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**DRAFT REPORT OF THE TRADE AND DEVELOPMENT BOARD
ON THE FIRST PART OF ITS FORTY-SECOND SESSION**

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INTRODUCTION

Speakers: President
Officer-in-charge of UNCTAD
Colombia (for the Group of 77 and China)
Spain (for the European Union)

Note for Delegations

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

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INTRODUCTION

1. Opening the first part of the forty-second session of the Trade and Development Board, the newly elected **President of the Board**, Mr. William Rossier of Switzerland, said that, at its current session, the Board would undoubtedly launch in earnest the preparatory process for UNCTAD IX. The session would significantly influence the policy dimensions and directions of UNCTAD and contribute towards providing the framework for the structures of the institution after the Conference. UNCTAD - like all the other major institutions of international economic cooperation - had been set up in a different world. Momentous changes had taken place since, and the worldwide acceptance of markets and private enterprise as main parameters for economic policy had forced a reassessment of international cooperation. UNCTAD had gone a long way towards adapting itself to this new context, especially since the Cartagena Conference in 1992. Because of its wide mandate, UNCTAD was called upon to deal with new issues as they arose and to assess how relevant they were for achieving its aims of promoting international trade and development. It was therefore of paramount importance that UNCTAD should remain open for reform and adaptable in its structure in order to be able to face up to the continuing challenge of change. It was also vital for UNCTAD to use its research and analytical capacity for fulfilling its functions as defined in Cartagena and reaffirmed by the General Assembly. UNCTAD's mandate for the comprehensive and integrated treatment of development and interrelated issues was also its comparative advantage: it gave the institution a unique breadth of vision. There was, however, another side to the coin: the broad mandate might tempt member States to burden UNCTAD with too many tasks. It was up to the member States to assume their responsibility and to decide on what they wanted the institution to do. UNCTAD could not do everything. If it is to attain its goals, a streamlining of its activities in the light of the new economic context might well prove necessary. UNCTAD's responsiveness and effectiveness did not depend only on its dedicated and motivated secretariat, but very much on the member States.

2. The period between UNCTAD VIII and UNCTAD IX had been marked by the conclusion of the Uruguay Round and the setting up of the World Trade Organization (WTO). The integration of the developing countries and economies in transition into the world trading system provided a new challenge for UNCTAD, which had an important role to play by helping these countries to reap the benefits of liberalized world trade. UNCTAD's reaction to the rapid development of communications technology was part of this effort, and was proof that the institution was able to move with the times. With its "trade efficiency" initiative it had developed a concept that should allow all member States to take advantage of the new opportunities arising from this technological revolution.

Today the future of UNCTAD was again looking brighter and UNCTAD IX held out a promise of further advancing the development goals set out in the Charter of the United Nations: to contribute to higher standards of living, full employment, and conditions of economic and social progress and development.

3. Turning to the Trade and Development Report 1995, he observed that, as always, the Report was rich and stimulating and did not shy away from controversy. Studying in depth the problem of high unemployment in the developed countries, the Report firmly rejected the view that unemployment in the North was due to cheap imports from the developing countries. The conclusion was that there was no alternative to an open trading system and that the unemployment problem could certainly not be solved by resorting to new trade barriers. The Report furnished good arguments to policy-makers in the North for resisting protectionist pressures to fight unemployment. It showed that, on the contrary, it was in their interest to pursue a policy allowing all countries to reap the benefits of trade liberalization and globalization. Although increasing the market share of developing countries in the developed countries might cause dislocations of labour in certain sectors, the rapidly rising exports of manufactures from the North to the South helped to create new jobs in other sectors. It was worth remembering in this context that the North had a considerable surplus on manufacturing trade with the South. The Report attributed unemployment to sluggish growth and the low level of investment in productive capacity. The economic policy it proposed in order to fight unemployment was no doubt controversial, as it advocated an investment-led economic growth in the developed countries and called for monetary and financial policies to lower capital costs, combined with a revision of fiscal policy.

4. The Report also pointed to financial instability as a major cause of low investment and slow growth in the world economy, and made policy proposals to deal with the problem. It elaborated on the specific requirements for adjustment in the countries that had been adversely affected by the sudden - and for many observers unexpected - reversal of capital flows to Latin America. The report argued - again, possibly controversially - that this experience demonstrated the need for governments to be prepared to control capital flows in order to reduce their vulnerability to sudden overflows and to avoid problems which such flows could pose for macroeconomic management. Likewise, the Report took the view that turmoil in derivatives markets and the sharp movements in the exchange rates of major currencies called for measures to ensure greater stability of financial and currency markets. The proposed measures included the strengthening of international financial supervision and the establishment of a strong legal and institutional framework for derivatives markets. This should protect the financial system from major crises. Moreover, the Report called for raising the

cost of international financial transactions by taxing foreign-exchange trading in order to achieve greater exchange-rate stability.

5. The Officer-in-charge of UNCTAD, having recalled some of the growth indicators for major economies and regions given in the Trade and Development Report 1995, said that the fall in the rate of growth of output in the industrialized countries augured badly for the efforts to reduce the high level of unemployment which in many of these countries had come to be the paramount problem of economic policy. This situation had potentially threatening consequences for the developing countries, inasmuch as the notion was gaining ground in some quarters that unemployment was the result of the growth of imports of cheap, labour-intensive manufactures from developing countries, and the solution proposed was the imposition of trade barriers. Such a response would defeat the efforts of developing countries to step up development through integration in the world economy. Furthermore, it bore the seeds of new trade conflicts, since it implied that unemployment in one country could only be reduced at the expense of its trading partners. In the view of the secretariat, this potentially dangerous policy prescription stemmed from an explanation of unemployment in OECD countries which was essentially flawed. The fact was that industrialized countries had consistently run trade surpluses in manufactured goods with developing countries, which created jobs at home. The argument had been put forward that manufacturing trade surpluses in industrialized countries did not necessarily exclude adverse effects on employment because exports from developing countries were more labour-intensive. The coincidence of falling employment and rising import penetration in sectors such as textiles and clothing would seemed to confirm this view. However, in most cases, declines of these industries in the OECD countries predated the export success of developing countries. Moreover, in a number of developed countries, skilled unemployment had grown faster than unskilled unemployment since the second half of the 1980s. Trade, therefore, provided a superficial explanation for unemployment. It was true that changing patterns of international trade in the last 20 years had tended to reduce the demand for unskilled labour in OECD countries. But the same had happened in the 1950s and 1960s without mass unemployment. The secretariat's analysis showed that the main reason for this phenomenon today was the much lower level of growth and investment in the industrialized world, and that therefore the solution to the unemployment problem lay, in the main, not in interfering with trade, but in raising the tempo of investment and growth.

6. Over the past two decades, however, there had been a significant slow-down in capital formation in the industrialized countries, with the annual growth of fixed capital formation falling from about 6 per cent in 1960-1973 to less than 2.5 per cent in 1973-1990. Capital costs had been pushed up to historically high

levels and financial deregulation had increased the volatility of key financial variables, such as interest rates and exchange rates. As a consequence, consumption, exports and imports had also become more unstable, and private investment had been discouraged by the resulting uncertainty about the evolution of aggregate demand.

7. To step up investment rates, a first need was to provide business with improved demand expectations. The fear that a faster pace of demand expansion could raise inflation appeared unjustified under current conditions; today, greater slack and flexibility in labour markets combined with increased global competition had greatly reduced the ability of business and unions to translate increased demand for goods and labour into higher prices and wages. Secondly, potential investors should be provided with lower capital costs and a more stable financial environment. Monetary policy should aim at establishing low and stable interest rates, and stable exchange rates. The latter objective would call for currency market interventions as well as possibly measures to increase the cost of currency speculation. Furthermore, increased public sector investment in infrastructure was also essential for job creation in some countries. The problem here was that, currently, public expenditure decisions were largely constrained by budget deficits which, in turn, were the result of interest payments on the public debt. A precondition for enabling Governments to use fiscal policy as a tool of demand management was, therefore, to tackle the high stock of public debt in innovative ways.

8. It should be kept in mind, however, that if a single country embarked on policies designed to expand demand and investment, this might have adverse consequences for its balance of payments. If the country was open to international trade, a considerable portion of the demand expansion would leak abroad unless its trading partners are pursuing similar policies. In order to avoid competitive devaluation and to ensure low and stable interest rates, policies to increase employment needed to be internationally coordinated.

9. The Latin American region offered a good example of how financial instability could have an adverse effect on the performance of developing countries. The inflows of the recent years to several countries in the region had frequently had no sound basis but consisted of massive but one-off receipts from privatization and of liquid short-term capital attracted by high interest rates and real currency appreciation. The reversal of capital flows had now triggered a severe recession in Mexico and had indirectly also affected other countries in Latin America, which were - once again - forced into severe adjustment, including large import cuts with negative repercussions on the exports of developed countries. Establishing a basis for sustained growth in

developing countries requires that policy reforms succeed in improving competitiveness, raising the rate of private investment, in particular the rate of reinvestment of profits, and increasing infrastructure investment. The introduction of capital controls to avoid speculative short-term flows unrelated to trade and investment could be an important tool for ensuring a more stable macroeconomic environment. While the development of financial markets in developing countries was essential for allocating resources efficiently, it was necessary to make sure that new markets would not be dominated by speculation that posed a threat to the entire financial sector. The experience of several countries in Asia, which had succeeded in penetrating world markets, utilizing external savings and regulating their financial systems, was highly relevant here. At their Halifax Summit the G-7 countries, concerned with systemic risks, had called for a strengthening of international cooperation in financial supervision to safeguard the financial system and to prevent an erosion of prudential standards. Moreover, the IMF had recently endorsed temporary controls by developing countries on international short-term capital flows during times of surges of inflows. These were signs that the new thinking on international financial policies which the UNCTAD secretariat has been advocating for some time might be gaining ground.

10. Turning to preparations for UNCTAD IX, he recalled that, at the Consultations of the Officer-in-charge held on 13 July 1995, His Excellency the Ambassador of South Africa had announced that, in principle, his Government would be willing to host the Conference in the first half of 1996. In keeping with past practice, an informal open-ended Organizational Committee for UNCTAD IX had been set up with a view to preparing a formal decision for adoption by the Board and submission to the General Assembly. This Committee had been able to make proposals regarding organizational aspects of the Conference, namely its venue, timing and structure. Further discussions were needed on the issue of how formal and informal intergovernmental deliberations would be organized in the period preceding the Conference. The objective of these pre-Conference deliberations would be to build consensus around the main elements of the possible outcome of the Conference, notably in terms of actions and policy measures. As for the substantive aspects of the preparatory process for the Conference, he stated that the preparation of the secretariat documentation was well under way. The main document for the Conference would be the report of the Secretary-General of UNCTAD, containing policy and action proposals, backed by broad policy analysis. Where necessary, the report would be supplemented by short technical papers on specific issues. The report was expected to be made available to Governments shortly before the end of 1995.

11. With reference to developments in connection with land-locked developing countries, he recalled that the General Assembly had called for regular intergovernmental consultations between land-locked and transit developing countries and their development partners designed to strengthen cooperative arrangements to improve transit transport systems. The last intergovernmental consultations, held in New York in June 1995, had adopted a Global Framework for Transit Transport Cooperation. The Framework invited Governments of land-locked and transit countries to support a more open, market-oriented and liberal policy in the transit transport sector which should promote an environment for fair competition in providing transit services and help establish a greater scope for private-sector involvement. The donor community was called upon to continue to provide the required resources for the rehabilitation and maintenance of transit transport facilities and also to assist the governments concerned in their efforts to formulate and implement effectively the necessary policy and operational reforms that would support the commercialization programme in the transit transport sector.

12. In connection with UNCTAD's assistance to the Palestinian people, the UNCTAD secretariat had increasingly focused attention on activities aimed at providing concrete technical support to the efforts of the nascent Palestinian Authority in spheres where UNCTAD had established operational capacities. An integrated programme of technical cooperation activities had been formulated, which was finalized by the secretariat following consultations with the Palestinian Authority. The implementation of this programme would require contributions from both bilateral and multilateral sources. The deliberations of the Board on this item and the support of member countries for this programme would enable UNCTAD to join the international community in efforts over the coming years for the revival and reconstruction of the Palestinian economy.

13. The spokeswoman for the Group of 77 and China (Colombia) observed that there were signs of improvement in the economic situation of some developing countries. Nevertheless, increased utilization of substitutes for primary commodity inputs, including more efficient recovery of scrap metals in the developed countries further contributed to the decline in commodity prices from developing countries. The growth rate in least developed countries had fallen and the declining official development assistance (ODA), was a matter of concern for developing countries particularly for the LDCs. At the same time, population in developing countries had grown faster. Severe poverty continued to exist in many parts of the world, especially in the LDCs. Serious progress in poverty alleviation in developing countries required rapid and sustained economic growth. As a result of the Uruguay Round Agreement, developing countries had lost some of the special and differential treatment that they had enjoyed in the area of

trade. There was a changing attitude in several developed countries towards foreign assistance programmes. The impact of all these factors on the developing countries demanded more immediate attention and thoughtful analysis.

14. As pointed out in the Trade and Development Report 1995, unemployment had become a veritable scourge in the developed countries. The 34 million people out of work in 1994 represented a formidable challenge for policy-makers. The Report showed that it was too simplistic and dangerous to blame the liberalization of trade and investment for the problem of rising unemployment and falling real wages for certain groups of the labour force. The cause was, rather, to be found in the slow pace of growth of output and investment in the developed countries themselves. Increasing manufactured imports from developing countries had provoked calls for the imposition of higher labour standards in the developing world or other barriers to imports. Such neo-mercantilist approaches ran counter to the letter and the spirit of the Uruguay Round, and prevented globalization and liberalization from yielding their benefits. In particular, they were a threat to the developing countries, since their outward-oriented development strategies could only succeed if the markets of the developed countries were sufficiently open to accommodate the increasing imports of manufactures from developing countries.

15. The developing countries themselves had made huge efforts in liberalizing their external trade. As the TDR showed, their manufacturing imports contributed significantly to employment creation in the developed countries. But the size of these imports was determined by their export earnings and the availability of external finance, and fluctuations in these variables had implications for employment in the developed countries. Falling exports to the developing countries during the 1980s had been much more important for the reduction in the developed countries' surplus in trade with manufactures than the increasing imports from the South. Imposing new trade barriers, including linking higher labour standards to trade, would be counterproductive: instead of solving the twin problems of unemployment and badly paid jobs of unskilled workers in the developed countries, it would cause their import prices to rise and the real wages of unskilled workers to fall. At the same time it would lead to higher unemployment in the developing countries where higher labour costs would reduce employment, output and export earnings. Solutions to unemployment in the developed countries would also be stimulated by an increase in the demand for developing countries' exports to the developed countries, stability and improvement in the export prices of goods and services from developing countries and in an increase on development assistance. The rationale for improving labour standards in the developing countries lay in protecting workers in these countries, not in saving jobs in the developed countries. What was rather needed

was a coordinated policy effort to boost demand and raise investment in the developed countries. The developing countries could contribute via increasing purchasing power, rising earnings from exports of manufactures, better prices for primary commodities and sufficient access to external finance.

16. It would be unrealistic to expect the international trading system to evolve in the right direction, notwithstanding the Uruguay Round, unless the twin problems of unemployment and low wages in the developed market economies were tackled by increasing the prosperity of all. It was to be hoped that the international cooperation needed to obtain such an outcome would be forthcoming despite the end of the Cold War - and that international behaviour would not revert to the pattern of competition and conflict characteristic of the 1930s. The Uruguay Round agreements should lead to an open and rule-based trading system. The developed countries must resist the pressures to erect new barriers to limit the market access provided to the developing countries under Uruguay Round Agreements. Equally important are the monitoring to see that the Agreements were implemented in letter as well as in spirit. At the same time, the specific Marrakesh Ministerial Decision for assisting the LDCs now needed to be articulated and implemented expeditiously.

17. The Paris Club took a significant step forward in adopting the new Naples terms, but the results fall short of expectations and the implementation of these terms had been rather hesitant. The eligibility criteria had unduly restricted the number of countries benefiting from most favoured treatment. Furthermore, the budgetary, legal or policy restrictions on debt reduction faced by some creditors risked preventing the much needed reduction of stock of external debts from becoming a reality. Besides, the scope of debt eligible for reduction had been narrowed considerably. While the Naples terms might significantly reduce the debt service ratio for a number of low-income countries, the ratio for many poorer countries would remain too high.

18. The debt of highly indebted low-income countries to the multilateral financing institutions warranted serious attention. Although these institutions had already taken some steps to provide relief, the measures taken had not been sufficient to resolve the problem of arrears and to prevent the multilateral debt service burden in a number of countries from increasing at a dangerous pace. Current schemes needed to be further improved, for example by allowing interest payments on arrears and current debt service obligations to be suspended. But, this would still not suffice as long as the problem of funding was not solved. A number of constructive proposals had been made recently with a view to providing additional multilateral debt relief without diverting development assistance from other uses or increasing the pressure on bilateral donors. These

were the sale of a portion of IMF gold reserves; a new SDR allocation, the sale of which would partly aim at alleviating multilateral debt; and drawing on the reserves and loan-loss provisions of multilateral financial institutions. One of the major concern of developing countries was volatility in the international financial markets. The capacity of developing countries to control capital movements, to manage the exchange rate and to conduct monetary and fiscal policies which were immune from the volatility of the international financial markets should be strengthened. Such proposals deserved urgent and sympathetic consideration, and the UNCTAD secretariat should provide analytical studies as to their viability.

19. Regarding the agenda item on specific actions on behalf of land-locked developing countries, the Group of 77 and China considered that the principles of mutual benefit and non-interference in the autonomy of the States should be the basis of any framework for land-locked and transit developing countries. It should be recognized that it was basically a question of providing adequate infrastructure for the movement of transit goods. The donor countries and institutions should assist in building/maintaining the needed infrastructure in the developing land-locked and transit developing countries. Global Framework for Transit Transport Cooperation between Land-locked and Transit Developing Countries and the Donor Community (adopted in New York in June 1995), the Group of 77 and China endorsed the recommendations set out in this Framework, which constituted a comprehensive set of actions and modalities for promoting a cost-effective and self-sustainable transit transport systems. A key approach underscored in this Framework was the recommendation to Governments of land-locked and transit developing countries to make concerted efforts to establish a liberal regime that permitted free competition in the provision of transit transport services and encouraged a wider role of the private sector in the transit transport industry. This would lead to significant improvements in the quality of transit services to the customer at reduced cost. The Group of 77 and China also endorsed the follow-up mechanisms proposed in the above Framework, which called for a more active monitoring role by UNCTAD and the regional economic commissions in the implementation of the agreed cooperative actions, as well as strengthened support by the donor community.

20. The Group of 77 and China noted with appreciation the secretariat's report on developments affecting the Palestinian economy, its analysis of the growing significance of the role of private investment and of prospects for sustained development of the economy as well as identification of needs for assistance by the international community. In particular, she commended the secretariat for its initiative in preparing an integrated and comprehensive programme of technical cooperation activities in support of Palestinian trade, finance and

related services. The areas covered by the programme, indeed, reflected UNCTAD's established competence and capacity for operational activities. The Group of 77 urged States members of UNCTAD, and especially the donor community, to extend their moral and material support for the implementation of the programme in the time frame envisaged.

21. Turning to the preparatory process for UNCTAD IX, she stated that, following the approval of the provisional agenda for UNCTAD IX at the second part of the forty-first session of the Board, the Group of 77 and China had proceeded with substantive preparations for UNCTAD IX and, with the announcement concerning the hosting of UNCTAD IX, the Group of 77 had intensified its preparatory activities. Work under the three Chairpersons of the Working Groups of the Preparatory Committee of the Group of 77 had significantly advanced. While the Conference would assess the work completed by UNCTAD since its eighth session, as well as the institutional reforms adopted at that session, it would also consider the future work of UNCTAD, including its relationship with other international institutions. On the basis of UNCTAD's mandate, and with a view to strengthening the United Nations system, the Conference should enable UNCTAD to become a more effective instrument for promoting development and the full integration of the developing countries, in particular the least developed countries, into the world economy and the international trading system. UNCTAD had been and should remain a counter-balancing force - a force that ensures bold and innovative plurality of thinking at a time when this thinking was in danger of being increasingly dominated by the Bretton Woods institutions. Any attempt to reduce this role should be resisted. The Group of 77 and China strongly believed that UNCTAD as an institution was now empowered to exercise its development mandate fully, particularly in the light of the globalization of the international economy and the deepening economic interdependence of States and its implications for the developing countries. Her Group remained committed to UNCTAD as an institution that had attained greater relevance as a result of the creation of the WTO, which has reinforced the need for a policy-oriented trade forum with a strong development perspective.

22. The representative of Spain, speaking on behalf of the European Union, said that the forty-second session of the Board was taking place at a time when a number of events of the utmost significance for development were already occurring or are about to do so, inter alia the preparations for UNCTAD IX and the mid-term review of the Programme of Action for the Least Developed Countries in the 1990s. The European Union had already indicated on other occasions the importance it attached to the ninth session of the Conference, which would enable UNCTAD to define the role it should play in future. UNCTAD IX should also make clear the form of UNCTAD's contribution to the task of development in the areas for which it was responsible, i.e. promoting trade as an instrument for

development. The Cartagena Conference had undoubtedly provided UNCTAD with new impetus. The spirit of Cartagena which had guided UNCTAD's work for nearly four years should help delegations to adapt UNCTAD to the new challenges which it now faced. Globalization and liberalization of trade, as well as the creation of WTO, gave UNCTAD the opportunity to set new priorities in its work, stressing the development dimension. The European Union believed that UNCTAD must consider the need to establish an institutional structure which would be flexible and efficient and, while preserving the ideas already formulated in Cartagena, would enhance efforts to promote development through trade, collaboration and association between the member States of the Conference and good national and international management. Account must be taken of the special needs of those countries, particularly the LDCs, which had further to go along the road to development and one must not lose sight of the need to respect human rights and the principles of democracy and good governance. The European Union welcomed the work begun in preparation for holding the ninth session of the Conference in South Africa. The Union wished to thank, once again, the Government of South Africa for its generous offer to host the Conference. The European Union member States were ready to offer their full cooperation in the preparatory process.

23. Referring to the forthcoming High-level Meeting in New York to carry out the mid-term review of the Programme of Action for the Least Developed Countries in the 1990s, he said that the situation of the least developed countries was perhaps at present the issue of most concern to UNCTAD and its members. The European Union looked forward to a constructive debate in New York and would cooperate with its partners to arrive at a positive outcome in order to help the LDCs in their efforts to achieve development.

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24. At its 862nd (opening) plenary meeting, on 11 September 1995, the Trade and Development Board paid tribute to the memory of Mr. Shahen Abrahamian, a prominent staff member of the UNCTAD secretariat and Officer-in-charge of the Global Interdependence Division, who died on 20 August 1995. Statements of homage to Mr. Abrahamian were made by H.E. Mr. William Rossier of Switzerland, President of the Board, and by the Officer-in-charge of UNCTAD, the spokeswoman for the Group of 77 and China, and the spokesman for the European Union. The Board decided to dedicate the Trade and Development Report 1995 to the memory of Mr. Abrahamian. The Board also conveyed through the President its condolences to Mr. Abrahamian's wife and two children.