UNCTAD XI: Issues Emerging and Lessons for Developing Countries

By Philip Osafo-Kwaako

1. Background

Established in 1964, the United Nations Conference on Trade and Development (UNCTAD) serves as the primary UN Agency responsible for issues relating to trade and development, finance, technology and investments, particularly for developing countries. UNCTAD convenes a Ministerial Conference periodically to examine the significance of its research work, with contemporary debates in development policy, and more importantly, to provide guidelines for the organisation’s future work program. The Eleventh Session of the Conference comprised of high-level delegates from Member states, and was held in São Paulo, Brazil from June 13-18, 2004.

In its short history, UNCTAD has been credited with a number of important successes – it played a pivotal role in the introduction of the generalised system of preferences (GSPs), the global system of trade preferences (GSTPs), the development of the International Commodity Agreements (ICAs) and the Common Fund for Commodities (CFC). The UNCTAD Secretariat also carries out extensive research, and publishes various comprehensive annual reports. Its general activities are centered on research and policy analysis, technical assistance initiatives and consensus-building among Members.

The São Paulo meeting was of great significance as it marked the Fortieth Anniversary of the organisation. UNCTAD XI was held at a crucial time, when progress in the negotiations in the Doha Round has slowed, and potential development gains muted. The meetings were held against the backdrop of the collapse of the WTO Fifth Ministerial Conference in Cancun in September 2003 and with the great uncertainty over the outcome of the Doha Development Round. Moreover, widespread
concerns existed among delegates as to whether various benchmarks of the Millennium Development Goals (MDGs) were attainable by their stipulated deadlines⁵.

With the existing climate of uncertainty and reduced optimism in the international trading system, the Eleventh Session of the Conference was convened under the theme: “Enhancing coherence between national development strategies and global economic processes towards economic growth and development”⁶.

The emphasis on global economic processes as well as national development strategies reflected the dual focus of the Conference: the importance of progress in a development-oriented international trading system, but also stressing the need for developing countries to overcome supply-side weaknesses in their economies which impaired them from fully utilising available preferential trade arrangements. Addressing these two-pronged issues – of international trading arrangements on one hand and domestic supply constraints on the other – served as a key theme of the Conference and was repeatedly emphasised by Mr Rubens Ricupero, Secretary-General, UNCTAD.

This Brief summarises some of the key issues emerging from the São Paulo meeting, and identifies relevant lessons for developing countries. The Brief also examines the sub-themes running through the Conference - on development strategies in a globalising economy; building productive capacities and international competitiveness; assuring development gains from the international trading system and trade negotiations; and building partnerships for development. Other topical issues discussed at the Conference were trade in services, regionalism versus multilateralism, and commodity price policies.

2. Development strategies in a globalising economy

The inability of most developing countries (particularly LDCs) to benefit from globalisation remains a central discussion issue within the development community. In an increasingly interdependent world, most developing countries have failed to accrue benefits from globalisation, partly due to external factors (such as weak and unstable commodity prices, an unstable international financial architecture, slow growth of the world economy) and also weak internal economic and institutional environments. Constructive discussion during various Sessions under this theme emphasised the importance of managing a global environment conducive to the needs of developing countries, and also the need for developing countries to promote a domestic economic and political environments appropriate for economic growth.

Within the global context, the problem of development finance emerged as a major topic of deliberation during the Conference. Development finance was examined both as private, direct foreign investments as well as official development assistance (ODA). Delegates also discussed the debt problem faced by most developing countries and its impact on their national development strategies. The Conference stressed the importance of foreign, direct investments and additional panel Sessions identified concrete investment promotion strategies⁶. Volatility in international capital markets was noted as a source of concern for most developing countries. Various prudential monetary policies were discussed, including the choice of exchange-rate regimes consistent with development strategies, effective management of external debt, and careful liberalisation of capital accounts.

Delegates at UNCTAD XI noted that although ODA levels fell in the 1990s, they remained the dominant source of external finance for most LDCs, small island states and landlocked developing countries. The Conference discussed the need for developed countries to support the attainment of international development goals, with increased ODA allocations towards to UN targets – of 0.7 per cent of GNP allocated for developing countries, and 0.15 per cent to 0.2 per cent of GNP allocated to the least developed countries. Improvements are needed not only in the quantity, but also in the quality of aid transfers. Aid effectiveness emerged as an important point of discussion, and requires greater

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⁵ See United Nations Conference on Trade and Development, UNCTAD’S 40 Years 1964-2004: Trade, Development and Investment Promotion
⁶ UNCTAD XI coincided with the annual meeting of the World Association of Investment Promotion Agencies (WAIPA), which was held as a side-event to the conference.
co-ordination among donors, closer linkages between donor policies and national development strategies, as well as increased national ownership by recipient countries.

The high debt level of most developing countries was noted as a major constraint to investments and implementation of sound domestic development strategies. The need for improved support for the HIPC Initiative by various developed countries was also stressed. Identifying national-level development strategies emerged as an important theme, discussed throughout the conference. In promoting domestic development strategies, it was important for developing countries to provide not only macroeconomic stability (low inflation, sustainable fiscal and external balances and other metrics), but also to maintain a conducive political environment marked with good governance and strong democratic institutions.

3. Assuring development gains from the international trading system and trade negotiations

Against a backdrop of slow progress in international trade negotiations, UNCTAD XI deliberated on various trade issues of concern to developing countries presently under negotiation in the Doha Development Agenda. Developing countries currently maintain a declining share of total global trade, and in most cases (for over 50 developing countries) export earnings are obtained from three or fewer commodities. The persistent decline in commodity prices has resulted in significant terms of trade losses for most developing countries. Although many developing countries (particularly LDCs) benefit from various preferential trade arrangements (providing duty-free and quota-free access to developed country markets), preference utilisation has often been hindered by stringent rules of origin criteria and other technical barriers.

Moreover, although trade is widely believed to serve as an engine of growth, for most developing countries the outcome of trade liberalisation has been mixed. As liberalisation on goods and services of export interest to developing countries is viewed as beneficial to the entire global trading system, it was important to ensure the successful progress of current multilateral trade negotiations. The Conference stressed two main issues: the need for further progress on the Doha Development Agenda and the deepening of South-South trade relations.

The importance of the Doha Development Work Programme was highlighted since its objective was to make the world trading system more development-friendly. Delegates stressed the importance of achieving results on the three pillars of the negotiation in Agriculture in the WTO, vis, improvements in market access; reductions in all forms of export subsidies; and substantial reductions in trade-distorting domestic support. For developing countries, there were a number of urgent concerns regarding market access (tariff peaks, high tariffs and tariff escalation), non-agricultural market access, technical barriers to trade, as well as trade in services.

Dr. Supachai Panitchpakdi (Director-General, WTO) expressed optimism that the Doha Agenda would shortly be put back on track, and that the 'July package' would address concerns of developing countries in the areas of Agriculture, Industrial Products, Singapore Issues and Cotton Subsidies⁷. The deepening of South-South trade relations was identified as important to enable developing countries improve upon their trade performance. The Third Round of negotiations for the Global System of Trade Preferences (GSTPs) was launched as the São Paulo Round, and is discussed later in this document. On trade-related issues, additional panels at the Conference discussed the role of trade in services in development strategies, as well as scientific and legal issues pertaining to trade in genetically-modified agricultural products.

4. Building productive capacities and international competitiveness

Two sub-themes of the Conference focused on assuring development gains from the international trading system and the importance of national development strategies in an era of increasing economic

⁷ Lecture Transcript: Address to UNCTAD XI Plenary Session delivered by Supachai Panitchpakdi (Director-General, WTO)
globalisation. However, for most developing countries, realising the benefits from the global trading system as well as proper implementation of national development strategies require effective productive capacities and the strengthening of their international competitiveness. Under this sub-theme of UNCTAD XI, emphasis was placed on two main areas – first, on the need to develop micro-level policies which addressed capacity-building and improved competitiveness at the firm level, and second, on the importance of information and communication technologies (ICT).

The need to strengthen domestic productive capacities and international competitiveness for small and medium enterprises (SMEs) are inherently linked8. To this end, the delegates stressed that productivity is an important component of competitiveness and that it was critical for Governments to provide the enabling environment to assist SMEs in reducing the cost of doing business, improving investment climate, and ensuring that competitive practices are adhered to. Specific mention was made of government’s role in facilitating trade domestically particularly in the case of landlocked developing countries.

UNCTAD XI benefited from a number of practical examples on competitiveness and entrepreneurship and their relevance to development. Preparatory meetings for the São Paulo Conference assembled an expert panel which examined ways of improving the export competitiveness of developing countries9. Entrepreneurship and SME development issues were discussed under the EMPRETEC10 Forum, with country case studies from Ghana, Uganda and Zimbabwe. Additional UNCTAD XI sessions focused on the importance of good ICT policies for SME development, and the role of science and technology in attaining the Millennium Development Goals.

5. Partnerships for development

UNCTAD has played a pioneering role in forging partnerships among various stakeholders on development-related issues. The multi-stakeholder approach adopted by the UNCTAD Secretariat involves governments, various donor organisations, regional groupings, academic and research institutions, private sector partners and civil society organisations. The importance of strengthening donor and multi-stakeholder partnerships in technical assistance programs was discussed. Case studies of effective donor and stakeholder partnerships were drawn from the current Integrated Framework and Joint Integrated Technical Assistance Program (JITAP) projects in some member countries11.

6. Regionalism versus multilateralism – Are RTAs trade-creating or trade-diverting?

Following the Cancun Ministerial Conference, regional and bilateral trade arrangements (RTAs/BTAs) have become increasingly important to certain countries. A meeting of representatives from various UN Regional Commissions was convened during UNCTAD XI to assess the relative benefits of bilateral versus multilateral arrangements in various geographical areas12.

A complex web of trade agreements exists with extensive progress made in regional integration in Europe and the Americas, closely followed by arrangements in Africa and the Middle East. Developing countries currently account for nearly 40 per cent of existing RTAs. The greatest concentration of RTAs is in the Euro-Mediterranean area, with over 100 agreements currently in existence. Countries in the Asia-Pacific region are also currently engaged in negotiating BTAs and RTAs either among

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8 Lecture Transcript: Address to UNCTAD XI Session on Building national capacities and international competitiveness delivered by Professor Porter (Harvard Business School)
10 EMPRETEC is an integrated capacity-building programme of UNCTAD that promote the creation of sustainable support structures that help promising entrepreneurs build innovative and internationally competitive small and medium sized enterprises (SMEs), thereby contributing to the development of a dynamic private sector.
11 Further discussion on implementation of these programs among participating countries is available online at www.integratedframework.org and www.jitap.org.
12 Panelists were drawn from the UN Regional Commissions: Economic Commission for Europe (ECE), the Economic and Social Commission for Asia and the Pacific (ESCAP), the Economic Commission for Latin America and the Caribbean (ECLAC), the Economic Commission for Africa (ECA), and the Economic and Social Commission for Western Asia (ESCWA)
themselves or with other cross-regional partners. Although effective implementation is often lacking, most agreements tend to extend beyond traditional RTAs and in practice, are aimed at establishing customs unions or common markets\textsuperscript{13}.

In a sense, it is argued that the proliferation of bilateral and regional trade agreements are both inherently disadvantageous and detract attention from the Doha Development Agenda being pursued multilaterally. The pertinent question is whether RTAs are trade-creating or trade-diverting? The process of tariff liberalisation unambiguously increases trade among member countries. It is difficult to assess whether RTAs genuinely create new trade or simply divert trade from more efficient producers outside the regional grouping. The net impact of RTAs on trade remains ambiguous in the theoretical literature. However, it is generally accepted that the overall effects of the agreements remain positive in the long-run for countries participating in these agreements.

In the context of UNCTAD XI, a broad view shared among delegates was that an open and transparent, rule-based trading system was an effective way of achieving development objectives via trade liberalisation. However, various discussants recognised the potential benefits that may be obtained from increased regional integration among member states. It was argued that deepening of regional integration promotes co-operation among countries of the South which could extend benefits beyond trade issues. Moreover, in many cases, the institutional infrastructures provided by regional commissions and organisations served as valuable channel of technical assistance to various developing countries, and as fora for discussions on general multilateral trade issues. While expressing some optimism that disparate RTAs will eventually be multilateralised, delegates at the conference urged UNCTAD and various regional organisations under the UN system to assist member states by developing common formats for RTAs or BTAs which were WTO-consistent. Mr. Rubens Ricupero, Secretary-General of UNCTAD, strongly urged increased dialogue between the UN Regional Commissions, various regional integration institutions and UNCTAD Member States to help enhance the efficiency of various regional and bilateral trade arrangements.

7. GSTP Negotiations: Launch of a São Paulo Round

In its forty-year history, UNCTAD is credited with supporting the development of the Global System of Trade Preferences (GSTPs) which provided for preferential trading relations between developing countries\textsuperscript{14}. Following years of negotiations, an initial agreement was concluded in April 1988 (in Belgrade) and became effective in April 1989. Following the Belgrade meetings, 48 members of the Group of 77 exchanged tariff concessions. The final signed Agreement was ratified by 40 member states. Four additional countries acceded to the Agreement in the 1990s. During the GSTP Committee meetings in December 1998, a Second Round of negotiations was concluded, with 24 additional participants exchanging tariff concessions\textsuperscript{15}. UNCTAD XI provided a forum for launching the Third Round of GSTP negotiations.

The increased importance of South-South trade was reflected in its emphasis during various Sessions of UNCTAD XI. Researchers at the UNCTAD Secretariat argued that the new landscape of international trade required an increasing emphasis on south-south co-operation.\textsuperscript{16} There was an increased need to deepen relations between countries of the South and further improve trade. An assessment of the

\textsuperscript{13} UNCTAD/WTO note that nearly 70 per cent of all RTAs are FTAs with most existing as preferential trade agreements (PTAs) rather than strict FTAs. About 90 per cent of all RTAs may also be classified as bilateral trade agreements (BTAs). Additional discussion is available in: ‘Bilateralism and Regionalism in the aftermath of Cancun: re-establishing the primacy of multilateralism’, UNCTAD TD(XI)/BP/12.

\textsuperscript{14} The Global System of Trade Preferences (GSTP) provides preferential treatment among a number of developing countries. This must be distinguished from the Generalized System of Preferences (GSPs), also spearheaded by UNCTAD, and which provides preferential access of developing country exports into developed country markets. GSPs were initially effected in 1971, and nearly US$ 70 billion of developing country exports benefit annually from these preferential arrangements – see www.unctad.org

\textsuperscript{15} A total of 43 countries currently participate in the GSTP Agreement. Further background information is available from ‘Dynamics of Global System of Trade Preferences: Potential Consequences for India’ National Council of Applied Economic Research (NCAER) – May 2004

\textsuperscript{16} See UNCTAD (2004), ‘The New Geography of International Trade: South-South Cooperation in an Increasingly Interdependent World’ UNCTAD/TD404
relevance of GSTPs however, must recognize that developing countries trade arrangements have changed significantly since 1976 when discussions on GSTPs commenced. Specifically, most developed countries in the 1990s embarked on unilateral tariff liberalisation policies and to an extent this erodes potential benefits attainable from the GSTP scheme\textsuperscript{17}. Moreover, several developing countries have also exchanged tariff concessions as part of various regional trade agreements (RTAs).

The importance of the South in the new geography of international trade cannot be ignored. Estimates by the UNCTAD Secretariat indicate that the South’s share of global trade increased from 20 per cent in the mid-1980s to about 30 percent in 2003\textsuperscript{19}. For developing countries, the share of manufactures in exports also increased from about 20 per cent ($115 billion) in 1980 to roughly 70 per cent ($1300 billion) in 2000. This increase in trade of the South is also reflected in its trade performance with developed countries: the US imported a larger share of goods from developing countries compared with developed countries in 2003 and with over 40 per cent of US exports destined for developing country markets\textsuperscript{19}. South-south trade has shown significant recent growth, with growth rates of about 11 per cent per year, and accounting for nearly 40 per cent of exports from developing countries\textsuperscript{20}.

The launch of a São Paulo Round of GSTP negotiations provides an opportunity for greater assessment and research on South-South trade integration. Future negotiations on South-South trade relations and tariff reduction commitments need to be carefully examined, and must emphasise greater inter-regional co-operation given the current proliferation of RTAs. Delegates at UNCTAD XI stressed the need for the UNCTAD Secretariat to provide technical analysis of the economic impact of further South-South integration arrangements.

8. Trade in Services

Trade in services remains a contentious issue for most developing countries. While the benefits of trade in services are well documented, limited experience of developing countries often makes it difficult for their policy-makers to embark on progressive liberalisation of their services sectors. An interactive panel session convened during UNCTAD XI provided a forum for exchange of ideas and country case studies on ways of improving the development gains from trade in services.

Global trade in services is estimated at US$1 trillion (nearly 20 per cent of world trade) but with developing countries capturing only a small share\textsuperscript{21}. Discussions at the conference were aimed at assessing the economic impact of services trade liberalisation among developing countries; examining the social impact of services liberalisation; and finally determining what preconditions exist to ensure substantial development gains from services liberalisation.

Country case studies were presented from Indonesia, Brazil, and Malaysia. The Indonesian case study focused on financial sector liberalisation and discussed the country’s experiences prior to and following its financial crisis in the late 1990s. The Indonesian account identified other areas for further research in the area of financial sector liberalisation\textsuperscript{22}.

Mode IV liberalisation (i.e. the temporary movement of natural persons) also provides a potentially beneficial area for the services sectors of developing countries\textsuperscript{23}. A landmark project commissioned by the Commonwealth Secretariat\textsuperscript{24}, involving the temporary movement of workers, was discussed.

\textsuperscript{17} 'The Potential for GSTP Trade Expansion' Note by the UNCTAD Secretariat (1998) UNCTAD/ITCD/TAB/1
\textsuperscript{18} See UNCTAD (2004), ‘The New Geography of International Trade: South-South Cooperation in an Increasingly Interdependent World’ UNCTAD/TD404
\textsuperscript{19} Ibid
\textsuperscript{20} Ibid
\textsuperscript{22} See ‘Trade in Services: Indonesia’s Experience’ Presentation by Mohamad Oemar (Director – Ministry of Foreign Affairs, Republic of Indonesia).
\textsuperscript{23} A study prepared for the Commonwealth Secretariat by Prof. Alan Winters estimated that if OECD countries were to grant a 3% quota of their low skills labor market to developing and least developed countries, these countries would derive benefits valued at about US$150 billion.
\textsuperscript{24} To be implemented in conjunction with the World Bank, World Health Organisation (WHO), the Caribbean Community (CARICOM) and the Caribbean Regional Negotiation Machinery (CRNM)
Pilot Project is being implemented in the Caribbean, and will involve the temporary migration of Caribbean-trained nurses and teachers to US, UK and Canadian markets. The World Bank also provided an overview on potential development gains of services liberalisation, and again, identified various policy questions in need of further research. The UNCTAD Secretariat, World Bank and UK Department for International Development (DFID) launched an initiative aimed at auditing and assessing the impact of services reform in developing countries.

9. Commodities Trade: Revisiting Price Decline Issues

UNCTAD has a long history of involvement in policy research on commodities dating back to previous Conferences in the 1970s which established the Common Fund for Commodities (CFC). Several International Commodity Agreements (ICAs) were also negotiated under the auspices of UNCTAD. The Eleventh Session of the Conference provided a forum for revisiting issues relating to trade in primary commodities. Background research provided by the CFC summarised a number of well-known issues in commodity policies: (a) nearly 50 per cent of developing countries relied on three or fewer commodities for their export earnings, (b) the persistence of price weaknesses for most commodities since the 1980s, and (c) price instability for some commodities. The problem of secular price declines was particularly severe, with an estimated fall in real commodity prices of about 3 per cent per annum since the 1970s.

Since the collapse of various international commodity agreements and the end of previous compensatory finance schemes (such as STABEX and SYSMIN) a number of policy suggestions aimed at promoting diversification in commodity-dependent countries have been suggested. The panel session at UNCTAD XI provided delegates with a forum to examine some suggested policy issues, such as horizontal and vertical diversification strategies, tying of compensatory finance and debt relief, and the role of the Common Fund for Commodities (CFC) in commodity markets. Additional proposals were summarized in background papers prepared for the Conference by the CFC and the North-South Center.

UNCTAD’s Secretary-General, Mr. Rubens Ricupero, described the commodity problem as a ‘conspiracy of silence’ by the international development community. Although little progress had been made on Chirac’s Initiative suggested in the Spring of 2003, Mr Ricupero urged all the delegates to consider the Report of the Eminent Persons Group on Commodities, as well as discussions held at the fiftieth session of the Trade and Development Board in the UN General Assembly. The Secretariat also announced the establishment of an International Task Force on Commodities (ITFC) aimed at providing a multi-stakeholder forum for constructive dialogue on the commodity-related issues.

10. Concluding Issues – The Role of UNCTAD

Given its limited economic resources and political influence, it was important to re-assess UNCTAD’s role in the development community particularly in comparison with other organisations such as the World Bank, the IMF, and the World Trade Organisation (WTO). In various fora at UNCTAD XI, delegates discussed the notion of reduced national economic policy space arising from participation in various programs with Bretton Woods institutions. Moreover, with the emergence of the WTO as a rules-based organisation governing the international trading system, there is a need for UNCTAD’s role in addressing the challenges faced by developing countries in the global economy.
in the development community to be made more decisive. A valuable role for UNCTAD, in the area of economic and development policy research was outlined by UN Secretary-General, Kofi Annan:

“[WTO] does have capacity to take decisions that are enforceable and accepted by member states. UNCTAD does not have that role, but UNCTAD does have an important role. In a way, when you look at the ideas, ideas such as influencing the developing countries in their discussion of trade and in their own development and areas of investment, UNCTAD has played a very important role. It is a house of ideas now, and ideas count, and ideas can make a difference” 31.

Delegates affirmed the valuable technical assistance received from the UNCTAD Secretariat’s research programs and urged further work on understanding linkages between international economic policies and national development strategies. Particular emphasis was placed on the need for continued research to support least developed countries (LDCs), small island developing states, as well as landlocked developing countries. Delegates also expressed support for statistical and computer-based packages developed and disseminated via UNCTAD, including the ASYCUDA System for customs and revenue-collection organisations, the Debt Management and Financial Analysis System (DMFAS), as well as the UNCTAD Handbook on Statistics. A virtual institute facility providing a web-based catalogue and database of trade resources was recently launched by the Secretariat32.

UNCTAD XI discussed a broad spectrum of issues relating to trade and development, investment and finance, as well as entrepreneurship and export-promotion in developing countries. For UNCTAD Secretariat, the conference provided a forum for assessing its recent work, and discussing its Work Programme for the next four years. The São Paulo meetings served to reinforce UNCTAD’s triple mandate of pursuing relevant economic and policy research, supporting technical assistance programs and providing a forum for consensus-building on trade and development issues. For UNCTAD’s member countries, São Paulo Conference provided a forum for constructive dialogue on the international trading system and its relevance to current development policy debates. Perhaps, the most important message emerging from the Conference, echoed in various sessions, was targeted at delegates from developing and least-developed countries: that achieving meaningful benefits from the globalisation and the international trading system required significant improvements in their domestic infrastructure and supply capacity.

31 Lecture Transcript of Press Conference by Secretary-General Kofi Annan; São Paulo, Brazil; Monday 14 June 2004
32 Further information on the UNCTAD Virtual Institute is available at http://vi.unctad.org

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