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Remarks by H.E. Ambassador James Manzou of Zimbabwe, on the report of the Multi-year Expert Meeting on South-South Cooperation

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REMARKS BY AMBASSADOR J. MANZOU TO THE TRADE AND DEVELOPMENT COMMISSION IN PRESENTING THE EXPERT MULTI- YEAR REPORT ON SOUTH-SOUTH COOPERATION

Mr Chairman

Esteemed Members of the Commission

It is a great pleasure for me to present the report of the Multi-Year Expert Meeting on International Cooperation on South-South Cooperation and Regional Integration which was held in Geneva from 24 to 25 October 2012.

I am pleased to report to the Commission that, the meeting was graced by the presence of high-level government officials, including the Honourable Minister of Foreign Trade and Tourism of Peru H. E. Jose Luis Silva Martinot and representatives of regional development banks from the South. The expert meeting analysed the role of regional financial arrangements in the promotion of trade and development; contribution of Southern Development Financial Institutions (DFIs) in particular EXIM Banks to trade finance; the impact of Southern Development Banks in the global financial landscape and the role of trade and finance in the context of global value chains.

The Honourable Minister of Foreign Trade and Tourism of Peru as the key note speaker presented in detail his country's experience on how planned economic opening and constructive agreements with other countries, especially in the South, had contributed to economic growth and social welfare improvements in his country. The experts examined the difficulties faced by developing countries due to international financial and currency arrangements, with a stress on the importance of regional monetary and financial cooperation in order to overcome these and related problems. The impact of financial and balance of payments crises for developing countries was also examined, including their implications and the broader lessons of the eurozone crisis

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. The recent initiatives of the ALBA countries was presented and discussed in some detail by the experts.

The experts linked the lack of trade finance in the South to the weak global recovery and the deleveraging by eurozone banks. They also stressed the role of risk aversion and higher risk premiums. In the specific case of Africa, the unfavorable global macroeconomic conditions compounded with a chronically underdeveloped financial sector, limited capacity by banks to structure trade and project finance deals, low banking capitalization and limited national institutional support for trade finance. On the regulatory front, the experts suggested that the changes from Basel I to Basel II represent another important factor inhibiting trade finance and making it more costly. In fact, Basel II introduced the concept of sovereign ratings which, in turn, raised the cost of trade finance especially for developing countries.

The overall assessment of the experts was that the price of trade finance for many developing countries does not reflect the true risks faced by lenders, particularly given the low default risk. The negative role of the leading credit rating agencies, all located in the advanced countries, was raised in this context, and the experts suggested that further research on this issue was urgently needed. On a positive note, the experts also recognized that there has been growing cooperation between development finance institutions (DFIs) and EXIM Banks to overcome these difficulties and support South-South trade. This cooperation has taken place in part under the “Global Network of EXIM and DFIs” (known as GNEXID or NETWORK), an UNCTAD led initiative to pool financial and technical resources to support South-South trade and investment flows.

In recent years, and partly in response to perceived weaknesses in existing arrangements, new South-South financing mechanisms have begun to emerge in order to mobilize resources for infrastructure and sustainable development projects. The experts analysed the worldwide rapid accumulation of foreign exchange reserves by developing and emerging countries that took place during the last decade, part of which are invested in their Sovereign Wealth Funds (SWFs). However, an important share of these assets, is currently invested in the financial markets of developed countries. According to the experts, a proportion of these long term foreign exchange assets (especially those in SWFs) 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.

Some regional development banks (RDBs) are already operating in the South mainly at the intra-regional level to sustain long run development projects and offer a countercyclical shield during financial crisis. The experts focused on two experiences in Latin America: the Andean Development Bank (CAF) and the Bank of the South (Banco del Sur).

Lastly, the experts explored the issues surrounding 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. The experts observed that the benefits of global value chains have been highly uneven across regions and that most value chains are North-North in the sense that leading firms come from advanced countries and final products are sold to advanced countries with low value-added processing taking place in the Southern links.

The experts also demystified various conventional views on the benefits associated with value chains and related FDI flows. First, it was argued that FDI tend to be a lag variable in the growth process, in the sense that successful countries attract FDI rather than the contrary. Secondly, excessive optimism for value chain development has come from the experiences of Korea, Hong Kong, China and other first tier newly industrializing economies which were able to develop and diversify rapidly thanks to extensive policy intervention. And, thirdly, the progressive financialization of the global economy has, particularly over the last decade, had a significant bearing on the operation of supply chains and FDI as many TNCs have become dominated by new corporate strategies emphasizing short-term profitability. As a result, the translation of chain participation in to economic and social benefits for host countries has become even more difficult

According to the experts, therefore, developing economies need to focus not merely 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.

The Expert Meeting was very productive and managed to come up with specific areas that UNCTAD would need to follow up. With these remarks I commend to your attention the report of the Meeting of Experts on South-South Cooperation.

I would like to conclude by once again expressing my gratitude to all participants, the Panelists and the Secretariat who worked tirelessly to make the meeting a success. My gratitude also goes to you Alfredo for your support as vice chair and rapporteur of the meeting.

I thank you Mr Chairman