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Multi-year Expert Meeting on Enhancing the Enabling Economic Environment at All Levels in Support of Inclusive and Sustainable Development
First session
Geneva, 16–17 April 2013

Report of the Multi-year Expert Meeting on Enhancing the Enabling Economic Environment at All Levels in Support of Inclusive and Sustainable Development on its first session

Held at the Palais des Nations, Geneva, from 16 to 17 April 2013

I. Chair's summary

1. The first session of Multi-year Expert Meeting on Enhancing the Enabling Economic Environment at All Levels in Support of Inclusive and Sustainable Development focused on the prospects for building resilience to external shocks and mitigating their impact on trade and development. The discussion was organized into four sessions, each with a panel of speakers presenting different aspects of the topic for consideration and debate by participating experts.

A. The world economy: recession or transformational growth challenges?

2. In the first session, the focus was on the state of the world economy and its potential outlook. Several speakers and participants noted at the outset the unsustainability of the current unbalanced nature of global growth, where some advanced countries were facing sluggish growth or recession, a few others had moderate growth and some developing or emerging countries were growing relatively rapidly. The crisis had highlighted the interdependence of the world economy and countries' economic futures. The current pace of growth of developing and emerging economies could not be maintained if the developed world remained stagnant. Trade linkages between all countries were very strong and the world economy could be facing a downward trade spiral. Financial linkages also had the potential to shape the world economic environment and lack of growth in developed countries, together with the creation of liquidity, led to waves of capital flows to developing and emerging economies, disrupting their environment via exchange rate appreciations and commodity price fluctuations. These considerations raised the question of what could be defined as "external" when, to a degree, all countries contributed to creating the economic environment.

3. Drawing lessons from experiences over past decades, the speakers and some delegates focused on structural problems that needed to be addressed in order to help devise a future of sustained economic growth and development. The world economy remained in a phase of disappointing economic performance because it continued to be weighed down by the problems that had led to the global crisis and which had not yet been resolved. According to one speaker, one of the most pressing problems concerned the lack of attention given to the agricultural sector and peasant farmers in the most populated areas of the world. The situation was leading to bottlenecks in the supply of food, food security crises and migration to cities that in turn contributed to deepening the process of deterioration of labour income and wages across the world. Another speaker emphasized that the problem was the excessive growth of the financial sector, which contributed to increasing the frequency of financial crises and exercised a negative influence, via the financialization of commodity markets, in the determination of prices for food and other primary commodities.

4. Related to this was the problem of lack of export diversification in many developing economies, where primary commodity exporters were vulnerable to demand and price fluctuations beyond their control. One speaker used the example of Latin American countries to illustrate this, arguing that their resumed growth depended on an orthodox path relying on demand for commodities and international prices that were outside the control of Latin American economies themselves. The orthodox commodity-dependent export path not only left countries vulnerable to changing external conditions, there was also no mechanism with which to escape the "middle-income trap", whereby countries could remain trapped in a high-cost and low-productivity environment, unable to compete with either lower- or higher-income countries. This differed from the path taken by successful countries in East Asia, where export-led growth was strongly supported by the State, with

international and regional coordination, attention was given to the role of research and development, and productivity growth was triggered by specialization.

5. The speakers emphasized the fact that in today's integrated world, there was only very limited scope for countries to "delink" themselves from the direct and indirect effects of the global economic crisis. One speaker argued that developed countries needed to move beyond the current impasse where they required fiscal stimuli but feared increasing the fiscal deficit and public debt. Countries needed to be persuaded that what they wanted was not more austerity, but rather adequate government spending stimuli and, in particular, stimuli that would boost consumption and investment without leading to new asset bubbles or speculation. In this context, more financial regulation was essential as well as avoidance of trade protectionism which sought to increase trade competiveness at the cost of others. For developing countries facing the spillover effects of the downturn in advanced economies, foreign exchange assistance might be needed to avert a balance-of-payments crisis and painful recessionary adjustment, as well as efforts to stabilize commodity prices, particularly regarding ways to eliminate the perverse influence of speculation. Some countries could also require more targeted assistance and lending.

6. A common denominator among the speakers' presentations was an emphasis on the role of the government, through industrial, fiscal and social policy, in order to change current patterns of production, distribution and generation of income and demand.

7. The discussion evolved around these topics and offered delegates and speakers the opportunity to elaborate on issues and make more specific remarks. One speaker noted a concern that, in the absence of policies to enhance investment income distribution and protection against capital flow fluctuations, there would be a continuing tendency towards compression of wages in the world economy, which could continue until the large pool of low-paid labourers in the developing world was exhausted. This prognosis implied a continuing deflationary bias for the world economy. Another speaker also stressed the importance of addressing the needs of the majority of the world's population which remained poor and unable to satisfy their basic needs, including food, rather than shifting the focus to consumption of more sophisticated goods, which would exacerbate the dependency of developing countries on developed countries' production. Another speaker emphasized the importance of taking into account environmental constraints in a way that was consistent with the needs of developing countries. This required technical assistance in order to improve methods of production and use of resources, rather than constrain the growth and development of countries.

B. International trade, vulnerability and changing patterns in global demand

8. The second session concentrated on the growing recognition that export-led growth strategies for development had the major disadvantage that they made countries vulnerable to changes in the international economic environment. One speaker described the optimistic view, which might argue that the current generation was the most prosperous one. However, the increasing incidence of financial and natural disasters and their iterative effects also suggested that the world was a more vulnerable place than before. Existing risks were linked to numerous financial crises, an increasing number of natural disasters, frequent food and energy price shocks and the threat of climate change. A larger world population and increasing urbanization were putting growing pressure on resources, such as land, water, food and energy. All these risks, which had an impact on trade, needed to be managed in order to limit their negative impact.

9. The speaker noted that dealing with risk and uncertainty required building resilience. Exposure to risk did not necessarily imply vulnerability as long as coping mechanisms were in place. The main requirement for policies to build resilience was recognition of the role of entrepreneurs, because innovative and productive entrepreneurs had among the most beneficial impacts on employment and growth. Entrepreneurial innovation was key for reducing vulnerabilities, contributing to trade diversification and technological change through the introduction of new goods. Entrepreneurs also provided dynamism to economies by reallocating production factors to more efficient uses and making education worthwhile. Public policies were needed to foster innovative entrepreneurship, including the provision of incentives and regulation. Regulation was particularly important to avoid the negative implications of rapid technological change, as was the case for financial innovations in the global financial crisis. International cooperation had to play a role in improving governance, but ethics were also important. Moreover, a relevant aspect that seemed to be neglected was that of finance, since trade in a risky environment required a kind of finance able to handle risky behaviours, especially innovation.

10. Another speaker drew attention to the current situation of the Doha Round of trade negotiations of the World Trade Organization. The speaker noted that reasons for the current impasse included the changing world economy, in particular the rise of the South and the ongoing global economic crisis, and the different role that these changes implied for emerging economies. Nonetheless, increasing market access in these countries should take into account the fact that they were still at a level of development which required policy space to build industries. Moreover, the Doha Round had entered the impasse at a time of economic crisis, which favoured protectionism and fears of increasing competition from emerging markets. In response to a delegate’s question on how to save the Doha negotiations and to contain the rise of protectionism, the speaker said the greater use of legitimate trade measures such as tariffs must be distinguished from illegitimate or protectionist trade measures and that, overall, countries needed to reengage in negotiations. Since the late 2000s, new pathways for trade liberalization had been promoted which included moving away from multilateralism and towards negotiating issues on a case-by-case basis, or with smaller groups of countries, and the proliferation of bilateral and plurilateral agreements.

11. Two speakers focused on the topic of global value chains, which were a form of globalization where goods were no longer made in one country but rather around the world, with parts being produced in different countries. An increasing share of trade was in intermediate goods and in South–South trade. Trade in services had also increased. This process was normally governed by lead firms. The liberal view on global value chains implied that host countries imported inputs which were then used in the transformation process to produce exports. The ensuing prescriptions included liberalizing trade in services, reducing non-tariff barriers and strengthening trade facilitation. The combination of this view of global value chains coupled with the Doha Round impasse was described as a “new trade narrative” which focused on the role and structure of markets. However, the view did not take account of the fact that market developments must also be acceptable to the societies in which they were embedded, if they were to be sustainable. Moreover, there was tension among the tendencies of national democracy, increasing globalization trends and the search for some form of global governance, which posed limits to globalization.

12. The two speakers further noted that, according to the developmental view, global value chains raised the possibility of accessing markets, adding value and building technology and regional networks. Capturing these gains required industrial policy and trade intervention and labour support – which meant that there was a need for the State, through active trade and industrial policies, to manage and guide the market and advance the objectives of development. Therefore, policy space in relation to trade rules in the World Trade Organization was still necessary. Another problem of global value chains was

that they had also led to increasing capital concentration without advances in global governance to manage the process. There were also many links to the financialization of global markets, as firms were pushing for profitability and moving resources from the productive to the financial sector. This had an impact on employment and negatively affected the virtuous circle of growth, investment and development. While protectionism was to be avoided, policy space had to be guaranteed for countries to trade and develop. The trade rules debate should focus on principles of fair trade, capacity-building, balanced rules and good governance, while recognizing the existence of legitimate trade measures, including those addressing balance-of-payment problems and increasing applied tariffs towards bound rates.

13. One speaker indicated that developing countries should pursue a strategy of vertically specialized industrialization. This required an industrial policy focus on regulating links to the global economy – especially regarding trade, foreign direct investment and exchange rates – that differed from a focus under an export-oriented industrialization strategy, which concentrated on final goods exports. The main differences concerned the greater emphasis on South−South trade and the reinforcement of regional economic ties, especially as value chains tended to be centred in "regional hubs." Governments needed to manage these processes carefully, focusing on regional cooperation rather than on competition. The position in the chain where a policy was introduced mattered for those who benefited from the ensuing increase in value added. Investing in workers and small producers would lead to more sustainable gains, given that rents created by cost reductions flowed up the value chain.

C. Coping with economic instability originating in the international financial system

14. The third session dealt with finance and instability originating in the international financial system. Each of the three panel speakers for the session addressed different aspects of the general theme, but shared similar views on the policy measures needed to tackle financial instability and to help the financial system to better serve the needs of the real economy.

15. Each speaker discussed the challenge of management of the capital account of developing and developed countries with respect to foreign finance. One speaker argued that foreign finance (excluding foreign direct investment) was not a positive course for development, as it was extremely unstable and, in the medium term, a negative force for growth. Taking a long-term perspective, the history of financial crisis over many decades showed that during the Golden Age of capitalism from 1945 to 1970, when capital accounts were strictly regulated, financial crises were extremely rare and growth was sustained. On the contrary, during previous and subsequent periods, deregulation of the capital account had led to deep, frequent and increasingly synchronized financial crises.

16. Another speaker noted that, originally, developing countries would obtain foreign currency from official sources or from their exporters. These sources were associated with the important role of financing capital goods, energy, transport and other kinds of investment projects in the real economy. However, the recycling of petrodollars from the 1970s onwards saw private finance become an increasingly important force for developing countries. Private finance was easily accessible and did not have the constraints and conditionalities associated with official aid – although other important constraints included the fact that loans could be governed by a foreign State law rather than the law of the debtor nation and the problems caused by the principle of unanimous consent to modification of key financial terms of loans. The hike in interest rates of developed countries in the 1980s triggered a financial crisis in developing countries, provoking a "lost decade" in developing

countries and a recession in advanced economies. Over the past five decades, there had been many similar cycles of boom and bust but the lesson that foreign finance had favoured conspicuous consumption and asset bubbles rather than investment in the productive sector seemed not to have been learned. Experience showed that countries that managed to self-finance their economic growth grew more rapidly than those that resorted to foreign finance.

17. The speaker noted that the integrated and interdependent nature of the global economy was further reflected in the growing appreciation that a "debt crisis" was not only a debtor issue – it was also a creditor issue. If the countries involved in the sovereign debt crisis of the 1980s had not tried to repay their debt, they would have undermined the financial system including in the advanced economies which were home to international creditor banks. Further interdependencies existed between the public and the private sectors, whereby bailout loans that debtor country governments received were used to repay private international banks. This mixing of public and private sector impacts and interests meant that there needed to be a global public interest in carefully overseeing big international banks, potentially by international treaty. Creditors should also acknowledge their joint responsibilities in granting excess debt, as should the regulatory institutions charged with overseeing the system.

18. Two speakers pointed out that the debt issues currently facing Europe bore parallels with the debt issues faced in the past by developing countries, since the liberalization of the capital account. Also, now as then the public sector was taking on responsibility for debt that was incurred by the private sector. This was a concern because private sector debt was also extremely high in many advanced countries, and the deleverage that was yet to come would hold back recovery; yet the debate had instead concentrated only on public debt. Excessive austerity and its impact on employment were compounding this problem.

19. The speakers further noted that the past decade's trends in liberalizing the financial account had gone so far that central banks were not only required to oversee monetary stability but also financial stability because of the disproportionate growth of the finance sector. There was a need to ensure that finance was channelled to the real sector to support job creation and full employment. Therefore the reintroduction of capital controls would ensure the possibility to lead a monetary and credit policy for sustained economic growth. One implication of this was that governments should enact policies that would help development to be financed more through the domestic and not the international financial market. One speaker gave examples of how Argentina was using policies that encouraged banks to invest in productive sectors of the economy, especially those that supported job creation and full employment, or the move to green technology, rather than in speculative activities. One speaker agreed that expansionary monetary policies were essential in the current context, but that governments also needed to focus on spending the money as much as on creating it. One delegate questioned the balance that was needed between a stronger role for central banks and the kind of "enabling environment" that would attract investment. In responding, the speakers affirmed recent International Monetary Fund research claiming that capital controls were not a deterrent for sound investments; experience showed numerous examples of countries with capital controls, a prosperous economic environment and large inflows of foreign direct investment.

20. One speaker focused on the role of the renminbi as an international currency, describing how this role had been gradually expanded partly in response to the economic crisis and the need to stabilize trade-related payments, but also as a strategic measure as China sought to improve its position in the international monetary system. Pointing to China's projected high growth in gross domestic product, discussion centred on managing the renminbi's increasing global importance as an alternative to the United States dollar or the euro. One likely impact was that increasing competition between currencies would force

policymakers to consider more explicitly the spillover effects of policies that were necessary for domestic purposes, e.g. quantitative easing. One delegate questioned whether developing countries should accumulate more renminbis. In response, one speaker emphasized that China did not explicitly support the internationalization of the renminbi, especially in terms of its future role as a global reserve currency, but would continue to prioritize domestic growth.

D. Statistical indicators measuring the impact of external trade shocks on domestic economies

21. During the fourth and final session, the speakers presented UNCTADstat, the UNCTAD statistics database, a free-of-charge platform designed for economists and other users who needed statistics for evidence-based decision-making. It encompassed constantly updated data series on UNCTAD mandated subjects, with at least 30 years of history on more than 151 indicators for 241 countries and territories and 126 country groupings. UNCTADstat relied on common rules to facilitate data combination and comparison. It contained annual (merchandise trade matrix by partner and product, trade in services, gross domestic product, etc.) and infra-annual series from which a variety of derived indicators could be calculated.

22. There was concern that annual statistics were insufficient to monitor a fast-changing economic world and help build resilience to external shocks. Now more than ever, monthly, quarterly and consistent data, made available in a timely manner, were needed to measure the state of a country's economy and capture the growing interdependence of economies. In this regard, UNCTAD and other international organizations were working together to face this challenge. They provided indicators that could help measure the impact of external shocks on domestic economies included the trade balance, normalized trade balance, trade openness, terms of trade and purchasing power of exports indices, merchandise trade concentration and diversification indices, merchandise trade specialization and merchandise trade correlation indices.

23. Cooperation among international agencies, including between UNCTAD and the World Trade Organization, on short-term indicators was ongoing to make best use of available resources. Furthermore, incorporating into the database research results presented in various issues of the *Trade and Development Report* could be envisaged, such as the contribution of different product groups to terms of trade changes. UNCTAD and the World Trade Organization planned to work together to expand the international trade matrix to include more detailed products on the basis of the Harmonized System (HS) and longer time series (since 1980). UNCTAD would also participate in the "friends of the Chair group" on internationalization to prepare a concept paper on trade in value added.

24. The speakers also demonstrated how statistics could help build resilience to external shocks. In the last three decades, China's share in world exports had increased from 2 per cent in 1980 to 11.3 per cent in 2011 and in imports, from 1.8 to 8.4 per cent. By providing the world with low costs products, China had brought about changes in world prices, lowering manufacturing product prices and triggering comparative advantage and terms-of-trade changes for all countries. A study based on disaggregated data (HS 6 and HS 8) for the top 300 competitive products from China proved that China's product prices were growing more slowly than low-income and high-income country prices and that China had imposed pressure on middle-income country goods prices. The study had shown that China's products were more competitive in the United States of America than in the European Union market. The impact of China's low-price exports was different on countries with different income levels (low, middle or high), with middle-income economies being the most affected. Moreover, the impact of China's low-price exports

varied by sectors and over time (low, medium and high technology), and was currently most felt in the sector for medium technology-intensive products. This impact could only be measured through highly disaggregated data.

25. Consequently, close attention had to be paid to trade statistics as they could help improve the understanding of channels and sizes of shocks, identify comparative advantages, evaluate economies' sensitivity to external shocks and take advantage of opportunities in the global market.

26. In furthering the discussion, the speakers presented the Agricultural Market Information System, established one and a half years ago, following a Group of 20 initiative. The purpose of the Information System was to increase food market transparency and reduce the likelihood of food price volatility. The Information System focused on the production, utilization, stocks and trade of the four main crops: wheat, maize, rice and soybeans. Besides the Group of 20, project participants included Egypt, Kazakhstan, Nigeria, the Philippines, Spain, Thailand, Ukraine and Viet Nam, thus uniting main global market players and covering over 90 per cent of the world production of the crops mentioned.

27. The Information System was created in response to the high volatility in food prices observed in the last four years. Several factors caused the price turmoil, including policies taken by governments of the economies producing main crops. Countries currently kept lower crop stocks. Consequently, there were no effective buffers to help respond when a crisis emerged. Production output was more erratic. Countries also faced various restrictive trade measures and greater climate change challenges. Moreover, links with "outside" markets were stronger, especially with energy and financial markets. The role of the Agricultural Market Information System was to assist all countries, not only participating ones, in building resilience to these and other external shocks affecting the markets of main crops.

28. The Agricultural Market Information System was supported by a joint secretariat of 10 international organizations, including UNCTAD. The main elements of its work were data collection and analysis in order to provide reliable short-term information regarding supply and demand positions and their probable development for the four commodities covered by the programme. In addition, the Information System dealt with capacity development in participating countries when they needed to improve their data collection. Another pillar of the Information System's work was to promote effective policy dialogue so that the most appropriate policies were adopted in a coordinated manner in order to counter price volatility signals and avoid potential global or regional food crisis. The Information System provided monthly forecasts and analysis available as a free public good for all countries, including the most vulnerable ones, as it aimed to increase transparency and stability in global food markets. Increasing the Information System membership, however, might not be desirable. The benefits were globally shared, but the programme needed to maintain a manageable level of participation.

29. Some delegates asked about the potential for cooperation between central banks and statistical offices. The speakers and delegates agreed that the timeliness and availability of accurate data was crucial for adopting appropriate policies and called for more cooperation among international organizations and national central banks and statistical offices. The importance of following internationally agreed standards in producing statistics was emphasized, while it was also recognized that it was not simple for countries, owing to their specific needs and the costs involved, to produce all detailed statistics in a timely manner. However, significant analysis on trade determinants could only be produced if detailed trade data were made available. In the context of a globalized world, such detail must cover multinational enterprises and trade among affiliated firms with indications on the ultimate beneficiaries and real value added per country in global value chains.

II. Organizational matters

A. Election of officers

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

Chair:	Mr. John Chrisostom Sandy (Trinidad and Tobago)
Vice-Chair-cum-Rapporteur:	Mr. Florin Tudorie (Romania)

B. Adoption of the agenda and organization of work

31. At its opening plenary, the multi-year expert meeting adopted the provisional agenda for the session (contained in TD/B/C.I/MEM.5/1). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Prospects for building resilience to external shocks and mitigating their impact on trade and development
4. Adoption of the report of the meeting

C. Outcome of the session

32. At its closing plenary meeting on Wednesday, 17 April 2012, the multi-year expert meeting agreed that the Chair should summarize the discussions.

D. Adoption of the report

33. 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:

Azerbaijan
Belarus
Benin
Brazil
Burkina Faso
China
Democratic Republic of the Congo
Dominican Republic
Ecuador
Egypt
Ethiopia
Indonesia
Iran (Islamic Republic of)
Ireland
Kazakhstan
Madagascar
Malaysia
Mexico
Morocco
Nepal
Pakistan
Paraguay
Peru
Poland
Romania
Saudi Arabia
Senegal
South Africa
Sudan
Suriname
Switzerland
Syrian Arab Republic
Trinidad and Tobago
United Arab Emirates
Uzbekistan
Vanuatu
Viet Nam

2. The following observers attended the session:

Holy See

3. The following intergovernmental organizations were represented at the session:

European Union
Organization of Islamic Cooperation
South Centre

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

Food and Agriculture Organization of the United Nations

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

Consumer Unity and Trust Society International
Village Suisse ONG

* This attendance list contains registered participants. For the list of participants, see TD/B/C.I/MEM.5/INF.1.