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Second session
Geneva, 19–20 May 2014

Report of the Multi-year Expert Meeting on Promoting Economic Integration and Cooperation on its second session

Held at the Palais des Nations, Geneva, on 19 and 20 May 2014

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Contents

I. Chair's summary

1. The second session of the Multi-year Expert Meeting on Promoting Economic Integration and Cooperation was held at the Palais des Nations in Geneva on 19 and 20 May 2014 as per the terms agreed by the Trade and Development Board at its fifty-seventh executive session on 26–28 June 2013.

A. Opening statements

2. The Deputy Secretary-General of UNCTAD, in his opening remarks, emphasized that the Millennium Development Goals had succeeded in placing broad-based poverty reduction at the centre of the international development agenda. However, the level of achievement varied across both Goals and countries. Data supported some concrete optimism, especially with regard to poverty reduction under Goal 1, but the prognosis was not as optimistic for many of the Goals, such as achieving universal primary education and eradicating extreme hunger. The Deputy Secretary-General called attention to two areas of concern on the specific formulation of the Goals and on the strategies adopted to pursue their achievement. First, the formulation of targets in absolute terms at the country level did not highlight the issue of inequality of outcomes within countries. Second, since the end of the 1980s, private–public partnerships had often been the institutional vehicle of choice for advancing the social agenda. However, the evidence that such partnerships brought real gains in terms of the cost and quality of social services was far from conclusive.

3. The period since the Millennium Declaration had been characterized by the increasing importance of international development cooperation, and the rapid growth of South–South interactions was of particular relevance in this context. Emerging economies were, in fact, playing an increasingly important role as providers of aid and financial resources in achieving the Millennium Development Goals. Notwithstanding this growth and diversification, total available resources had fallen far short of the projected financing requirements of the Goals. The Deputy Secretary-General stressed that filling this financial gap was of crucial importance, especially in light of the ongoing discussions that would help define the post-2015 international development agenda.

4. Finally, the Deputy Secretary-General noted that the expert meeting provided a timely and important opportunity to debate and discuss key issues related to the Millennium Development Goals. He stated that the meeting should be seen as an integral part of efforts by UNCTAD to contribute to the United Nations system-wide discussions that would help shape the post-2015 development agenda. These efforts were intended to place trade and development at the centre of that agenda, in order to provide developing countries with the means to achieve their development goals.

5. The Chair of the meeting recognized the significant progress made on some Millennium Development Goals and the efforts devoted by the international community to achieving the Goals, especially in the period prior to the global financial crisis. She observed that, unfortunately, the crisis had seriously affected the rate of completion, despite the fact that many developing countries had withstood the crisis better than advanced economies. Therefore, much remained to be done in several key social and economic areas, and the Chair stressed that achieving results was only possible by combining the efforts of the international community at the multilateral, regional and bilateral levels. Finally, the Chair emphasized that successfully achieving the Millennium Development Goals by 2015 should remain a priority, especially as they would lead directly to post-2015 development efforts.

B. Taking stock of the contribution of effective forms of cooperation to the Millennium Development Goals and their evolution in the area of trade and development

(Agenda item 3)

The Millennium Development Goals and international partnerships for development

6. In the first informal meeting, the experts discussed the role that international cooperation had played in making progress on the Millennium Development Goals and highlighted the main lessons learned for the design of the post-2015 development agenda. The Director of the UNCTAD Division on Globalization and Development Strategies stressed that business-as-usual policies were not enough to address the current systemic development challenges. He called for a complete rethinking of a goal-based framework based on three pillars, stating that the new development agenda should be universal in scope, transformative, in order to sustain structural transformation and job creation in developing economies, and integrated, as it would have to simultaneously address economic, social and climate-related challenges. In order to pursue such an agenda, a multilateral approach was needed – of which South–South interaction would represent only one component – along with recognition of the importance of policy space for national Governments.

7. The keynote speaker, the Executive Director of the Overseas Development Institute, continued the critical discussion of the achievements related to the Millennium Development Goals and of the post-2015 development agenda. He first reviewed the progress made to date on the different Goals, noting that the successes achieved related to the Goals on poverty, which had been reduced at an incredible pace in the last 25 years, on school enrolment, especially in sub-Saharan Africa, and on the reduction of child mortality rates. He stressed, however, that performance on the other Goals had been less impressive. More importantly, rising inequality within countries cast some doubt on the effective improvements experienced by the poorest parts of the population in many developing economies. Furthermore, the progress made to date was fragile, since the growth process underpinning the achievements had not brought about structural transformation or job creation, and in many countries capital formation and savings rates had not materialized.

8. The speaker analysed the contribution of international cooperation to the achievement of the Millennium Development Goals. For instance, despite the fact that the Goals framework focused mainly on official development assistance and debt relief to reduce poverty, the target of 0.7 per cent of gross national income that developed countries had agreed to provide as aid was far from being met. The adverse effect of this financing gap had been reinforced by the lack of effective international macroeconomic cooperation, which weakened further after the global economic crisis.

9. Equally detrimental had been the incapacity of the international community to address challenges related to climate change, as well as the absence of any serious commitment to development issues in the Doha Round of negotiations. This had been erroneously attributed to the multilateral nature of the negotiations and some had suggested that preferential agreements, such as a trans-Pacific trade agreement and a United States of America–European Union trade partnership, might represent a valid alternative to integrating the world economy in a "bottom-up" manner. However, development challenges could not be addressed without a multilateral and rule-based system, and the dilemma during the Doha Round of negotiations had been the absence of a strong and pro-development political commitment on the part of the major advanced economies, rather than the multilateral nature of the system. The speaker emphasized that isolating trade from other components of development, such as technology and infrastructure, might foster divergence rather than convergence among economies.

10. Finally, the speaker stressed some of the critical lessons to be taken into account in order to establish appropriate priorities in the post-2015 development agenda. Alongside climate, finance and trade issues, he stated that combating inequality should represent the cornerstone of the new set of goals, in order to guarantee sustainable growth and a more equitable distribution of growth gains. This should not be evoked simply as a general principle, but should be explicitly articulated in targets on the distribution of income and with regard to other income generation-related variables, such as educational achievements. In terms of policy, therefore, traditional ex post redistribution measures should be coupled with ex ante redistribution measures designed to foster a greater equality of opportunities in access to education and health. He observed, however, that setting ambitious objectives alone was not enough to achieve real and sustainable progress, especially where the production of public goods was involved. Objectives should be accompanied by an effective mechanism of international cooperation based on inclusiveness and multilateralism, in effect adapting the architecture of international cooperation to the exigencies of the twenty-first century.

Mobilization of financial resources for the Millennium Development Goals

11. The second informal meeting examined how different sources of financing might be fashioned in order to meet the Millennium Development Goals. The prodigious financing requirements for the post-2015 development agenda were highlighted, and the experts discussed possible new financing sources that might fill financing gaps. Although numerically important, private sector financing was not a substitute for public sector financing, and innovative sources of financing would not be great enough to provide the financing required for sustainable development. Therefore, action was needed for systemic reforms and domestic resource mobilization.

12. With regard to the role of private finance in helping fill financing gaps, the expert panellists noted that such financing sources might be raised both domestically and externally. However, many developing countries lacked a domestic institutional investor base and recent private financing for developing countries had been mainly obtained externally through issuing bonds. However, this financing source had been volatile, and a limited amount – less than 1 per cent – had been allocated to infrastructure projects. In order to avoid short-term speculative financing and promote long-term private financing, the experts noted that it was important to encourage international institutional investors to finance long-term, sustainable development projects. However, changes in financial market incentives were needed for this to occur.

13. The experts considered an overview of different sources of financial resources and mechanisms to support the Millennium Development Goals, including official development assistance, debt relief and innovative financing. The latter includes carbon markets, diaspora bonds and financial transaction taxes. The experts also discussed recent trends, emphasizing that while some trends had been positive, such as in key debt indicators – public debt, for instance, as a proportion of gross domestic product in developing countries, had declined over 2000–2012 – other trends had been negative, such as the gradual increase of external debt among different groups of developing countries over 2005–2012. A particularly worrying trend had been the increase in both short-term external debt and debt servicing.

14. Recent debt-related developments included changes in the composition of external debt, moving away from bank loans and towards bond debt. The experts noted that, unlike in the past, low-income countries were beginning to have access to capital markets. In particular, there was an increase in new large borrowings through bonds issuing by heavily indebted poor country (HIPC) Initiative countries that are post-completion, such as the Plurinational State of Bolivia, Ghana, Mozambique and Zambia, and the HIPC Initiative was coming to an end. Meanwhile, 15 countries had already reached a point of debt distress and another 27

countries were in a moderately distressed situation. The prediction was that, within a decade, most HIPCs would have reverted to a pre-HIPC Initiative situation. The experts noted that a particularly vulnerable developing country group was the Caribbean countries, which were caught in a high-debt low-growth trap, and a number of these countries were already in a debt distress situation. Given these trends, the experts stressed that having an effective debt crisis resolution mechanism in place was very important, but was unfortunately not the case at present. UNCTAD had consistently called for such a mechanism since the emergence of debt problems in the 1970s and it was noted that a working group was currently being established to design such a mechanism.

15. Some delegates raised the issue of the possible connection between private capital and official development assistance, and the panellists emphasized that the latter might have an important catalytic role in leveraging private investment for development.

16. Other issues raised by participants included a sustainable debt level threshold and achieving an enabling environment that permitted the continued flow of external financing. With regard to debt levels, the panellists suggested that there was no single number, since a sustainable debt level depended on the economic structure, resource endowments, population growth and domestic savings levels of each country. With regard to creating an enabling environment for attracting external financing, the panellists clarified that this did not mean free capital movements. Rather, capital controls conducive to the orderly inflow and outflow of capital would support a stable economic environment and sustainable development.

17. The policy recommendations emerging from the presentations and discussion were that national Governments should avoid overborrowing and resist the temptation of low interest rates, and that it was also important to restore capital control capabilities, in order to prevent crises in balance of payments and raise the maturity of external inflows. Moreover, progressive taxation and international cooperation against tax evasion and capital flight were needed. At the national level, strengthening the domestic mobilization of resources was crucial, and at the international level, the experts proposed the creation of an efficient and fair debt workout mechanism, as well as regulation in international financial centres, which would help reduce the instability of external private capital.

Trade and the Millennium Development Goals

18. The third informal meeting explored the nexus between trade and the Millennium Development Goals and discussed some of the key issues in harnessing trade for economic and social development. Enhancing trade was targeted in Goal 8 on strengthening the global partnership for development. Progress towards this Goal was measured through the increase in exports from least developed countries and developing countries to developed countries since 1995. This rise in exports had been accompanied in many countries by a reduction in the poverty headcount ratio and increased per capita incomes.

19. The experts discussed how trade could impact poverty, both directly via impacts on domestic prices and household welfare and indirectly by strengthening productive capacities and increasing employment levels. However, countries faced many challenges in making trade lead to poverty reduction, including triggering structural transformations and making growth inclusive in terms of gender, regions, etc., as well as making growth sustainable, particularly in structurally vulnerable economies. The experts pointed out that trade was expected to be included in the post-2015 sustainable development goals indirectly through goals covering equitable growth, the generation of jobs and the creation of a global enabling environment, among others. However, the post-2015 global development agenda also needed to aim at building a more equitable global trading system, both between and within countries. The alignment and intersection of the trade, finance and development agendas was critical.

20. The role of trade in enhancing gender equality was also discussed, with a particular focus on the empirical case study of India. The impact of trade might not be gender neutral, as gender inequalities persisted in terms of employment opportunities, returns to labour, access to technology and other resources and the distribution of income both within and outside households. The experts noted that in India, the work-participation rate of women was much lower than their population share and even lower in the formal sector. A gender-literacy gap persisted, as did a gender-employment gap. The gender-wage gap had been seen to decline with a rise in women’s literacy levels. Even given the same education qualifications, however, women still earned only 70–75 per cent of what men earned. Finally, while exports had increased employment opportunities, opportunities created for women represented only 30 per cent of the total employment generated by exports. As could be seen, one of the major challenges for the global development agenda, therefore, was to make gains from trade more gender neutral.

21. The experts noted that trade policy was a “blunt instrument” with which to address poverty and hunger, but that it was not irrelevant. Although trade policy implications, such as that of the duty-free quota-free access for products from least developed countries to developed country markets, tended to be minimal, developing a trade system was important. The issue of allowing for policy space for developing countries with respect to food security was emphasized. The Doha Round of negotiations had brought the issue of food security to centre stage through trade facilitation agreements and negotiations on public stockholding for food security.

22. The experts further noted that agriculture was both a cause and victim of climate change and that the “green revolution” had increased the energy intensity of agriculture, thereby further linking food prices to energy prices. The trade-off between food production and the use of biofuels had further complicated the food security issue. The World Trade Organization Agreement on Agriculture might have widespread implications, as it addressed domestic support for biofuels and other agricultural subsidies. Further discussion of intellectual property rights and environmental standards was needed, in order to facilitate the shift towards sustainable agriculture, including on the issue of climate change, which might further increase price volatility. In theory, the current trade regime left enough policy space for promoting food security. However, the most significant issues faced by developing countries included the lack of fiscal resources for alternative sustainable agriculture and development strategies, adverse spillover effects from farming and biofuel subsidies and the lack of access to technology and policy space for the development of non-agriculture sectors.

23. The role of trade in achieving the Millennium Development Goals in least developed countries was emphasized by the experts. Both internal and external factors had contributed to the impressive growth and trade performance of least developed countries. Increased official development assistance, remittances and foreign direct investment, along with trade liberalization, privatization and prudent macroeconomic policies, had been enablers of this growth. However, this growth had been commodity dependent and not inclusive, resulting in a slow reduction of poverty, a lack of structural transformation and increasing de-industrialization. Furthermore, this growth had been jobless, despite a fast growing labour force and population, and especially a young population. The expert panellists noted that this type of growth was therefore not sustainable and that there was a need to promote an employment-rich growth model, with the development of productive capacities as an integral part. A three-pronged approach was required, aimed at productivity improvement in agriculture and tradable and non-tradable activities. Finally, macroeconomic policies, including fiscal, credit and monetary policies, were discussed, as well as policies for inclusive and transformative growth, such as enterprise development, rural development and public work programmes. The experts reiterated that coherent development strategies with broad policy space were needed in least developed countries.

24. The delegates engaged in intensive debate on the importance of including trade in the post-2015 development agenda and agreed that it should be given prominence. One delegate raised the question of whether relevant mechanisms existed for translating ideas related to global partnership for development into practice, and highlighted the difficulties faced by least developed countries in undertaking labour reforms, which became important in the process of trade liberalization and making growth employment-rich. Another delegate highlighted the fact that global strategies might be difficult for least developed countries to adopt and that a more tailored approach was needed in formulating growth strategies for these countries. Another delegate observed that trade could not be viewed in isolation and should be an integral part of overall global development policies. The discussion concluded by emphasizing the need for countries to integrate with the global economy in a strategic and pragmatic manner and the need to improve policy coherence at both national and international levels.

Building productive capacities to achieve the Millennium Development Goals

25. The role of productive capacity in attaining the Millennium Development Goals and its relevance for the post-2015 development agenda was examined during the last meeting. The discussion was prefaced by consideration of recent history and policy issues and recognition of the excessive dependence on commodity exports across much of the South in recent growth episodes. Commodity-based growth had had limited employment-generation effects and had raised many doubts about its sustainability. As this type of growth was commonly confined to certain dynamic sectors, many who sought employment had to remain in the less dynamic informal sector, which involved lesser paid and more vulnerable employment.

26. In considering policy tools, the experts weighed the difficulties faced by many economies that formerly, in the 1950s and 1960s, had engaged in import substitution with respect to their own industrial achievements. The subsequent era of deregulation and privatization had afflicted many countries, stripping their economies of important manufacturing activities and raising unemployment levels. A return to industrial policies, which had been taboo through the 1980s and 1990s, was considered as serving key social and productive ends by raising growth and providing jobs. The experts highlighted structural transformation and the issue of a policy mix in examining how developing economies might build industrial capacity in new and existing sectors. A broad policy mix included strategies to address incentives, capabilities and long-term finance. The experts noted that the State played an essential role in industrial policy, and yet an active State role frequently continued to be contested in development circles. There was general agreement among the experts that, in order to address aversions to the active role of the State in industrial policy, dialogue was essential in addressing the specificity of concerns in an open framework.

27. The experts highlighted capabilities and capacities as a key policy area. Research carried out by the International Labour Organization and UNCTAD had found that countries with a bell-shaped educational structure also had a higher manufacturing share in their total production and a higher share of medium- and high-technology products in their manufacturing production. For this reason, there was a need for strategic dialogue that included both stakeholders who elaborated policy for attaining economic goals and those policymakers who set educational goals. Joint efforts facilitated the advancement towards new technologies, with higher value added in national production. As well, institutional capacities were vital and required further attention in order to implement reform for policy management. This matter evoked concern, particularly among sub-Saharan African States, that there was a deepening dependency upon industrialized countries, not only in productive sectors but also in establishing greater institutional capacities at national levels.

28. The experts observed that development banks played an increasingly active role in shaping industrial policies. The establishment of a bank with capital from Brazil, the Russian Federation, India, China and South Africa – the BRICS countries – was a welcome development and presented an opportunity to secure greater autonomy in the South in the area of finance. Developing countries continued to face massive gaps in infrastructure provision and an estimated US$1 trillion was needed annually if developing countries were to fill these gaps and sustain the growth levels recorded in the last 15 years. The BRICS countries were becoming more important in the international economy and as recent financing trends suggested, it did not appear that existing financial institutions were likely to meet the level of commitment required for infrastructure.

29. The role of the new BRICS bank would be to increase the supply of long-term loans and the bank was needed to crowd-in private sector activities. In addition to the very tangible contribution of increased funding, the type of loans that the BRICS bank was anticipated to engage in would ensure its success, particularly if the loans were made without the conditionality that had been the cornerstone of the two major international financial institutions, the International Monetary Fund and the World Bank, and the many national development banks that had patterned their lending programmes on similar models. The emergence of a South–South bank such as the BRICS bank provided hope of strengthening the voice of the South, which had been missing from the international financial system. Finally, a development bank such as the BRICS bank needed to be large enough to make the kind of impact that would foster industrial capacity growth in diverse sectors across the economies of the South and could achieve this objective if it could make US$70 billion in disbursements annually.

30. During the ensuing discussion, many delegates congratulated UNCTAD on organizing a very interesting and useful meeting. Several delegates inquired about the appropriate way to implement industrial policy and the role of developmental States in helping the private sector become the driving force of economic development. In addition, several delegates inquired about the BRICS bank and the conditions for accessing financing for infrastructure.

31. The role of the private sector was emphasized by all panellists and the activities of State involvement were considered in light of the aim of encouraging private investment in new areas. An essential indicator for many countries, such as those of sub-Saharan Africa, would be a rise in manufacturing activities and lowering of costs for energy delivery. Ownership was another important issue in sub-Saharan Africa, where the technological capacities to produce efficiently frequently did not belong to the countries themselves but to the foreign companies operating in them. Leadership and vision were necessary in order to introduce needed reforms that could secure technology transfer to developing countries.

32. Successful developmental States had recognized that national development goals and industrial policy could be mutually reinforcing. Since policies were not universally valid across countries and time periods, States needed to have the space to experiment. It was as important that space be allowed for failure in order for States to learn from mistakes as it was to coordinate in order to share successes across the South. In addition, developmental States needed to have instruments in place to discipline both the private and public sectors. In this regard, soft developmental States had not generally been a success.

33. The experts noted that UNCTAD reports on experiences in various economies, such as the Republic of Korea and Taiwan Province of China, had shown that a key lesson lay in disciplining recipients of State support in a way that justified that support with concrete results. It was important to remember, for instance, that the Republic of Korea had protected its automobile industry for 25 years before it became a successful exporter. As could be seen, capabilities, capacities and productive transformation were key to development. Establishing new activities while increasing technologies, through active support for knowledge

and a strategy of demand management based on long-term counter-cyclical finance, was fundamental for the development of productive capacity.

II. Organizational matters

A. Election of officers
(Agenda item 1)

34. At its opening plenary, on 19 May 2014, the multi-year expert meeting elected Ms. Tatiana Isachenko (Russian Federation) as its Chair and Ms. Amna Jaber Al-Kuwari (Qatar) as its Vice-Chair-cum-Rapporteur.

B. Adoption of the agenda and organization of work
(Agenda item 2)

35. Also at its opening plenary, the multi-year expert meeting adopted the provisional agenda for the session (contained in document TD/B/C.I/MEM.6/4). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Taking stock of the contribution of effective forms of cooperation to the Millennium Development Goals and their evolution in the area of trade and development
4. Adoption of the report of the meeting

C. Outcome of the session

36. At its closing plenary, on 20 May 2014, the multi-year expert meeting agreed that the Chair should summarize the discussions.

D. Adoption of the report of the meeting
(Agenda item 4)

37. At its closing plenary, 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]

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

Algeria
Benin
Bosnia and Herzegovina
Botswana
Burundi
China
Côte d'Ivoire
Democratic Republic of the Congo
Dominican Republic
Ecuador
Egypt
Ethiopia
Greece
Iran (Islamic Republic of)
Jordan
Kazakhstan
Kenya
Lesotho
Libya
Lithuania
Mali
Mauritania
Namibia
Nepal
Oman
Paraguay
Peru
Philippines
Qatar
Russian Federation
Saudi Arabia
Senegal
South Africa
South Sudan
Spain
Sudan
Togo
Trinidad and Tobago
Tunisia
Zimbabwe

2. The following Member of the Conference was represented at the session:

Holy See

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

African, Caribbean and Pacific Group of States
Common Market for Eastern and Southern Africa
European Union
Organization for Economic Cooperation and Development
Organization internationale de la Francophonie
Organization of Eastern Caribbean States
Organization of Islamic Cooperation
Permanent Secretariat of the General Treaty on Central American Economic Integration
South Centre

4. The following United Nations organs, bodies and programmes were represented at the session:

Department of Economic and Social Affairs

5. The following specialized agencies were represented at the session:

Food and Agriculture Organization of the United Nations
International Labour Organization

[1] This attendance list contains registered participants. For the list of participants, see TD/B/C.I/MEM.6/INF.2.

World Intellectual Property Organization
World Trade Organization

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

General category

Ingénieurs du Monde
International Network for Standardization of Higher Education Degrees