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TRADE AND DEVELOPMENT BOARD
Ad Hoc Working Group on Expansion of
Trading Opportunities for
Developing countries
Second session
Geneva, 22 November 1993

CHAIRMAN'S SUMMARY

On the basis of the country presentations, the documentation prepared by the secretariat and other international bodies, and the discussions, the Chairperson summed up the results of the session, as follows:

I. Building Export Capabilities

1. *Role of Government and business community in fostering the development of internationally competitive export capabilities in developing countries*

It was felt that the Government in developing countries had an important role to play in fostering the development of internationally competitive export capabilities. This role included the collection and dissemination of economic information, the creation of a competitive economy, and the setting of the basic framework for the overall management of the economy. It was also stressed that the Government in setting priorities and strategies for building internationally competitive export capabilities should do so in close cooperation with the business community which has a major role to play in building effective export capacity. Continuity in Government policies for export development was felt to be crucial for success. As export capabilities were built up and business institutions matured, the direct role of the Government should be diminished. Flexibility in responding to changing market conditions was important for the Government in setting policies, as well as for the business community which has to adapt to the consumer's needs and demands.

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Prerequisites for building internationally competitive export capabilities included:

- (i) sound macro-economic management (including price stability and a realistic exchange rate policy)
- (ii) fostering of entrepreneurship and competition
- (iii) development of human skills and technology
- (iv) full mobilization of domestic resources
- (v) growth-oriented saving and investment policies
- (vi) improvement of infrastructure (e.g. transportation system, telecommunications, institutional capacity, etc.)
- (vii) availability of external financial resources

Each country would need to choose its own policy mix based on its economic circumstances, particularly the developmental stage of its industries and market-based institutions.

2. *Export incentives*

Export incentives targeted to sectors with an export potential have proven an effective tool for diversifying the productive base and for strengthening the development of internationally competitive export capabilities. The policy measures employed have included:

- (i) performance-based fiscal incentives (e.g. reduction or exception from taxation, and duty rebates) tied to the export value attained;
- (ii) financial incentives covering a wide range of financing needs in the pre- and post-shipment stages (including preferential loans, export credit guarantee and insurance);
- (iii) an import policy aimed at optimizing the contribution of imports (i.e. access to imported inputs such as raw materials, components, machinery or spare parts) to making exports competitive;
- (iv) institutional support (including manpower skill development and technology acquisition).

To ensure efficiency, export incentives should be kept moderate in terms of their subsidy element, so that the allocative forces of the market were not suppressed, and that foreign exchange was earned at relatively low domestic resource cost. In this connection, incentives should be subject to regular review to ascertain that they continue to generate net benefits. With progressing development, countries had often shifted from the use of direct incentive measures to measures which were more indirect in their impact. Incentives should be consistent with GATT provisions.

3. *Foreign direct investment*

Taking into account the work of other relevant UNCTAD bodies, it was stressed that FDI could make a major contribution to strengthening the export capabilities of developing countries. The importance of trust and confidence in the economy and the economic policies of developing country Governments were highlighted in this connection. Measures employed by "host" countries to attract FDI have included: the introduction of transparent and non-discriminatory legal and regulatory systems; relaxation of equity restrictions and local purchase requirements, free transfer of profits and capital repatriation, fiscal and financial incentives, supportive infrastructure, and preferential access to imports.

Export processing zones (EPZs) had proven a successful device for attracting FDI and thus for building export capabilities.

4. *Technological and human resource development*

Human resource development, including the acquisition of skills, technical education and disciplined work habits, is vital for developing the competitiveness of the export sector and for sustained development of export capabilities. High priority should be given to investments in this area. The acquisition and generation of high level technology was also noted as important for establishing international competitiveness. An educated and skilled workforce can more easily absorb new technologies.

5. *Import liberalization*

It was noted that temporary protection from import competition had been used to nurture the development of "infant" industries in many developing countries. In view of the wide structural and capability differences that exist among developing countries and their production sectors, a uniform prescription

regarding import liberalization was difficult to make. On the basis of experience, a phased liberalization of imports had proven to be effective in promoting the international competitiveness of the production base. In some cases, when export capabilities had already been built up, a rapid liberalization of imports could induce enterprises to adopt measures to improve their productivity and international competitiveness.

II. Expanding export market opportunities

1. *Environmental measures*

Regarding environmental measures and international trade, it was noted that the market opportunities for developing countries could be expanded both by mitigating any adverse effects of environmental policies, standards and regulations on exports, and by actively seeking new market opportunities through the promotion of environmentally friendly products.

Recalling the conclusions of the deliberations on trade and environment at the 40th session of the Trade and Development Board, the importance of increased transparency was stressed as well as the need to consider, to the greatest possible extent, the impacts of environmentally motivated policy instruments, for example in the areas of packaging, labelling and recycling, on trading partners, in particular exporters in developing countries and countries in transition, at as early stages of their development as possible. In this connection, it was noted that the adjustment of the UNCTAD database on Trade Measures to include environmental measures with possible trade effects could make a useful contribution and that progress of work in this area, as well as additional information requirements, could be discussed at the next session of the Group. It was felt that the Group should continue its consideration of environmental measures and trading opportunities at its next session. In this connection, the Group will be briefed by the secretariat on its ongoing technical cooperation work in the area of trade and environment, including eco-labelling. The proposal of ITC to present a paper was welcomed.

2. *Structural adjustment*

1. It was felt that the interest of all countries converged in having a dynamic process of change and adaptation to shifting comparative advantage and international competitiveness. It was emphasized that structural adjustment policies should be conducive to the disengagement of resources from sectors

losing their comparative advantage to those with long-term growth potential and high productivity. In this way adjustment assistance policies would help to open up new export opportunities for developing countries.

2. Furthermore, it was observed that the development of a "social partnership" between governments and the private sector could contribute significantly to a process of positive structural adjustment. In this regard national transparency mechanism could play an important role.

3. It was noted that developed countries had implemented a wide range of industrial support programmes. While efforts of these countries to strengthen positive structural adjustment policies were recognized, it was also stressed that to some extent government support policies in the developed countries remained defensive in nature, attempting to maintain production in sectors where their economies were losing competitive strength. It was also noted that developing countries at relatively more advanced stages of economic development found themselves increasingly faced with the need to disengage from lower/market production sectors, promote shifts towards higher/value added industries, and to adopt appropriate structural policies.

4. It was noted with respect to the countries in transition, that as they undergo their structural adjustment process, rehabilitate and modernize their productive bases including their technological capabilities, it would be appropriate to focus on sectors in which they have comparative advantage in international trade. It was also pointed out that development of market-based institutions was essential to provide the framework in which the private sector could successfully build supply capabilities.

5. Finally, it was emphasized that a successful outcome of the Uruguay Round, involving significant progress in trade liberalization, would provide a strong stimulus to the process of positive structural adjustment. Adjustment pressures as a consequence of increased liberalization would force both governments and the private sector to step up their efforts in pursuance of strategies and policies which promoted a more efficient reallocation of productive resources and, hence, would open up new export opportunities for other trading partners, including the developing economies.

3. *Restrictive business practices*

It was felt that RBPs could impede or negate the market opportunities of developing countries that would arise from the liberalization of tariff and non-tariff barriers affecting international trade. Therefore, countries should adopt and vigorously enforce competition policy and be encouraged by the Trade and Development Board to strengthen cooperation towards this end. Taking into account the work of the IGE on RBPs, it was also felt that UNCTAD should study the interface between competition and international trade with particular emphasis on the trading opportunities of developing countries, and prepare guidelines on competition policy.

III. Export promotion and marketing

The establishment of efficient trade support services by developing countries to address certain problems, such as the lack of market information, risk in exporting, poor quality, design and packaging of goods, had been an important tool in assisting small and medium-size producers/potential exporters to penetrate overseas markets. In this connection, note was taken that a number of developed countries had established national import promotion offices to provide information and other marketing assistance to developing country exporters in their markets. It was also noted that better communication and information processing technology, by enhancing trade information transmission and decision-making could assist developing countries in taking advantage of market opportunities.

It was recognized that least developed countries had specific needs with regard to export promotional and marketing activities which some countries attempted to meet through appropriate measures. The need for more countries to take similar action in favour of least developed countries was highlighted.

Decision 1

Bearing in mind its mandate to analyse and identify product and export market opportunities which are a consequence of trade measures, including liberalization measures such as those adopted to implement the results of the Uruguay Round, and noting the timing of the conclusion of the Uruguay Round, the Ad Hoc Working Group considers that it will be unable to complete its work within the timeframe envisaged by its terms of reference. Consequently, the Ad Hoc Working Group recommends to the Board to extend the period of the Group's mandate in order to allow it to complete its work.

In this connection, the Group further recommends that its third session scheduled for 17 - 21 January 1994 be shifted to 28 February - 4 March 1994 and that its fourth session be rescheduled for June 1994. The fourth session will be devoted to consideration of the results of the Uruguay Round and their effects on the trading prospects of developing countries, and to the preparation of the Group's final report to the Trade and Development Board.

The Group agreed to submit a report covering the progress achieved so far on its work to the Trade and Development Board, at its fortieth session, second part (resumed), mid-term review.

Decision 2

In order to prepare the background analyses necessary for the Group's consideration of the results of the Uruguay Round and their effects on the trading prospects of the developing countries, including identification of opportunities arising from the reduction of tariffs and non-tariff measures on products of export interest to them, the Ad Hoc Working Group decided to request Member States to provide the UNCTAD secretariat at the earliest date feasible with final lists of concessions made in the Uruguay Round.