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Trade and Development Board
Fifty-fourth executive session
Geneva, 28–29 November 2011

Report of the Trade and Development Board on its fifty-fourth executive session

Held at the Palais des Nations, Geneva, from 28 to 29 November 2011

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Introduction

The fifty-fourth executive session of the Trade and Development Board was held at the Palais des Nations, Geneva, on 28 and 29 November 2011. In the course of the session, the Board held three plenary meetings.

I. Action by the Trade and Development Board

(Agenda item 2)

1. The Board took note of UNCTAD's *Least Developed Countries Report 2011* as contained in document UNCTAD/LDC/2011.

(Agenda item 3)

2. The Board took note of the report of the sixtieth session of the Working Party.

(Agenda item 3)

3. At the request of the Working Party, the Board agreed to postpone the sixty-first session of the Working Party until after UNCTAD XIII, and requested the secretariat to identify a suitable week in late June or early July 2012 for that session.

(Agenda item 3)

4. The Board approved the draft provisional agenda for the sixty-first session of the Working Party (see annex I).

II. President's summary

A. Opening plenary

5. The discussions began with a statement by the UNCTAD Secretary-General, Mr. Supachai Panitchpakdi, who stressed that the *Least Developed Countries Report 2011: The Potential Role of South–South Cooperation for Inclusive and Sustainable Development* was timely and relevant at this juncture. The Secretary-General noted that, despite the positive aspects of the Istanbul Programme of Action (IPoA), which provided the international community with a comprehensive and ambitious strategy to overcome the structural challenges faced by the least developed countries (LDCs), it was disheartening to consider that, so far, only three countries had graduated from the LDC category since its inception (i.e. one graduation per decade). Therefore, more efforts were needed in order to deliver on the goal, adopted at Fourth United Nations Conference on the Least Developed Countries (LDC-IV), of enabling half the number of LDCs to meet the criteria for graduation by 2020.

6. The Secretary-General also emphasized that, although the past decade had witnessed some encouraging signs in terms of economic growth, with LDCs nearly achieving the Brussels Programme of Action growth target of 7 per cent per annum, performance had been heterogeneous across individual countries, and severe development challenges persisted. Moreover, the LDCs continued to play a marginal role in the world economy, accounting for 12 per cent of the world population but barely 0.9 per cent of total world output, and only 1 per cent of total world merchandise exports.

7. In addition, the Secretary-General expressed concern about the fact that the LDCs were still suffering from the aftermath of the global recession, and were likely to lose several years before returning to their pre-crisis growth path. LDC exports in 2010 were still $20 billion below their 2008 peak of $176 billion. In the same vein, at $26.4 billion in 2010, foreign direct investment (FDI) into LDCs was still 20 per cent lower than in 2008. Finally, the underperformance of developed economies was likely to put pressure on remittances and official development assistance (ODA). LDCs were thus lagging behind other developing countries in terms of growth, and their medium-term outlook was expected to be weaker than in the previous decade.

8. Against this background, South–South cooperation could play an important role for the LDCs, not only because of its dynamism, but also because of particular features that made it well placed to support LDCs' developmental efforts. For example, South–South cooperation was more likely to be directed to productive structures and infrastructure than to social sectors. Southern markets already absorbed more than half of the LDCs' merchandise exports, and accounted for 40 per cent of FDI projects in the LDCs and two thirds of LDCs' remittance inflows. While these factors were beneficial for LDC economies, the Secretary-General reiterated the need for growth-oriented macroeconomic policies designed to spur job creation and to promote a more inclusive pattern of growth.

9. Referring to the proposals contained in the *Least Developed Countries Report 2011*, the Secretary-General stressed that a catalytic developmental State in LDCs could play an important role in igniting structural transformation, thereby enhancing the sustainability of LDCs' growth patterns and contributing to stronger effects in terms of employment creation and poverty reduction. Similarly, developmental regionalism offered a promising avenue to improve the terms of LDC integration into the regional and global economy, as shown by the experience of the Greater Mekong Subregion. Stressing once again the importance of these policy proposals contained in the *Least Developed Countries Report 2011*, the Secretary-General concluded his opening remarks by reaffirming his commitment to addressing these issues further in the context of UNCTAD XIII.

10. The next opening statement was given by Mr. Taffere Tesfachew, Director of UNCTAD's Division for Africa, Least Developed Countries and Special Programmes, who stressed the relevance of the IPoA as well as the challenges that its implementation would face. In reiterating the crucial importance of the IPoA, Mr. Tesfachew particularly welcomed its comprehensive approach, which encompassed new elements such as (a) greater attention to productive capacities; (b) a more pragmatic approach to science, technology and innovation (STI); (c) a greater focus on graduation and smooth transition; and (d) the importance given to climate change and South–South cooperation.

11. Against this background, Mr. Tesfachew began presentation of the *Least Developed Countries Report 2011* by stressing that the benefits of past growth had been neither inclusive nor sustainable. He stated that as many as 27 LDCs had been witnessing signs of deindustrialization, and that the pace of poverty reduction had been modest. If current demographic and economic trends continued, the LDCs were likely to become the main locus of extreme poverty in the world. In line with the analysis of the Secretary-General, he pointed out that the recovery from the global recession had been uneven, and that the persistent macroeconomic difficulties in the developed economies were likely to pose significant downside risks to the medium-term outlook.

12. Although intensification of South–South economic links was creating a broader set of opportunities in this context, with the so-called "emerging economies" contributing more than before to the expansion of global demand, it also posed challenges for the LDCs. Although LDCs undoubtedly benefitted from the boost in exports, FDI and development finance, they also risked having their dependence on primary commodities locked in by the emerging international division of labour. For instance, primary commodities accounted for the bulk of LDCs' exports to the South, whereas LDCs' imports from other developing countries consisted mainly of manufactures.

13. Mr. Tesfachew also mentioned the growing importance of both FDI and remittances flowing into LDCs from other Southern countries. With regard to FDI, he particularly stressed the incipient signs of diversification into sectors such as manufacturing, information and communications technology (ICT), tourism and finance, as well as the potential benefits for LDCs in terms of facilitating transfer of technology. South–South development cooperation, despite being on a small scale compared to the traditional North–South aid, had played a significant role in the development of LDCs, thanks to its modalities and to its overwhelming focus on productive sectors and on provision of infrastructure.

14. Mr. Tesfachew emphasized that the emergence of an effective developmental State, capable of creating dynamic comparative advantage and ensuring financial resources for long-term investment, was critical for LDCs, since policy had to play a key role in harnessing the benefits of the ongoing intensification of South–South economic ties. Such a catalytic developmental State should be tailored to the specific needs and conditions of LDCs (notably, the limited capacity to mobilize domestic resources) and would need to foster structural transformation and economic diversification. In that respect, the regional dimension played a crucial role in LDCs' integration into the global economy. The regional arena represented a crucial space to achieve economies of scale and scope, to achieve a critical mass for negotiation with third parties, and to harmonize and coordinate policies to accelerate economic and social development, as demonstrated by the experience of the Greater Mekong Subregion Programme which was analysed in detail in the *Least Developed Countries Report 2011*. Regional integration processes required not only a coordinated set of policies to collectively address structural vulnerabilities, but also a greater provision of regional public goods: hard and soft infrastructures, energy and telecommunications networks etc. Regional development banks were particularly suitable for financing these kinds of investments, hence the call in the report for their role to be revitalized.

15. Statements were then given by the following regional groups and individual delegations: Zimbabwe (on behalf of the G77 and China), Ethiopia (on behalf of the African Group), Mexico (on behalf of the Group of Latin American and Caribbean Countries), the Islamic Republic of Iran (on behalf of the Asian Group), the European Union, Nepal (on behalf of the Least Developed Countries), China, Honduras, Indonesia, Ethiopia and Guinea.

16. All speakers thanked UNCTAD for its publication of the *Least Developed Countries Report 2011*. The speakers also appreciated the opportunity for discussions on South–South cooperation and on the related policy options set out in the report. Delegates noted that the report served as a practical contribution to implementation of the Programme of Action for the Least Developed Countries for the Decade 2011–2020.

17. However, several delegates spoke of the delay with which the report was circulated, and pointed out that this lateness constrained their ability to adequately analyse the report. In this regard, they requested the secretariat to adopt adequate measures to ensure greater timeliness.

18. Almost all delegates stated that South–South cooperation could indeed offer numerous opportunities to LDCs, but emphasized explicitly that it was not a panacea. In addition, in line with the IPoA and the *Least Developed Countries Report 2011*, many delegates reiterated that South–South cooperation was not a substitute for but rather was a complement to North–South cooperation. Hence, developing countries made a strong call for timely delivery on ODA targets, regretting the insufficient progress made so far in that direction.

19. Most delegates acknowledged the critical role of the State in aiding the development process – by promoting public investment and structural transformation, and by improving the provision of infrastructure and also of education and social services. In this respect,

however, delegates highlighted some of the challenges faced in practice by LDCs (and by other developing countries too), including the shrinking policy space available to them, the limited capacity to mobilize domestic resources, and the lack of dynamism in the agricultural sector, particularly in sub-Saharan Africa.

20. Several delegates spoke of interesting developments in interregional cooperation that had been taking place recently, including through the New Asian-African Strategic Partnership which covers the areas of business, technology, intellectual property, the environment, and ICTs. In that regard, one delegate called on UNCTAD, and in particular its Unit on Economic Cooperation and Integration Among Developing Countries, to look closely into the existing interregional frameworks of cooperation and partnership among developing countries in order to increase their effectiveness as engines for economic development.

21. While acknowledging that commodity dependence was one of the most severe constraints on the capacity of LDCs to engage more in intraregional trade, several speakers argued that the lack of preferential access in some Southern markets was hampering LDCs' export capacity too. They therefore called for a deeper liberalization of trade flows within the South, and reiterated their calls for greater access to Northern markets.

22. Several delegates welcomed the proposal to revitalize the role of regional development banks, but suggested that innovative sources of development finance should also be explored, as tools to overcome LDCs' limited ability to mobilize domestic financial resources. Some delegates were referring specifically to public–private partnerships (PPPs). In this regard, they urged UNCTAD to expand its research on innovative sources of development finance, and, in particular, on the potential of PPPs to improve the provision of infrastructure.

23. One delegate stated that the report did not sufficiently reflect the spirit of solidarity underlying the very concept of South–South cooperation. In addition, the same delegate urged UNCTAD to devote more attention to triangular cooperation, because of its multiplier effect. Finally, the delegate stressed that South–South cooperation should search for synergies among a wide range of different actors such as developed countries, regional institutions, civil society, private initiatives, and the United Nations.

24. One delegate stressed the importance of taking into account statistical and economic data originating from national sources, and not only from international databases, when preparing the *Least Developed Countries Report*.

25. Delegates welcomed the focus that the report placed on the Istanbul Programme of Action. Given that the IPoA called for renewed and strengthened partnerships between all stakeholders, delegates noted that South–South cooperation had a complementary role in the implementation of the IPoA and could become instrumental in achievement of the IPoA's overarching objectives of helping LDCs to eradicate poverty, reach internationally agreed development goals, and graduate from the LDC category.

B. Expert panel session: South–South cooperation and regional integration for inclusive and sustainable development in LDCs

26. The executive session of the Trade and Development Board held an expert panel session, the theme of which was “South–South cooperation and regional integration for inclusive and sustainable development in LDCs”. The secretariat provided an introduction to the panel session, which outlined some of the key themes of the *Least Developed Countries Report 2011*. Among these were the major change in the world geography of production and trade that had occurred since the new millennium, with stagnation in the North and the rise of the South, and the economic crisis over the past three years which had exacerbated those trends.

27. In that context, LDCs had experienced a boom period in the first decade of the new millennium, however their long-run growth factors were still regressive, being mostly based on traditional commodity exports, and as such were not conducive to sustainable development. Despite high growth rates, the boom period had not resulted in inclusive growth, but rather in uneven distributional gains at both the national and the global level, with generally adverse implications for equity, social welfare and the environment. The report called for a catalytic developmental State to reverse current trends. The central task of that State would be to bring about a structural transformation towards more diversified production, trade and employment opportunities.

28. Some features of South–South cooperation, moreover, were particularly favorable for LDCs; among these were the possibility of sharing development experiences with other Southern countries that were more advanced but were still in many ways similar to LDCs, and the ensuing positive stimulus to the building of developmental State capabilities. Although the report had affirmed that South–South cooperation could help unlock developmental drive in LDCs, it had also insisted that State capacity was critical. The potential of South–South cooperation could only be “unlocked” by LDCs themselves.

29. LDCs might also be provided with alternative sources of finance by some emerging countries. One possible way to do so would be to use part of the funds presently invested in sovereign wealth funds owned by emerging countries to increase the capital base of regional development banks, thereby enabling them to enhance their capability to extend development-oriented loans to LDCs.

30. Mr. Ikuo Kuroiwa, Director-General, Development Studies Centre, Institute of Developing Economies (IDE-JETRO), Japan, shared some thoughts on regional integration and industrialization strategies among South-East Asian LDCs. He noted that the experience of that subregion had shown that, over time, market forces spontaneously tended towards the opposite poles of agglomeration and dispersion. The latter could induce FDI and technology flows towards less developed neighbouring countries. However, in order to maximize the potential benefits and steer the path of economic change towards sustainable development, LDC governments must strive to strategically govern these processes, promoting regional integration, and utilizing – when needed – a vast array of policy tools.

31. Mr. Kuroiwa provided a concrete example, which looked at the regional integration and industrialization strategies of Thailand and the Lao People’s Democratic Republic. The former had labour costs that were 45 times greater than those of the latter, leading to production fragmentation. The labour-intensive parts of production processes had been moving from Thailand to the Lao People’s Democratic Republic, while the more technology- and capital-intensive parts of production had remained in Thailand. Similar processes were occurring throughout the Greater Mekong Subregion, to the benefit of three LDCs (Cambodia, the Lao People’s Democratic Republic and Myanmar).

32. He went on to highlight several policy implications. Firstly, participation in regional production networks should be a top priority for LDCs, as this would give them the opportunity to acquire technology and knowledge from more advanced developing

countries. Secondly, in order to maximize the impact of their participation in production networks, LDCs should try to develop industrial clusters that would gradually permit them to expand the range of activities carried out locally in that production network. Finally, policy coordination in the regional integration process was crucially important, and it should be managed with the involvement of the private sector.

33. Mr. Vinaye Dey Ancharaz, Head, Department of Economics and Statistics, African Development Bank, focused on South–South cooperation from an African perspective. He noted that one of the challenges facing Africa was the weakness of intraregional trade, due, among other factors, to the weight of colonial legacies and to the lack of complementarities in African countries' production and export structure. Africa's dependency on traditional economic partners was still very marked. And yet, trade and investment linkages with the South were on the rise, not only in the extractive sector, but also (to a lesser extent) in manufacturing, as shown, for instance, by China's investment in several African countries' special economic zones. Regional development and South–South cooperation could go hand in hand, and would be further enhanced by a boost of South–South financial flows that could be mediated by the African Development Bank along the lines sketched by UNCTAD's proposal in the *Least Developed Countries Report 2011*.

34. Ms. Stephany Griffith-Jones, Financial Markets Programme Director, Initiative for Policy Dialogue, Columbia University, argued that, in LDCs in particular, the financial sector should be seen as a powerful tool for development and should be at the service of the real sector. She stressed that the emergence of large financial surpluses in the South was an excellent opportunity to be tapped to alleviate LDCs' perennial scarcity of financing. Part of these surpluses was held in sovereign wealth funds (SWFs), and would be particularly suitable for refinancing regional development banks, thereby enabling them to expand their development-oriented lending activities in LDCs.

35. Development banks had several advantages over private banks. Firstly, they would invest in sectors where private banks would be reluctant to invest, such as infrastructure or "green" innovation. Secondly, they were more likely to provide countercyclical lending, as the massive lending during the financial crisis of 2008–2009 had shown. Finally, they could support LDCs' long-term vision and development strategies, complementing the private banks in providing financing for development.

36. In that context, the *Least Developed Countries Report 2011* proposal to explore novel mechanisms to channel part of Southern-held SWF resources towards productive investment in LDCs was to be welcomed. One additional advantage of that approach was that such a form of South–South financial cooperation could not only foster sustainable development and poverty reduction in LDCs, but could also help surplus-holding developing countries to diversify their portfolio and reduce risks in a long-term perspective.

37. In the debate that ensued, a question was raised about whether increased funding of regional development banks by emerging Southern countries would imply changes in the banks' governing structure and voting rights distribution. A consensus emerged that such an outcome was inevitable and welcome, and should be properly addressed by all stakeholders involved.

38. Other participants focused on the meaning of the term "catalytic" and how it defined the developmental State in LDCs. The ensuing debate clarified that the term referred to the enabling and facilitating development-enhancing role that could be played by the State in the LDCs, where institutional development was generally modest. As there was no blueprint for the catalytic developmental State, the exact modalities and institutions would differ from one LDC to another, but the functions would be more or less the same – to spur the development of productive capacities and structural transformation in close cooperation with the private sector.

39. Finally, a question was asked about the reasons why regional integration processes were more advanced in Asia than in Africa. The ensuing debate focused on the fact that

African LDCs exported mostly commodities, whereas Asian LDCs participated in regional production networks. In other words, Asian economies were much more complementary in their production and exports than African economies, and that was one of the reasons why regional integration was more advanced in the former. Furthermore, participants agreed that regional development banks could contribute to nurturing the missing links that perpetuated the lack of economic and trade integration in the world's poorest regions and especially in Africa.

C. Closing plenary

40. At the closing plenary meeting, the President stated that after very constructive consultations, members of the Board had agreed that, for practical and exceptional reasons, there would be no agreed conclusions on the LDC item at the current session. In addition, it was understood by all that, after UNCTAD XIII, the Board would resume producing agreed conclusions on the agenda item on LDCs. However, one regional group stated that it would have preferred agreed conclusions to have been produced at the current session.

III. Organizational matters

A. Opening of the session

41. The fifty-fourth executive session of the Trade and Development Board was opened by Mr. Mothae Anthony Maruping (Lesotho), President of the Board.

B. Adoption of the agenda and organization of work of the session

(Agenda item 1)

42. At its opening plenary meeting, the Trade and Development Board adopted the provisional agenda for the session as contained in document TD/B/EX(54)/1. The agenda was thus as follows:

1. Adoption of the agenda and organization of work of the session
2. The Least Developed Countries Report 2011: The Potential Role of South–South Cooperation for Inclusive and Sustainable Development
3. Report of the Working Party on the Strategic Framework and the Programme Budget, sixtieth session (21–23 November 2011)
4. Report of the Trade and Development Board on its fifty-fourth executive session

C. Adoption of the report

(Agenda item 4)

43. The Trade and Development Board authorized the Rapporteur to finalize the report after the conclusion of the meeting.

Annex I

Provisional agenda for the sixty-first session of the Working Party

1. Election of officers
2. Adoption of the agenda and organization of work
3. Review of the implementation of UNCTAD’s communications strategy and publications policy
4. Review of the UNCTAD section of the proposed United Nations strategic framework for the period 2014–2015, in the light of the outcome of the thirteenth session of the Conference
5. Review of the UNCTAD programme narrative for the biennium 2012–2013, in the light of the outcome of the thirteenth session of the Conference
6. Provisional agenda for the sixty-second session of the Working Party
7. Other business
8. Adoption of the report of the Working Party to the Trade and Development Board

Annex II

Attendance[*]

1. Representatives of the following States members of the Trade and Development Board attended the session:

Afghanistan
Angola
Argentina
Austria
Azerbaijan
Belarus
Belgium
Benin
Botswana
Bulgaria
Burkina Faso
Chile
China
Congo
Côte d'Ivoire
Czech Republic
Dominican Republic
Ecuador
Ethiopia
Finland
France
Germany
Guinea
Haiti
Honduras
Hungary
Indonesia
Iran (Islamic Republic of)
Iraq
Ireland
Italy
Japan
Kazakhstan
Kuwait
Lesotho
Madagascar
Mexico
Morocco
Nepal
Oman
Poland
Russian Federation
Saudi Arabia
Sierra Leone
Spain
Sudan
Switzerland
Thailand
United Kingdom of Great Britain and Northern Ireland
United States of America
Uruguay
Yemen
Zimbabwe

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

African, Caribbean and Pacific Group of States
Eurasian Development Bank
European Union

3. The following United Nations organizations were represented at the session:

Office of the High Commissioner for Human Rights

4. The following specialized agencies and related organizations were represented at the session:

World Trade Organization

[*] For the list of participants, see TD/B/EX(54)/Inf.1.

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

Village Suisse ONG

6. The following panellists participated in the session:

Mr. Ikuo **Kuroiwa**, Director-General, Development Studies Centre, Institute of Developing Economics, Chiba, Japan

Mr. Vinaye **Dey Ancharaz**, Principal Research Economist, Development Research Department, African Development Bank, Tunis-Belvedère, Tunisia

Ms. Stephany **Griffith-Jones** (via videoconference), Financial Markets Programme Director, Initiative for Policy Dialogue, Columbia University, New York, United States