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Statement in the occasion of UNCTAD Trade and Development Board
59th Session, September 2012
International Working Group on Trade-Finance Linkages- Steering Committee

The Steering Committee of the International Working Group on Trade-Finance Linkages addresses this statement to members of the UNCTAD Trade and Development Board (TDB).[1]

Our Working Group has brought together, for a full decade now, organizations North and South to understand the linkages between trade and finance and leverage them in ways that effectively serve development premised on human rights, gender equality, social justice and ecological goals. We have, therefore, a keen interest on supporting UNCTAD's role in analysis, consensus-building and technical assistance on the full range of trade and development and the interrelated issues in the areas of finance, technology, investment and sustainable development.

As the TDB initiates its session, the world economy, never having fully recovered from the Great Recession of 2008-09, shows worrisome signs of malaise. Growth has been revised downwards in all regions of the world, and Europe is on the brink of a new recession. The joblessness situation is alarming, with the creation of 50 million jobs needed just to restore employment to pre-crisis levels. Developing countries bear a proportionately greater burden in paying for the impacts of a crisis they had no part in triggering.

UNCTAD has played a historical role in bringing up and representing the interests of developing countries in international economic policy debates. Therefore we consider the upcoming TDB Session a crucial opportunity for members to up their political support for UNCTAD's leadership role in analysis and consensus-building on these areas. While recognizing that the quadrennial work plan that emerged from the UNCTAD XIII Doha Outcome Document ("Doha OD") has to be upheld in full, we want to call attention to aspects that seem particularly suitable to the current juncture.

Global economic issues

The impacts of the failure to adequately address a crisis that began in the financial centers of the industrialized world threatens to engulf developing countries in a second round of shocks to demand, investment and trade. If materialized, such threats would catch developing countries in worse shape than they were when the 2008 crisis hit, as that crisis already took its toll on fiscal and current account cushions.

In light of the current trends, we welcome the foresight of the Doha OD agreed language giving UNCTAD a mandate to "continue … research and analysis on the prospects of, and impact on, developing countries in matters of trade and development, in light of the global economic and financial crisis." Never has it been more important that now to count on UNCTAD's analysis to establish where measures to address the global economic and financial crisis, especially at the source, have failed, and provide an alternative voice on what is needed to correct them.

Four years after the fall of Lehman Brothers, a new wave of scandals in the banking system are exposing the flaws in actions that the public was told would prevent financial crises in the future or, at least, ensure the public would be protected from the excesses in risk –taking of the financial sector. As the annual report of the Bank for International Settlements stated, "in 2012, the general conditions in the banking sector are similar to the conditions that prevailed after the collapse of Lehman Brothers."[2]

UNCTAD should examine where financial re-regulation efforts are falling short from what is needed to make finance work to support employment and sustainable development, and propose alternatives.

Policy measures seen as recommendable under the emerging consensus on financial regulation are susceptible of challenge under WTO, bilateral and regional agreements on financial services developed under a pre-crisis, now obsolete, paradigm. The threat of the Investment Industry Association of Canada to call on the government of Canada to attack the U.S. Dodd-Frank financial reform legislation through the WTO dispute settlement process is a sample tactic to prevent financial regulatory reform.[3] Many such treaties and agreements also introduce heavy limitations in the use of capital controls that have proved to be essential in a country's menu of options to prevent and cope with crises. The continued uncertainty surrounding the legal status that those macroprudential and regulatory policies have under existing treaties will be paid dearly by developing countries either in missed opportunities to implement such measures or in legal challenges if they do so.

UNCTAD should fill the current gap in fora to bring consensus on practical approaches to ensure provisions on trade in financial services at the global, regional and bilateral level do not compromise developing countries' ability to resort to crisis prevention and resolution policies.

In spite of the strong profile given to the reform of the international monetary system in in the G20 last year, only piecemeal and minimalist actions were finally agreed and even their implementation is subject to question. A more ambitious agenda launched by the World Economic and Financial Crisis at the level of the United Nations remains stalled. The limited range of approaches to provide the much-needed stimulus the global economy needs is a clear sign of why a full-fledged reform of the international monetary system is in order.

UNCTAD should be more active in analysis and consensus-building to reform the international monetary system so the system helps: a) rebalancing and coordination between trade deficit and surplus countries, b) ensuring adjustments are non-recessionary, c) limiting significant exchange rate volatility. This reform should include an orderly pathway to a central role for a supranational currency and growing support to regional and subregional trading and reserve currencies.

International trade, national capital and development

As global trade is forecast to slow down again this year, developing countries will be the most affected, due to trade being proportionately a greater portion of their economies than in developed countries.

In a scenario of lower export volumes, it is more important than ever for developing countries to strengthen the link between trade and the building of national capital. This requires less emphasis on the volume of exports and a greater emphasis on qualities such as their diversity and value-addition. UNCTAD is well-positioned to provide analysis and advice and advocate cooperation –including South-South-- on the macroeconomic and financial policies that best support such a move.

The Doha OD called on UNCTAD to "Provide analytical work and technical assistance to developing countries, particularly LDCs and countries with economies in transition in the areas of trade and economic diversification and structural transformation to enhance growth and development; including sectors … that generate more value addition," should be emphasized (para. 31(e)). Likewise, paragraph 60 of the Doha OD reaffirms the importance of industrial policies for "establishing dynamic and sustainable development in many countries." (para. 60)

UNCTAD should continue to provide policy analysis and advice on the fiscal, monetary and other financial policies to ensure developing countries can enhance the contribution made by trade to national capital and its progressive distribution. In the context of the Least Developed Countries (LDCs), in particular, UNCTAD should continue to enhance domestic productive capacity, trade diversification and a better balance between export-led growth and domestic or regional demand-led growth, in order to bolster their resilience to exogenous shocks.

Commodity price volatility, trade and investment

The excessive volatility of commodity prices is also a priority challenge for developing countries, many of which are commodity exporters, importers, or both. In this regard, we want to stress mandates emerging from the Doha OD (paras. 27 and 31(i)) to "support commodity-dependent developing countries," which are especially relevant to LDCs. The impact that financial market speculation has on driving this volatility is now well-documented by a large body of research. So are the macroeconomic impacts that commodity price volatility has on developing countries. Responding to these challenges requires fiscal and monetary policies that depart from old and tried textbook approaches not relevant to the reality of markets in developing countries.

At the international policy level, this should translate in UNCTAD's advocacy for a) re-regulating commodity derivatives markets in both developed and developing countries –but especially in major financial centers— with the goal of setting limits to the opportunities for financial speculation and b) agreements to ensure stabilization of commodity prices and determent of price fluctuations. At the national level, UNCTAD should receive increased support for the urgent task of advising developing countries on macroeconomic policies to cope with commodity price volatility.

The Joint Inspection Unit report

The Trade and Development Board has recently issued agreed conclusions on the Joint Inspection Unit report. We are relieved to find in them a reaffirmation of commitment to strengthen UNCTAD. Likewise, we appreciate the recognition of the need for strategic guidance and oversight by member States that is essential in any intergovernmental organization. At the same time, we wish to note that this guidance and oversight in the case of UNCTAD is reflected in the Doha work programme, a balanced outcome reached by the collective of member states after difficult negotiations.

We call on member States to exercise their oversight prerogatives in such a manner as to ensure the full and comprehensive implementation of the Doha work programme. In fulfilling its duty to guarantee such full and comprehensive implementation the Secretariat should enjoy full independence and adequate funding support. Individual member States should not seek, under the guise of oversight or guidance, a selective approach to the implementation of the work programme or a renegotiation of aspects of the programme they do not support.

Investment for Sustainable Development

The Investment Policy Framework for Sustainable Development launched by UNCTAD merits special attention on our part.[4] We welcome UNCTAD's initiative to lead on a set of guidelines that profess to emphasize the "relationship between foreign investment and sustainable development, advocating a balanced approach between the pursuit of purely economic growth objectives by means of investment liberalization and promotion, on the one hand, and the need to protect people and the environment, on the other hand," and that underscores the interests of developing countries in investment policymaking.

We also are encouraged by the decision to do it in the form of a "living document," with an interactive, open-source platform for the exchange views, suggestions and experiences. This suggests a recognition of the data and knowledge gaps that exist in this highly contested area and a desire to listen to diverse perspectives and keep learning from them.

Among the IPFSD's Core Principles, it was refreshing to find one on "Dynamic policymaking: *Investment policies should be regularly reviewed for effectiveness and relevance and adapted to changing development dynamics.*" We hope a mainstreaming of this principle can help counter what has become an unfortunate practice in investment agreements, that is, they become a set of rules written in stone, no matter how negative or misguided the adoption of those rules may be revealed to be in practice.

In the National Guidelines, among other things, we support the concept that policy should be guided by a clear vision of what type of investment is desirable in the context of a previously decided national development strategy. Along these lines, the IPFSD's recommendation of carefully considering each of the productive assets that FDI is expected to generate is very positive, as well as the idea that there should be clear impact indicators on whose basis to assess whether such expected contributions are being realized in practice.

In terms of the guidelines for negotiation of IIAs, we appreciate that a number of options that typically are not even part of the debate – either domestic or with other negotiating party(ies) – are placed within the spectrum of valid options countries may wish to include in an investment treaty. It is the sad reality that investment treaty negotiations tend to be very unbalanced, with the most powerful parties foreclosing any meaningful debate on options that host countries or their people find desirable. Still, only advice to developing country negotiators that encompasses the full range of choices can lead to a robust debate and ultimately to better choices on whether to join (or continue to be party) to an investment treaty.

However, other features of the IPFSD are a matter of concern to us, such as finding among the Core Principles adoption of one that calls for Openness to investment. A priori judgments on whether open or close investment policies should be the rule are not coherent with the notion that investment policy decisions should be made on the basis of a national development strategy and looking carefully at the benefits of each type of investment.

This bias towards an open regime leaks into a number of national policy guidelines which are asymmetrical in warning about restrictive policies or praising open ones. One example can be found in a guideline that says policies that discriminate in favor of domestic investors should be periodically reviewed for efficacy, but does not call for a symmetrical requirement for policies of non-discrimination.

Further, the sense of balance that the IPFSD suggests in laying out the domestic policy guidelines could easily be lost if the country-by-country application is not rigorously balanced, too. However, one of the products named by UNCTAD are "Investment Guides" that UNCTAD develops on an equal-footing partnership with the International Chamber of Commerce. This latter is not an entity that can be expected to dispassionately weigh the interests of the host country, its citizens and communities, but one that is looking out for defined interests of the portion of the global private sector it represents.

In terms of indicators for the impact of investment, it seems that only the positive results of investment are to be considered –e.g., whether the attracted investment generates jobs or increases capital formation -- while no room is provided for consideration of ways in which FDI may affect variables negatively – e.g. whether that same investment destroyed jobs, or crowded out domestic investment.

UNCTAD should improve the IPFSD on the basis of a broad consultation with all stakeholders, including civil society and academics. Advice it provides to countries on national or international policy could be informed by private sector views but always offered in the context of open and transparent processes open to all stakeholders in the investment decisions. Giving the private sector a privileged platform blurs lines of accountability and generates the perception that their interests weigh more than those of the host country or their communities and citizens.

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[1] To learn more about the International Working Group on Trade-Finance Linkages and its current Steering Committee members visit www.coc.org/rbw/trade-finance-linkages

[2] http://www.bis.org/publ/arpdf/ar2012e6.pdf at 64.

[3] Gretchen Morgenson, "Barriers to Change, from Wall St. and Geneva," *The New York Times*, March 17, 2012. http://www.nytimes.com/2012/03/18/business/wto-and-barriers-to-financial-change.html?_r=1&emc=eta1

[4] See Caliari, Aldo "Investment Policy for Sustainable Development, UNCTAD Proposes" for a more detailed review (available at https://www.coc.org/rbw/investment-policy-sustainable-development-unctad-proposes-september-2012)