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**FOLLOW-UP TO UNCTAD XI: NEW DEVELOPMENTS IN INTERNATIONAL
ECONOMIC RELATIONS**

President's Summary

1. The Officer-in-Charge of UNCTAD introduced the background notes prepared by the secretariat (TD/404 and TD/B/51/6) and also provided a comprehensive overview of the stages of evolution of the South's role in the world economy and international trade, current opportunities and challenges for developing countries in the context of the evolving new trade geography, and strategies and policies for strengthening South-South trade and economic cooperation and integration.

Trends and implications

2. The trend towards a new trade geography was a welcome phenomenon and ushered in a sense of optimism as regards the performance of developing countries in international trade. The long-term trend was clearly for the share of developing countries in world trade and investment to increase, and within that process for the South-South share to continue to rise. There were three key interlinked determinants and trends that shaped the new trade geography: the increasing role and importance of the developing countries, and therefore of their development, to drive trade and growth; South-South trade and economic cooperation reaching a critical mass and growing vigorously; and the changing context of North-South interdependence and terms of engagement, as well as the South's economic relations with countries with economies in transition.

3. However, it was necessary to exercise due caution in the use of the concept of the new trade geography and to avoid unrealistic expectations in regard to its scope and impact. While these trends identified in the secretariat's reports were quite valid per se to help identify a critical path for developing countries and regions, it would be important to bear in mind the fact that many developing countries, particularly African countries and LDCs, appeared not to contribute significantly to this positive trend, and some even were losing market share; poverty and marginalization persisted, especially outside of the growth poles.

4. It was argued, therefore, that the time had not yet come to rewrite the international trade geography textbooks. Intra-South disparities in performance should be taken into account in future analyses in terms of both opportunities and challenges. There must be systemic efforts, including by developed countries and those developing countries that were leading the South's trade and investment dynamism, to replicate successful experiences in countries that were lagging behind, especially in African countries, LDCs and small island developing States. The particular concerns of landlocked and transit developing countries deserve special attention. Strategies must be designed to ensure that the dynamism evident in several countries of the South was sustained and had a positive multiplier effect throughout developing countries.

South-South trade in the context of new trade geography

5. The growth in South-South trade had been driven, in particular, by East Asia - initially by ASEAN countries and more recently by China, whose booming domestic economy was drawing in imports from both developing and developed countries. The high level of demand in China was also pulling up many commodity prices and enabling other developing countries to seize sizeable new export possibilities. Two-thirds of South-South trade took place in Asia. Elsewhere - in Latin America or Africa - more "traditional" North-South trading patterns had been harder to shift.

6. Nevertheless, regional integration processes had gathered steam in these regions as well. For example, in Latin America, which had a long history of fruitful regional and subregional cooperation, economic integration arrangements were now being further developed in a manner compatible with the principle of "open regionalism". The results appeared encouraging, and regional and subregional trade relations currently covered a significant amount of manufactured exports. The African region was pushing for the creation of integration arrangements such as internal common markets, which offered a unique opportunity to deepen South-South trade on a regional and subregional basis.

Policy options for enhancing South-South trade

7. The real challenge before developing countries was to identify and consider more actionable proposals on South-South cooperation. The primary responsibility in increasing South-South trade and investment rested with individual developing countries. They needed to put in place and implement the best policy mix to stimulate export-oriented growth, attract and secure investment (both domestic and foreign) and promote their greater integration into the international trading system. With regard to trade policy, there was a need to strike the right balance so as to bring about progressive and managed liberalization - which would ensure a greater competitive stimulus to domestic firms without impeding any Government's

right to regulate. The role of small businesses was also important in promoting South-South trade and cooperation.

8. There were several routes open for developing countries to stimulate South-South trade, such as measures to reduce their own levels of border protection, including giving trade preferences for other developing countries, whether granted unilaterally or under a negotiated framework (such as the GSTP); providing trade preferences specifically for the LDCs; and undertaking regional liberalization in the framework of regional trade agreements (RTAs) concluded among developing countries or among developed and developing countries.

9. South-South RTAs also provided an opportunity for Governments to develop solutions to the legal, regulatory and "behind the border" challenges that also arose in the multilateral context - for example, product safety and health standards and other non-tariff barriers, as well as market entry barriers. Still another route was multilateral MFN-based liberalization for products of mutual interest in the context of the current Doha negotiations.

10. Furthermore, in addition to trade, more investment flows should be present in South-South economic cooperation, while taking into account the fact that most developing countries were not capital exporters. At the same time, since foreign direct investment was in short supply and was concentrated in a few developing countries, development strategies relying on domestic or regional savings and investment were needed.

11. Another area of possible South-South cooperation would be to achieve complementarities by harmonizing national laws and regulatory frameworks, including those on corporate issues and competition policy. Developing countries also stood to gain from the multilateral negotiations on trade facilitation, as part of the Doha Round, provided the necessary resources were made available to them to meet the attendant costs.

12. There was also a need to strengthen South-South interregional cooperation and establish or reinforce strategic partnerships of developing countries. The international trade, financial and development institutions also had important roles to play, including as providers of development finance, technical assistance and support for capacity building. They might tailor their policy approaches to support South-South cooperation.

13. The recent increases in oil prices and the burgeoning energy demand from the South contributed to increased interdependence among developing countries. In order to ensure the sustainability and quality of growth and development in the South, the management of this deepening interdependence warranted greater cooperation among developing countries.

Complementary measures by the North to promote South-South trade

14. South-South trade should be seen in the context of increasing interdependence between the North and the South, and should be supported by complementary measures by developed country partners. It was pointed out that trade barriers and certain trade-distorting and anti-competitive practices impeded South-South trade. Some participants expressed the view that many measures and policies could be undertaken by developed countries in

enhancing South-South trade, enhancing supply-side capacity and diversification in developing countries, and increasing investment flows and transfer of technology to developing countries.

15. In view of the increasing significance of the South as an important source of growth and dynamism of the world economy and international trade, some suggested that it was in the enlightened self-interest of the North to give greater weight to the trade and development interests of developing countries in their national policies and policy coordination.

Official development assistance

16. A positive recent development related to an upward movement of official development assistance (ODA) flows. During the last two to three years, there had been an increase in the level of global ODA, although such increases would not be sufficient for the achievement of the Millennium Development Goals (MDGs). ODA flows could help build supply capacity and improve competitiveness, thereby facilitating replication of successful experiences in countries that had lagged behind and in the process integrating them more closely in the world trading system.

Policy space

17. The São Paulo outcomes contained a pragmatic and balanced interpretation of policy space in the context of the application of different policy measures on the basis of concrete experience of what worked in a country and what did not. The need for diversity in the formulation of national development strategies was particularly important in enabling countries with different initial conditions and levels of development to effectively meet the challenges of sustained economic growth and development in a rapidly changing global economy.

Corporate responsibility

18. Over the years, transnational corporations had emerged as key actors in the global economic and trading systems, as well as impacting on the pace and quality of the development process of developing countries. At the same time, they were also a major beneficiary of this transformation. Many speakers suggested that it was important that the corporations fulfill their corresponding development obligations, not just in terms of written agreements but also in the larger social and human context. There were existing examples of voluntary frameworks such as the UN Global Compact and the Global Sullivan Principles of Corporate Social Responsibility. The view was expressed that there were, however, certain gaps in these frameworks, which needed to be filled. It was also important to ensure that home country standards and requirements should not act as disincentives to TNCs in locating in or sourcing from developing countries.

Security-related issues and developing country trade

19. Terrorism had given rise to increased security concerns, and some concerns were expressed to the effect that security-related measures were having a restrictive impact on developing countries' ability to trade in goods and services.

Role of UNCTAD

20. The importance and practical value of UNCTAD's substantive work in analysing and interpreting the evolving new trade geography from a development standpoint was recognized. The high-quality reports prepared by the UNCTAD secretariat on this item (TD/404 and TD/B/51/6) contained fresh analysis and perspectives, as well as practical strategies. In continuing its research and analysis on this issue, UNCTAD was encouraged to take a disaggregated view of differential performance in developing countries and further elaborate strategic approaches to enhancing South-South trade in the overall context of the new trade geography. One analytical challenge would be to determine whether current developments portended a decisive or qualitative change in the economic situation of the South. The participation of developing countries in dynamic and new sectors should be reflected in such work.

21. It was suggested that UNCTAD should look into the impact of the growing number of free trade agreements with investment components and examine the impact of the multiplicity of such agreements on investment flows from North to South. Further, UNCTAD, as the focal point for development, trade and investment in the UN system, was expected to contribute to confidence-building between developed and developing countries and play a complementary role, especially in terms of technical assistance, particularly in the area of South-South cooperation. In doing so, UNCTAD should cooperate closely with other relevant international organizations, including UN regional commissions, and organizations of the South.

Participants

22. The Board considered agenda item 2 in its high-level segment on 5 October 2004. The debate proceeded in three interactive sessions and was facilitated by several high-level representatives and lead discussants, including: H.E. Hon. Arjuna Ranatunga, Deputy Minister of Industry, Tourism and Investment Promotion (Sri Lanka); H.E. Dr. Ziyad Bahaa Eldin, Chairman of the General Authority for Investment (Egypt); H.E. Mr. Rodolfo Severino, Presidential Adviser on Trade and Development, Department of Foreign Affairs (Philippines); Mr. Richard W. Behrend, Director, Office of Economic and Development Affairs, Bureau of International Organization Affairs, Department of State (United States of America); Ambassador Samuel Amehou (Benin); Ambassador Carlo Trojan (European Commission); Ambassador Hardeep Singh Puri (India); Ambassador Shotaro Oshima (Japan); Ambassador Gyan Chandra Acharya (Nepal); Ambassador Péter Balás (Hungary); Ambassador Ransford Smith (Jamaica); Ambassador Joseph Ayalogu (Nigeria); Ambassador Elizabeth Astete (Peru); Ms. Virginia Cram-Martos (Economic Commission for Europe); and Mr. Martin Khor (Third World Network).

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