion de la Coopération Economique Internationale
Village Suisse ONG

* For the list of participants, see TD/B/C.II/MEM.2/Inf.4.

6. The following panellists were invited to the session:

Wednesday, 24 October 2012

Mr. Jose Silva Martinot, Minister of Foreign Trade and Tourism, Peru
Mr. Abraham Tekeste Meskel, State Minister, Ministry of Finance and Economic Development, Ethiopia
Mr. Freddy Trujillo, Adviser to the Presidential Commission on the New Financial Architecture, Ecuador
Mr. Jean-Louis Ekra, African EXIM Bank, Honorary President, G-NEXID
Mr. T.C.A. Ranganathan, Chairman and Managing Director, EXIM Bank of India
Mr. Steven Beck, Head Trade Finance, Asian Development Bank

Thursday, 25 October 2012

Mr. Germán Ríos, Andean Development Bank
Ms. Stephany Griffith-Jones, Professor, Columbia University, United States of America
Mr. Aldo Caliari, Director, Rethinking Bretton Woods Project
Mr. Faizel Ismail, Ambassador and Permanent Representative of South Africa
Ms. Susan Newman, Lecturer in Development Economics, Erasmus University, Rotterdam