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**DRAFT REPORT OF THE TRADE AND DEVELOPMENT BOARD ON ITS FIFTY-
SECOND SESSION**

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Rapporteur: Mr. Levan Lomidze (Georgia)

Speakers:

Afghanistan for the G77 and China	Indonesia
El Salvador for the Latin American and Caribbean Group	Peru
Iran for the Asian Group and China	Belarus
Egypt for the African Group	Pakistan
United Kingdom for the European Union and the acceding countries of Bulgaria and Romania	China
Russian Federation	South Africa
	United States
	Japan

Note for delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments to statements by individual delegations should be communicated by **Tuesday, 18 October 2005** at the latest, to:
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**INTERDEPENDENCE AND GLOBAL ECONOMIC ISSUES FROM A TRADE AND
DEVELOPMENT PERSPECTIVE: NEW FEATURES OF GLOBAL
INTERDEPENDENCE**

(Agenda item 3)

1. For its consideration of this item, the Board had before it the following documentation:

Trade and Development Report, 2005 (UNCTAD/TDR/2005 and Overview).

2. The representative of **Afghanistan**, speaking on behalf of the **Group of 77 and China**, said that the excellent analysis in the *Trade and Development Report 2005* showed that, despite the expansion of South-South trade, the global economic environment continued to be shaped by macroeconomic and trade policies in the developed countries. All developing regions had benefited from the recent global expansion, and rapid growth in China and India had spilled over to many other countries in Asia and other regions. However, the fact that growth rates in sub-Saharan Africa were still far from sufficient to attain the MDGs, in particular with regard to poverty reduction, was a reason for serious concern. The outlook for the following year was uncertain, mainly due to the increasing current account imbalances among the developed countries. A well coordinated international macroeconomic approach was necessary to correct these imbalances without jeopardizing the recent improvements of developing countries' growth performance and progress towards these goals.

3. The oil price rise over the past few years had occurred despite the fact that many oil-producing countries had responded flexibly by increasing their production as much as possible to meet rising demand. Dependence on oil imports had increased in the developing world, but the industrialized countries still absorbed more than half of total oil production and had the largest potential for adjustment, especially the United States, where oil consumption per capita was 50 per cent higher than the developed country average and more than five times the world average. Developmental progress in China and India had contributed significantly to global growth and poverty alleviation. It had created new opportunities, but also new challenges, for other countries. It had also played a key role in the price increases for a number of primary commodities, but real commodity prices were still about one third below their level of the 1970s. Creative, and often heterodox, policies had played a central role in accelerating structural change and capital formation in China and India. The fact that there were substantial differences between the policies in China and India and those of other successful developing countries showed the importance of adequate policy space to tailor development strategies to the specific needs and circumstances of each country.

4. Despite the recent rise in commodity export earnings, efforts to reduce commodity dependence and to accelerate diversification and industrialization must be strengthened. In many developing countries this would require further international support, improved market access, and a solution to their external debt problems. For the poorest countries it would be essential that the international community meet the internationally agreed targets for official

development assistance, with an increasing share of grant financing. Commodity price instability was in the interest of neither producers nor consumers and could lead to inefficiencies in factor allocation. A fresh look at the possible mechanisms to reduce price instability for a wide range of commodities so as to minimize its adverse impact on national income could help to strengthen a global partnership for development. It was also necessary to ensure that the considerable rents accruing in the extractive industries were used in a way that maximized the gains for development and social welfare. Governments needed to strike a balance between the use of fiscal incentives to stimulate investment, including FDI, and realizing public revenues from these industries. South-South trade needed to be actively promoted, especially at the regional level, where it could help to enlarge markets for local producers in small domestic markets. Future issues of the *Trade and Development Report* should elaborate on possible strategies to meet the new challenges for developing countries and to examine the issue of the policy space required for the implementation of such strategies.

5. The representative of **El Salvador**, speaking on behalf of the **Latin American and Caribbean Group**, said that it was important to analyse the new characteristics of global interdependence, as the *Trade and Development Report 2005* had done, because they might imply the need to adjust domestic development strategies, as well as international policies. Achieving the MDGs called for greater coherence between international processes and negotiations, particularly in the fields of trade, investment, finance and technology, and the different national strategies for economic growth and sustainable development. UNCTAD played a fundamental role in identifying the elements of a coherent global strategy.

6. Latin American economies had experienced a significant improvement in 2004, after five years of stagnation and crisis. Prospects for 2005 pointed to continued recovery, although at a slower rate than before. The improvement had been due primarily to expansion of exports and recovery in the terms of trade. Intraregional trade had also been reactivated as a result of the increased competitiveness provided by the real devaluation of several currencies. Increased demand from the United States had also helped some of the region's economies to expand exports. The *Trade and Development Report 2005* showed that terms-of-trade gains had been important for exporters of oil and mining exporters but less so for exporters of agricultural products. Central American and Caribbean countries exporting labour-intensive manufactures had experienced terms-of-trade losses, although increasing volumes of exports as well as tourism and remittances had partially offset the losses.

7. The favourable external environment had allowed the region to generate a current-account surplus, even though its imports had grown significantly. The fact that this surplus was the result of export expansion was in contrast with the past, when adjustment had been based on import contraction. An important factor was the increasing demand for commodities in Asian countries. The strong recovery of commodity prices, particularly fuels and minerals, underlined the importance of the question of rent distribution in these sectors. The effects of terms-of-trade gains on domestic income, investment and development depended critically on who captured the rent and how it was used. Several countries in the region had realized that fiscal revenues from these sectors were excessively low and were now reviewing their fiscal regimes. As a result of economic recovery and the state obtaining a higher share of export revenues in some countries through public companies or taxes on exports, there had been a trend towards diminishing fiscal deficits in the region. Meanwhile, foreign debt had also

stopped growing in absolute terms. Progress was being made in the most critical cases with debt reduction and restructuring. Consequently, many countries in the region had reduced their dependence on new capital inflows.

8. The future evolution of external conditions was uncertain, as commodity prices and external finance costs could increase if the world economy failed to rectify the imbalances, thereby causing a strong deceleration. However, even a continuing favourable external environment might not be sufficient for a sustained development process if the region did not revive productive investment, which continued to be low in historical terms, and restructure its internal market. Domestic consumption and investment were intimately linked, as investment needed a growing internal and regional market. In this context, the problems of unemployment and unequal distribution of income must be dealt with effectively.

9. As for the role of UNCTAD as a universal organization, its analytical capacity should be maintained, or reinforced even more, so as to allow it to handle issues of interest to developing countries more effectively. Analytical findings should support its other activities, particularly consensus-building and technical cooperation. If UNCTAD could identify needs and remedies in the context of interdependence, it could contribute to a better understanding of coherence between international regulations, practices and processes on the one hand and domestic policies and development strategies on the other.

10. The representative of **Iran**, speaking on behalf of the **Asian Group and China**, noted that, in spite of the projected slowdown of growth in Asian developing countries in 2005 and 2006, Asia would remain the most dynamic region. This might further strengthen the role of East and South-East Asia as a new growth pole in the world economy. By contrast, some major developed economies were growing very slowly, and measures to stimulate domestic demand in those countries would help correct the global imbalances.

11. As a result of rapid industrialization and a strong rise in primary imports, East and South-East Asia as a region had experienced a deterioration in its terms of trade. The prospect of permanently higher oil prices was especially disturbing for developing countries that were not benefiting from higher prices for their own exports. Additional investment in extractive industries and efforts to introduce resource-saving manufacturing technologies would be particularly beneficial for this group of countries.

12. The Asian region attached the utmost importance to having adequate policy space to utilize appropriate policy instruments in the pursuit of development priorities and policies. A major lesson from past development experience was that successful economic development in many countries in the region had been based on various policy innovations, while other countries that had adhered more strictly to the orthodox structural reform agenda had mostly experienced disappointing performances. Thus the Asian success stories might hold a number of lessons for other developing countries, in particular that economic development could be achieved in diverse ways and that there could not be a one-size-fits-all approach to development.

13. As the pace of economic development had not been uniform worldwide, some countries were lagging behind in accomplishing their development goals and the MDGs. While overall progress towards meeting those goals was considered satisfactory in the Asian

region, the same was not true for other countries, especially the least developed countries and countries in Africa, which ran a serious risk of not meeting the MDGs by the target date of 2015.

14. Externally imposed constraints and inadequate development models were both to blame for this disappointing outcome. The international community should support these countries in their fight against poverty and help them integrate more fully into the world economy. As many African countries had been looking increasingly at Asia as a market for their exports, as well as a source of technology and external finance, the two regions had adopted the Asia-Africa New Strategic Partnership Declaration in April 2005. Its aim was to promote pragmatic cooperation between the two continents in all development areas. Finally, UNCTAD should continue its analytical work aimed at promoting regional and interregional processes.

15. The representative of **Egypt**, speaking on behalf of the **African Group**, said that the *Trade and Development Report 2005* was very useful, since it touched on topical issues related to new developments in the global economy and in the developing world in particular. Recently, there had been considerable progress with regard to international cooperation in favour of Africa, as witnessed by the emphasis placed on Africa in major international fora. The agreement to double ODA flows to Africa and the commitment by a large number of OECD countries to raise their total ODA to at least 0.5 per cent of GDP by 2010 was a welcome development, as was the decision to write off the outstanding debt of the HIPC countries and the decision to consider reducing the unsustainable debt of some equally poor non-HIPC countries. But debt relief must not come at the expense of aid flows. The quality of aid could be enhanced through the provision of budgetary support in order to respond to both human and physical infrastructure development needs and poverty reduction. For countries to make the best use of aid, they also required sufficient policy space to allow them to devise country-specific strategies to enhance growth and meet the MDGs.

16. In the past three years, Africa's growth performance had significantly improved, but although GDP growth of about 5 per cent could also be expected in 2005, per capita income growth in sub-Saharan Africa was still insufficient to make decisive progress in poverty reduction and achieving the MDGs. The fact that South-South trade had expanded much faster than North-South trade had helped improve Africa's terms of trade. Much of the rise in Africa's export earnings was due to strong import demand from Asia, and the New Asian-African Strategic Partnership Declaration could serve as a major conduit for boosting trade and economic cooperation further.

17. Rising export volumes combined with the rise in world market prices for some of Africa's most important export products, notably oil and minerals, had been among the main reasons for the acceleration of economic growth in Africa. But commodity prices continued to be highly volatile, and in real terms they were still lower today than some twenty years ago. Furthermore, slumps had historically been much longer than highs. The improvement in Africa's terms of trade by about 30 per cent since 2004 had to be seen against the fact that Africa had been the region most severely affected by the deterioration in terms of trade and the contraction of the purchasing power of exports during the 1980s. As the *Trade and Development Report 2005* underlined, it was only in 1996 that the purchasing power of exports had recovered to its 1980 level. In addition to its adverse impact on economic

performance in general, this deterioration had been a central factor behind growing external payments constraints and rising external debt.

18. Another important topic dealt with in the *Trade and Development Report 2005* was the distribution of export income and rents from extractive industries, leading to the conclusion that, while the rent from extractive industries was a potentially important source of financing for development, privatization and tax incentives for foreign investors had led to a considerable reduction of the domestic share of the total revenues generated in the sector. It would seem that, in the fuel industry, sub-Saharan African countries received the lowest shares of rents in terms of the value of their exports.

19. It was important to draw the right conclusions for action by the international community from the analysis provided by *the Trade and Development Report* on the global interaction of trade, commodities, finance and investment and its impact on the growth and development prospects of the developing countries. UNCTAD remained the appropriate institution in which to carry out this debate, as it could provide alternative views from a development perspective.

20. The representative of the **United Kingdom**, speaking on behalf of the **European Union and the acceding countries of Bulgaria and Romania**, thanked the secretariat for the balanced and reasonable presentation of the *Trade and Development Report 2005*. However, he voiced concern over the *Report's* treatment of the notion of policy space.

21. The *Report* highlighted the positive aspects of China's growth, including its increase in demand for key commodities that other developing countries exported, which was a welcome change from the usual apprehensions about the impact of China's exports. The *Report* also pointed to the competitive challenges for manufacturing developing countries that competed directly with China. It was interesting that UNCTAD now considered that the long-term comparative advantage of China was not in textiles and clothing, although it was uncertain how soon the country would move to less labour-intensive goods.

22. The calming of commodity prices was welcome; higher commodity prices should not fuel complacency, and developing countries should continue to look to diversification as their best long-term strategy. The *Report* maintained that South-South trade was desirable due to the lower degree of exposure developing countries had to pressure from industrialized countries, implying that South-South trade was freer and less likely to come with any political strings attached. This assumption was not reflected in the real world, where most developing countries were not only more protectionist but also less likely to be any more forthcoming in terms of market opening than the OECD countries. Protectionist policies employed by developing countries harmed their own development prospects. The multilateral efforts pursued under the Doha Development Agenda offered the best guarantees for South-South liberalization, as opposed to regional trade agreements under the Global System of Trade Preferences among Developing Countries.

23. The *Trade and Development Report 2005* characterized South-South trade as being driven to a greater extent by regional production sharing for products destined for developed countries. Regional production sharing should be considered a welcome development that allowed for an international division of labour based on the comparative advantage of

different locations. Furthermore, such production sharing highlighted the importance of reducing South-South tariffs, as these were ultimately reflected in higher export prices and served to damage competitiveness.

24. Global imbalances were a risk to the global economy, and a more balanced pattern of growth between the major regions would be helpful in correcting these imbalances. He questioned the notion that Europe should bear most of the blame for the current global imbalances and the expectation that it would address the situation alone. The United States and China should also be responsible for making appropriate policy changes to correct the overall global imbalances by addressing domestic deficits and adopting greater exchange rate flexibility, respectively.

25. The representative of the **Russian Federation** said that the acute nature of current global problems required the world community to improve its collective efforts to neutralize the negative consequences and promote the benefits of globalization. The conclusions of the G8 Summit in Gleneagles and of the UN World Summit were very important in ensuring a joint and integrated approach to achieving these ends. In the context of the São Paulo Consensus, there was a need to increase the coordination of economic, financial, trade and social policy at both the national and the international level in order to resolve existing development problems, with special attention being paid to eradicating inequalities and poverty, strengthening social protection, and raising the quality of life. International efforts would bring the necessary results only if they were accompanied by well thought-out socio-economic, infrastructural, financial and investment policies at the national level. While making significant domestic efforts to pursue the MDGs for itself, his country, the designated host for the next G8 meeting, was committed to participating in international development assistance and was taking active steps to fulfill its donor potential. Its efforts were directed towards debt relief for the least developed countries, and it was also providing numerous forms of official assistance worldwide, including to its partners in the Commonwealth of Independent States. As for UNCTAD, it should further strengthen its cooperation with other international organizations, the private sector and NGOs so that globalization became a mechanism to bring the world community together.

26. The representative of **Indonesia** said that global interdependence had had remarkable effects on the worldwide distribution of economic growth, helping developing countries achieve the Millennium Development Goals. However, only some countries had been benefiting fully, with many others left behind due mainly to shortage of capacity and limited resources. The international community should therefore take action to ensure that the countries lagging behind were able to utilize the small profits that they had earned, mostly from primary commodities, combined with the help from more fortunate economies, for the benefit of their industrialization and economic development. Developing countries must take full advantage of the changing landscape of international trade with China and India, the new growth poles, and share the momentum generated by those two countries. South-South trade, with its vast potential in terms of accessing new and undiscovered markets, might allow developing countries to end their persistent over-dependence on developed countries' markets. It would also be truly significant in terms of supporting developing countries in their drive to achieve economic growth. However, developed countries were still the main markets for developing countries' exports and should steadily open up their markets too. Given the dependence of developing countries in the process of industrializing on imports of primary

commodities, the current volatility of commodity prices posed a serious risk for their growth sustainability, and there was therefore a need for better international policy coordination to prevent price instability. Developed countries should manage their current account imbalances through concerted efforts, since incorrect unilateral policies would jeopardize not only the countries involved but also the rest of the world. The issue of foreign exchange volatility must be addressed appropriately, and the international community should act to protect vulnerable economies from unnecessary side-effects. All these issues served to highlight the importance of the work of UNCTAD in exploring the new features of trade and providing directions to better avoid adverse impacts on growth.

27. The representative of **Peru** said that the *Trade and Development Report 2005* identified rapid growth in China and India as an important factor behind the increases in commodity prices, and it assumed that these prices would be maintained provided that industrial growth in these countries continued to be strong and the imbalances in the developed world were corrected without causing recession. An erratic increase in commodity prices, particularly those of minerals, had not necessarily meant a redistribution of income from consuming to producing countries. Higher prices and more exports had not automatically been translated into higher fiscal revenues for exporters. This was partly the result of fiscal incentives to attract FDI. Equally, strong commodity price fluctuations did not help countries to achieve stable and sustained growth that benefited the entire population and helped attain the MDGs. Commodity exporters that had benefited from recent increases in prices and export volumes must maintain their efforts to diversify their commodity sector, as well as to generate higher value added in other sectors. In this context, UNCTAD should analyse extensively the diversification of the productive structures of developing countries and the creation of mechanisms that could contribute to reducing price instability. The *World Investment Report 2005* showed that there were big differences in capacity among countries in terms of innovating and benefiting from the process of internationalization of research and development activities. UNCTAD should resume its science, technology and innovation policy reviews with interested countries to identify options that might make it possible to develop or increase technological and innovation capacities. It should also continue publishing its well known and valuable analyses on trade and development.

28. The representative of **Belarus** said that his country appreciated the *Trade and Development Report 2005* and supported the conclusions of UNCTAD XI concerning the growing potential of UNCTAD in the interrelated fields of trade, development and investment to assist developing countries, particularly least developed countries (LDCs), in their development efforts. The *Report* highlighted the growing trend towards global interdependence and attributed the recent slowdown in world growth to the deceleration of the major developed countries, despite the high growth rates achieved by developing countries. It highlighted the important role of domestic demand in the economic and political development of the developing countries, and it brought to light the existing imbalances and instability of the global economy. However, there was no reason to think that these tendencies were irreversible and global in nature. The United States' current account deficit was deemed to be the greatest short-term threat to stable growth in the world economy, and UNCTAD should pay special attention to that issue. Developing countries continued to experience capital outflows at a time when they needed resources to foster growth and to promote stable development. Thus, the world financial system needed to undergo radical change to ensure global financial stability. Meanwhile, the interests of all countries and regions should be taken into account in order to reduce global imbalances and ensure further

global development. Regional economic relations served to sooth global disparities and allowed developing countries to promote their exports and economic growth. Finally, if UNCTAD was to fulfill its mandate as established at UNCTAD XI, its activities must be rationalized. The *Trade and Development Report 2005* failed to address the economic experiences of transition economies, despite the mandate set forth at UNCTAD XI.

29. The representative of **Pakistan** pointed out the important role played by UNCTAD in promoting development and encouraging cooperation between developing countries. He was satisfied with the fact that the *Trade and Development Report 2005* had responded to the concern raised by his delegation in connection with the previous year's *Report* and had devoted a good portion of its analysis to impacts of oil prices on developing countries. The current situation of the world economy was characterized by huge imbalances in the field of finance and trade, which had fueled international disparities and caused capital migration from developing to developed countries. Some developing countries had adopted conscious polices for good governance, economic development, poverty reduction and open trade in response to the Doha conference. However, their efforts had not yet been matched by the international community fulfilling promises of greater market access, larger financial assistance, debt relief and other actions to redress imbalances. A major aim of UNCTAD should be to develop and inject into the international economic arena a consensus as to how cooperation could be introduced in the current context of competitive growth. UNCTAD must coordinate with other international organizations so as to let the economic, political and technological opportunities of this century contribute to the attainment of greater prosperity, equity and security.

30. The representative of **China** said that the global economy was now confronted with a number of problems that obliged almost all countries to undergo some form of restructuring. In a world of growing interdependence, countries needed to consider the consequences that their own actions and policy decisions might have on the world, particularly the developing countries. Though there were signs of global economic recovery, poverty remained a serious problem in developing counties, especially in LDCs, and the North-South gap continued to widen. Developing countries, while increasingly integrated in the world economy, had yet to reap the benefits of globalization. It was important to identify the causes of and solutions for these problems, as well as to take concrete action to redress them. In an increasingly interdependent economy, the development of developing countries should be a concern not solely to these countries themselves. It appeared that meeting the objectives outlined by the MDGs by 2015 would prove very difficult, and recent appeals had called for greater political will and concrete actions. Solving the development-related issues that had attracted attention at the UN Summit would require the unremitting efforts of all countries.

31. The developed counties could play an influential role in establishing a fair, rational and transparent world economic order by assuming greater responsibility for achieving universal, concerted and balanced global development. The developed countries should grant greater market access, facilitate the transfer of technology, and increase assistance and debt relief for developing countries, especially heavily indebted countries and LDCs. The Chinese Government had always attached great importance to South-South co-operation, and would strengthen that cooperation by exchanging experiences on economic development and providing help in different fields. The *Trade and Development Report 2005* provided development-oriented analysis of the world economic situation and provided an important

source of reference. The cases of China and India were extensively analysed in the *Report*, but given the differing situations in different countries, all experiences, whether successful or less successful, should be seen within the context of the relevant circumstances.

32. The representative of **South Africa** stressed that the *Trade and Development Report 2005* contained good analyses of global economic trends, and its focus on growth in India and China was of particular interest to developing countries. Its renewed call for policy coherence and additional policy space for developing countries was welcome, as it came at a time when a number of countries were disappointed with the outcome on development discussions at the World Summit in New York. In this context, UNCTAD should continue to address these issues, thereby giving them an impetus in international forums. Although the African GDP growth rate had reached five per cent, there was concern that this would be insufficient to help African countries attain the MDGs. Thus the international community should raise the level of assistance to these countries in order to let them meet their development aspirations. Whereas Europe and Japan should take measures to accelerate growth, the United States should also address the twin deficit issue. The rise in oil prices had not seriously dented global growth prospects due mostly to the shifting patterns of production in developed countries over the last 30 years. This was also the case in South Africa, most of whose GDP was accounted for by the service sector, which was not heavily oil-dependent.

33. The representative of the **United States** said that her Government's policy on the issue of policy space had not changed, and apparently the positions of the G77 countries and regional groupings had not changed either. The United States Government had agreed to a heavily negotiated text on policy space, as contained in paragraph 8 of the São Paulo Consensus, but the issue as dealt with in the text had never been intended as a major new area of UNCTAD's work, and the text itself was only a political declaration in a limited context. It was difficult to foresee how UNCTAD could pursue work in the area of policy space. The origins of the issue lay in the frustration with the policies of the international financial institutions in the 1990s. While developing countries should not be forced into a policy straightjacket, they ought to take into account the appropriate balance between national policy space and international disciplines and commitments. Each country was responsible for carrying out its own risk-benefit analysis to determine whether the international obligations it was considering were worth it, as defined under the São Paulo Consensus. All countries had economic sovereignty, and if they chose to give it up, it was because such an action was deemed to be useful. Policy space allowed for both good and bad economic policies, and it was good economic policy that should be at the centre of the work at UNCTAD. Referring to the issue of right to development, UNCTAD's mandate included many issues related to development, but not human rights. As the issue of the right to development was currently being addressed in the Human Rights Commission, it should remain there.

34. The representative of **Japan** said that the assessment by the *Trade and Development Report 2005* of the current Japanese economic situation was overly pessimistic, as that situation had been steadily improving. Similarly, the *Report's* characterization of the developed countries' trade policy as protectionist was an overstatement. The greater participation of developing countries in the open multilateral trade regime would not reduce but would enhance their policy space.

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