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Contents

Chair's summary

Successful trade and development strategies for mitigating the impact of the global economic and financial crisis

(Agenda item 4)

1. The Commission's deliberations under agenda item 4 were facilitated by a high-level panel, moderated by the Secretary-General of UNCTAD. The panel consisted of (a) Ms. Monique Nsanzabaganwa, Minister of Trade and Industry, Rwanda; (b) Ms. Venetia Sebudandi, Ambassador of Rwanda; (c) Mr. Roberto Azevedo, Ambassador of Brazil; (d) Mr. César A. Hidalgo, Harvard Kennedy School and Harvard's Center for International Development; (e) Mr. Darlington Mwape, Ambassador of Zambia.

2. Participants agreed that the global financial and economic crisis, which originated in developed countries and in global imbalances, had affected all countries but particularly developing countries. It was mentioned that the root cause of the crisis was serious imbalance in development levels between North and South, which was manifested by structural problems such as imbalance in world wealth distribution, imbalance in resource owning and consuming, and imbalance in the international trading, financial and monetary system. However, different countries were affected differently. The impact on developing countries was felt particularly through reduced exports and employment in all sectors as well as for migrant workers, and reduced remittances. Among the most severely affected were commodity-dependent countries that were deeply affected by a sharp fall in commodity prices. In Zambia, a single-commodity-dependent country, lower prices of copper had decreased Government revenue, requiring it to cut expenditures on social spending, including on education, which had had a pro-cyclical effect. It also led to increased unemployment. The crisis had reversed the hard-won gains towards the achievement of the Millennium Development Goals (MDGs). This showed a need to more directly link trade and trade liberalization to the achievement of MDGs and creation of employment, leading to poverty alleviation.

3. Participants underlined the need to be vigilant on the emerging recovery. While there were emerging signs of economic recovery, they were far from "human recovery", as unemployment remained exceptionally high and household wealth depressed. Question arose therefore how a strong and sustained recovery could be achieved while countries were increasingly confronted with the need for increased public financing against the background of high indebtedness and lack of private investment, and at the same time deal with the waning impact of extraordinary stimulus packages and consider exit strategies.

4. Many participants stressed that developing countries, including some LDCs, had shown relatively good resilience and performed better than the world average growth with "emerging" economies with large domestic market being among the fastest to recover, and were presently leading the global recovery. That could be regarded as a "tectonic shift" in the process of consolidation of a new global economic order, as the developing world was no longer at the margin of the economic governance mechanism. Such positive performance was attributable to their maturity in macroeconomic management, good financial practices, responsible regulation of financial institutions and an active role of the State. Various governments intervened before and during the crisis through a variety of policy instruments, at a different timing and duration (immediately, short-term, medium-term and long-term), and on a temporary and permanent basis.

5. It was noted that the main efforts during the crisis were directed at preserving macroeconomic and financial stability based on sound economic fundamentals. Temporary

intervention targeted at providing liquidity and capital, including prudential regulation, was critical in many cases in countering capital outflows, credit crunch and currency depreciation. Sound public finance management resulting in accumulation of foreign reserves spared many economies from exogenous shocks, while monetary authorities' handling of interest rates, liquidity and banks' reserve requirements was instrumental for maintaining credit lines and liquidity. In Brazil, when the central bank could not act, public banks had acted as a "penultimate" lender of last resort. The prudential regulation of banking sectors proved to be particularly useful in preventing and responding to the crisis. Relatively stable source of external finance, such as remittance, helped in sustaining external balance in Bangladesh.

6. Many participants highlighted the particular importance of Keynesian counter-cyclical, expansionary fiscal and monetary policies that served to sustain aggregate domestic demand, including through temporary tax cuts and expenditures, and interest cuts. For surplus countries, such as China, boosting domestic demand was also instrumental for global macroeconomic rebalancing. Those economies resorted to comprehensive and integrated policies aimed at (a) strengthening social safety nets; (b) saving jobs; (c) expanding domestic demand, especially industrial sector and consumption; (d) strengthening small and medium-sized enterprises SMEs; (e) increasing trade finance; and (f) institution-building, with infrastructure development programmes including physical infrastructure development and housing. The packages emphasized increased attention to infrastructure-building and related services including health, education, energy, telecommunications and transport, which are key for competitiveness and access to essential services. Many developing countries were able to implement such measures owing to their stable fiscal situations and sufficient international reserves arising from their better longer-term economic management. For some Asian countries such as Indonesia, lessons learnt and applied from the 1997 Asian financial crisis served to cushion the impact of the crisis. The specific way to implement policies, however, depended on the institutional development of countries.

7. Provision of social safety nets was essential to minimize social costs of the crisis, as well as to prevent precautionary saving and boost private consumption. In Brazil, such measures included an increase in minimum wage, income transfer through social security benefits, unemployment insurance and minimum income programme and public support. In the Russian Federation, the protection of the vulnerable population and reform in health and pension schemes featured prominently.

8. Concern was expressed over large-scale public support, including financial sector bailout measures and conditionalities attached to the public spending, which could distort global competitive conditions, especially at the expense of developing countries without comparable financial capacities.

9. Many participants recognized trade policy as an important part of the crisis-mitigation measures. The first-order response was to keep markets open and not to restrict or discriminate foreign investment or rely on trade protectionism. The rules-based multilateral trading system and enhanced monitoring exercise were instrumental in this regard. Some had embarked on a comprehensive overhaul of national trade policy framework to harness their full potential of trade. Rwanda, with the support of UNCTAD, had begun such a process to build a robust economic base underpinned by diversified production of quality goods and services, and to contribute to a national development goal and the MDGs, including by addressing the supply-side constraints and promoting national export strategy, investment in public infrastructure, rehabilitation of road networks, industrial policy and tourism. In China, export promotion was pursued through improved trade finance, facilitated customs clearance and trade facilitation.

10. It was emphasized that greater efforts were being made to promote industrial development, and building and diversifying productive capacities, so as to render economies more resilient and to lay the foundation for sustained growth. For instance, robust investment expenditures were implemented in Brazil under its “Growth Acceleration Programme”, including by State enterprises, and “new industrial policy” was introduced to promote strategic activities, to boost exports, investment, innovation and R&D, including through tax cuts and creation of special credit faculties. In Zambia, measures were taken to diversify markets and products with higher value-added and in non-traditional sectors, such as through promoting economic zones with development of agriculture, tourism and infrastructural services featuring prominently. In Bangladesh, expanded credit lines were opened for SMEs and fiscal incentive granted to garment sector. In the Republic of Korea, to prepare for future growth, measures were also taken to promote corporate restructuring and greener growth.

11. Participants recognized that building productive capabilities was a complex process. Research presented to the Meeting showed that the possibility of expanding export sectors over time would depend on their nature and depth of overall connectedness of products, and the level of capabilities and complexity of an economy (diversity of economic activities) would determine the level of income and development. The diversification and proximity of export sectors implied that “product space” could have a positive spillover effect to other sectors, a key to industrialization. Thus, coordination efforts and networks involving all stakeholders at the national, regional and international levels to accumulate capabilities over time could lead to a higher level of structural transformation and create economy-wide opportunities. Countries developed by economizing the coordinated accumulation of capabilities, which manifested as short jumps in the product space. Development would require a host of polices and measures including capabilities to produce a range of products, and developing complementary economic activities, learning, discovering and sharing of experiences about producing and trading in different products, economizing coordination, and developing public/private partnerships, and learning from other partners in regional framework to produce similar products. Gains from trade come from learning, rather than redistributive gains in efficiency.

12. Some participants emphasized that a reshaping of global economic governance was necessary to reflect evolving economic realities and a greater voice of developing countries. In this reshaping, a reform of international financial and stronger international regulations was urgently needed. That would promote a greater coherence with the rules-based trading system. The emergence of the G-20 was significant in strengthening policy coordination.

13. Participants shared the view that international trade continued to play a key role in overcoming the crisis. The lack of progress in the Doha Round was a cause of concern. It was considered high time to deliver on an early harvest of some of the LDC package, including duty-free and quota-free market access. It would also be important to facilitate the World Trade Organization (WTO) accession process for acceding countries. Scaled-up Aid for Trade support was important in building competitive and productive capacities.

14. South–South cooperation was considered useful in promoting trade, infrastructure development, development aid and debt relief. China and the Republic of Korea, for instance, enhanced their development assistance to other developing countries. Successfully completing the third round of Global System of Trade Preferences (GSTP) negotiations following the milestone agreement on market access modalities adopted last December could further stimulate fast-growing South–South trade.

15. There was a need to find specific and actionable measures and initiatives including on proactive industrial strategies to diversify developing countries’ trading capacities, expand agricultural production and build food security, increase services supplies in national and international markets and strengthen policies and investment into

infrastructure, promote long-term competitiveness, and high-value export oriented production.

16. Participants appreciated UNCTAD’s analytical work, including on the successful strategies to mitigate the crisis, and reaffirmed that UNCTAD played an important catalytic role in assessing and building consensus on possible new trade and growth paths, including from perspective of different country situations such as least developed countries (LDCs), landlocked developing countries (LLDCs) and transit countries, Africa countries, Arab States and small and vulnerable economies. UNCTAD could do further research to synthesize the country experiences, including measures needed to build national capabilities and diversification of economies, and their policy implications for new development strategies and for the international trading system. UNCTAD’s research on the crisis could also focus on policy implications of the crisis and mitigating strategies in the areas of trade and investment, including long-standing problems and imbalances. UNCTAD should also continue to support national and regional efforts to review and formulate trade and development policy frameworks, including on services, and help developing countries beneficially participate in the international trading system, and negotiate trade agreements and accede to WTO according to their level of development. UNCTAD should also continue to support countries in building transport and trade facilitation capacities.