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Implementation of and follow-up to major United Nations conferences and summits: follow-up to the International Conference on Financing for Development

Summary by the President of the Economic and Social Council of the special high-level meeting of the Council with the Bretton Woods institutions and the World Trade Organization (New York, 26 April 2004)

Addendum 1

Summary of the informal hearings of civil society on financing for development (New York, 22 March 2004)***

Summary

In preparation for the special high-level meeting of the Economic and Social Council with the international financial and trade institutions, held on 26 April 2004, on the theme "Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus", the Financing for Development Office of the Department of Economic and Social Affairs of the Secretariat had organized informal hearings and an interactive dialogue with representatives of non-governmental organizations that are in consultative status with the Council and/or accredited to the financing for development process. The event, chaired by the President of the Economic and Social Council, Marjatta Rasi (Finland), took place at United Nations Headquarters on 22 March 2004. The overall theme of the meeting was "Coherence of the international financial and trading systems in support of

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*** The present summary was prepared by the staff of the Financing for Development Office of the Department of Economic and Social Affairs of the Secretariat, in consultation with the panellists, discussants and speakers of the meeting.

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development: national responsibilities and international obligations". The hearings and dialogue featured panel discussions on the following two topics: (i) Coherence of the international financial system in support of development; and (ii) Coherence of the international trading system in support of development. Both panel discussions were moderated by Mr. José Antonio Ocampo, Under-Secretary-General for Economic and Social Affairs. Each panel consisted of introductory remarks by the Moderator, presentations by the panellists and comments by the discussants followed by discussions with Council delegates, including questions from the audience. Salient substantive features of the proceedings of the meeting are summarized below.

Opening of the meeting

1. The Chairperson of the meeting, Ms. Marjatta Rasi (Finland), President of the Economic and Social Council, opened the meeting and welcomed all panellists, discussants and participants. In her introductory remarks, the Chair thanked the non-governmental organization (NGO) community for its deep engagement in the financing for development process. She emphasized the important role that civil society played in the follow-up to the Monterrey Conference. She also stressed that hearings of NGO representatives should be carried out on a regular basis as they provided an important opportunity for Member States and all other relevant stakeholders to interact with representatives of civil society on key issues related to financing for development.

Panel 1
Coherence of the international financial system in support of development

Overview

2. The first panel discussion focused on the implementation of the Monterrey Consensus in the critical areas of investment and debt sustainability. The participants discussed the role of international private capital flows in promoting economic development. Possibilities of regulating those flows to enhance their positive economic impact and to mitigate risks of their volatility were explored. With regard to debt sustainability, a number of policy recommendations for developed and developing countries were suggested that would reduce the structural vulnerability of highly indebted poor countries (HIPCs).

Presentations by panellists

3. Mr. Randall Dodd, Financial Policy Forum, made a presentation on managing the economic impact of foreign capital flows. He acknowledged the positive role that foreign direct investment (FDI) could play by raising low domestic savings in developing countries and helping to mitigate the adverse effects of economic shocks such as natural disasters. However, foreign investment could also play an unproductive role by exposing developing countries to disruptions and distortions through sudden massive inward and outward movements of capital. The panellist reminded participants that in addition to the impact of international capital surges, panics and droughts, developing countries faced the risks of changes in exchange rates and interest rates, and of debt default. The risks associated with changes in exchange rates and interest rates were known as market risks as they referred to the uncertainty of the market price of credit or foreign currency.

4. The panellist pointed out that capital flows to developing countries such as bank loans or bonds were almost entirely denominated in United States dollars or other major currencies such as the euro or yen. Therefore, an appreciation of those major currencies would usually lead to increased interest rate payments for developing countries and a higher principal of debt denominated in foreign currency. Similarly, foreign debt was also subject to changes in interest rates when it was rolled over at maturity or according to a regular schedule. An increase in interest rates in the United States of America would lead to higher debt repayment costs, and

if the higher interest rates also led to a higher valued United States dollar then the debt costs would increase that much more. Furthermore, a general dollar appreciation would also significantly reduce the competitiveness of developing countries' exports owing to the fact that most exchange rates of developing countries were pegged to the United States currency.

5. Mr. Dodd elaborated on several types of policy recommendations developing countries could pursue in order to safeguard their economies from adverse external events and from the adverse effects of volatile capital markets. In this regard, he focused on prudential regulation of financial markets, capital controls, anti-trust laws and performance requirements. Prudential regulation of financial markets should include collateral requirements, capital requirements, reporting and registration requirements and orderly market rules. Collateral requirements, such as those for buying securities on margin, would dampen speculative pressures on asset prices. They would also help to prevent systemic failures in markets for derivatives, repurchase agreements and securities lending. Capital requirements were also critical as they governed the borrowing behaviour of institutions abroad.

6. Furthermore, reporting and registration requirements helped prevent financial fraud and made markets more transparent, thereby improving the determination of market prices. In order to help maintain liquidity and prepare against destabilizing market events, orderly market rules should be introduced as well. Such rules could include price limits for securities and derivatives exchanges, fair credit reporting rules and prohibitions against predatory lending and deposit insurance. Properly designed capital controls could be used to effectively prevent massive capital inflows and outflows from undermining market stability. In order to be effective, however, capital controls required judicial application. In the 1990s, successful capital controls had been introduced in Chile, Colombia and Malaysia, where they had helped to prevent boom and bust cycles.

7. Anti-trust laws could help to prevent market forces such as mergers and acquisitions from leading to industry concentration. If not properly regulated through anti-trust legislation, high levels of concentration of ownership, which were a characteristic feature of financial markets, could lead to a non-competitive market resulting in inefficiencies and unfairness. In concluding, the panellist referred to the potential of shaping foreign investment for development purposes. Policies known as performance requirements could be helpful to assure that FDI had collateral benefits such as technology sharing, developing managerial experience and other skills, as well as gaining exposure to foreign markets.

8. Ms. Kathrin Berensmann, German Development Institute, focused on the challenge of ensuring debt sustainability beyond the HIPC Initiative. The panellist recalled that the Monterrey Consensus had called for continued efforts to reduce the debt burden of HIPCs to sustainable levels. She identified debt sustainability as one important indicator for the achievement of the Millennium Development Goals. The speaker stated that debt sustainability could be defined as economic debt sustainability and financial debt sustainability. While the former referred to debt service which did not inhibit growth and the overall economic policy, the latter was attributable to a country's ability to service its debt. The key HIPC indicators to measure debt sustainability were the Net Present Value (NPV) of debt/export ratio and the NPV of the debt/fiscal revenue ratio.

9. Apart from quantitative indicators of debt sustainability, Ms. Berensmann stressed the importance of qualitative indicators that would take into account the compatibility of the HIPC Initiative with the achievement of the Millennium Development Goals, development of the financial sector and capital markets and the quality of institutions in an indebted country. She called for flexibility in devising debt indicators so that specific circumstances of individual countries could be duly taken into account. According to the panellist, one of the major obstacles to debt sustainability was the structural vulnerability of developing economies. Exogenous shocks such as commodity price fluctuations tended to affect low-income countries more severely than developed countries. Among the main reasons for that vulnerability was the lack of a diversified export base in low-income countries, some of which were highly dependent on a small number of commodities.

10. The speaker proposed a number of policy recommendations addressed to the international community, the international financial institutions, HIPCs and industrialized countries. In particular, she called for more grants and concessional credits to help developing countries achieve the Millennium Development Goals. She cautioned, however, against preferential treatment that would provide resources to the poorest countries to the disadvantage of better performing developing countries. In addition, she proposed the establishment of a working group of experts from relevant international institutions that would focus on Millennium Development Goal costing exercises, which then could provide the basis for the calculation of the long-term financing needs of low-income countries.

11. Ms. Berensmann further commented on the insufficiencies of current financing instruments provided by the international financial institutions. She argued that international financial institutions should develop more appropriate and flexible mechanisms to deal with external shocks, because existing instruments, such as the Compensatory Financing Facility of the International Monetary Fund (IMF), were not always successful. In addition, a contingency finance facility could be established. In addressing HIPCs, the speaker suggested three main policies that would facilitate the management of external shocks. First, she stressed the importance of export diversification as the only mechanism that would address the problem of vulnerability at its root. Second, she called on HIPCs to strengthen their domestic debt markets in order to be able to borrow in domestic currencies at lower interest rates. Third, she urged HIPCs to improve their public expenditure management. In concluding, the panellist called on industrialized countries to enhance the access of HIPCs to their markets.

Comments by discussants

12. Mr. C. Lawrence Greenwood, Jr., Deputy Assistant Secretary of State for International Finance and Development, United States Department of State, commented on various issues raised by the two panellists. He stressed that official development assistance (ODA) by itself could not drive economic development. Domestic capital, trade and investment and remittances were far more important sources of financing for development, while ODA could play an important role as a catalyst to help mobilize domestic savings to invest in growth. Responding to criticisms of foreign capital’s volatility, the speaker stated that both foreign and domestic capital moved under similar factors. In order to attract foreign capital and prevent domestic capital flight, it was crucial to introduce an effective, efficient and

transparent domestic economic environment, based on good governance and sound macroeconomic policies.

13. Mr. Greenwood challenged the view that foreign capital inflow was an important factor causing domestic asset inflation. That phenomenon, he said, was caused by faulty domestic monetary policies. The speaker questioned the effectiveness of capital controls. While controls might be appropriate for developing economies with weak financial systems, they should only be of a temporary nature as they inhibited much needed capital inflows. The discussant noted the United States strong financial and moral support for the HIPC Initiative. He suggested that, in order to cope with the risks associated with fluctuating exchange rates, debtor countries should consider hedging their positions, noting that hedging had never been cheaper given the depth of the market. In concluding, Mr. Greenwood urged civil society participants to stay engaged in the financing for development process as they offered a counterweight to vested political and economic interests in developing countries, which held back development.

14. Mr. Stafford O. Neil, Permanent Representative of Jamaica to the United Nations, stated that the recent focus on private capital flows should not obliterate the continuing importance of bilateral and multilateral flows to developing countries. ODA, grants and loans remained essential, in particular, for those countries that would benefit most from private capital inflows but were least able to attract them. Given the imbalances in the flows of private capital, reliance on free market forces alone was not a viable approach and would reproduce current patterns of poverty. Instead, the “invisible hand” of the market needed to be helped along in the process. This could be achieved by creating new mechanisms for managing private capital flows, both at the national and international levels. According to the speaker, regulation at the national level was a double-edged sword. While it was viewed as a disincentive for attracting foreign private capital, it was essential for protecting the national economy. With regard to mechanisms for international regulation, the discussant expressed his disappointment at the stagnation of discussions on a “new financial architecture”, which had been pursued more fervently during the 1990s.

15. In reacting to Ms. Berensmann’s presentation on debt sustainability, Mr. Neil commented on the challenges of the HIPC Initiative. He stated that the cumbersome process of application and implementation of the HIPC Initiative had put a heavy burden on those countries and had limited its effects. To ensure sustainability beyond the debt relief initiative, HIPCs were expected to strengthen their economies. Export diversification should be the key tool to attain sustainability. However, economic diversification was not easy to implement as it needed to be accompanied by governmental support. Free market principles alone would not facilitate the export diversification of HIPCs. Further, the discussant questioned Ms. Berensmann’s suggestion that more emphasis be put on local borrowing, rather than on international borrowing. Many developing countries depended on external financing because domestic interest rates were currently higher than foreign interest rates. He warned that a sudden shift would result in higher interest rates for borrowers.

Discussion

16. Ms. Gemma Adaba, International Confederation of Free Trade Unions, voiced concerns about the negative effects of FDI. According to Ms. Adaba, FDI tended to have very weak linkages to local labour markets and to the local economy in general. Instead of benefiting the receiving countries by means of stimulating local economic sectors, employment generation and technology transfer, the role of FDI was most often reduced to the "chase for cheap labour". She asked how the performance requirements for FDI, as suggested by Mr. Dodd, could be designed to make FDI more beneficial for receiving countries. She further asked how an appropriate regulatory framework for FDI would look, and how the latter could be effectively implemented. According to the NGO participant, these questions were of particular importance as a focus of policy support at the international level, given the weak negotiating position of many developing countries.

17. Mr. Aldo Caliari, Centre of Concern, stated that the subject of debt sustainability had important political dimensions that could not therefore be addressed by the international financial institutions alone. The United Nations should continue a dialogue on debt-related issues and should provide for a follow-up mechanism. The speaker illustrated his point with the following three examples. First, he considered it was necessary to separate the roles of IMF as the agency providing both lending and surveillance, a position supported at some point by the minister of the United Kingdom responsible for finance. If those two roles were not separated, the speaker felt, IMF would continue to have an obvious conflict of interest, which it would not be able to resolve by itself. Second, the NGO participant referred to the debt of many developing countries as "phantom debt", a term known in some academic circles as an indication of the broad-based agreement on the debtors' inability to repay it. It should have long been written off, argued the speaker, if the international financial institutions had applied more stringent standards of private bank lending. According to Mr. Caliari, it was not a matter of new resources for debt relief, but rather a political decision on what set of accounting standards to apply. Third, the speaker raised the question of allocating truly new and additional resources for debt relief. By Ms. Berensmann's account, some new resources would be needed. But how much more resources could be devoted to debt relief, he argued, was a political issue exceeding the merely technical aspects of debt sustainability. Finally, he stressed that the United Nations would be the only legitimate forum to forge the political consensus needed to provide appropriate solutions with regard to the political dimensions of debt-related and other economic policy issues on the agenda of the financing for development process.

18. Ms. June Zeitlin, Women's Environment and Development Organization, raised the issue of relating the question of debt sustainability to the Millennium Development Goals, specifically to Goal 8, which called on the international community to promote a global partnership for development. She asked how the right type of environment for the implementation of that goal could be created.

19. Rev. Séamus Finn, Missionary Oblates of Mary Immaculate/New Rules for Global Finance Coalition, voiced concerns about the comments by Mr. Greenwood on accepting the effectiveness of capital controls. He recalled that even IMF had accepted the positive impact of those controls on various occasions. He also underscored the importance of financial market regulation and the provision of

adequate resources for monitoring compliance. In that regard, the NGO participant suggested that an international framework for monitoring compliance with financial market rules and regulations be considered.

20. Mr. Paul Tennasse, World Confederation of Labour, highlighted the important relationship between FDI and the informal economy. In view of the accelerating growth of the informal economy in most developing countries, FDI needed to be linked to that sector in order to have any positive impact on the receiving economy. The speaker stressed the necessity of looking at the quality of FDI and its potential to improve employment with decent jobs and training of the local labour force. However, as long as the debt issue was not solved, the capacity for domestic resource mobilization would be limited.

21. Mr. Munir Akram, Permanent Representative of Pakistan to the United Nations, in responding to Mr. Greenwood’s contribution, stated that the key problem of most developing countries was their lack of both domestic savings and export earnings. It was for exactly that reason that many developing countries were unable to attract private capital flows. External assistance was therefore needed.

22. The Moderator of the meeting, Mr. José Antonio Ocampo, pointed out that one of the achievements of the Monterrey Consensus was its combined focus on both domestic and international factors in addressing the debt issue. He also said that it was important to recognize the relationship between an unsustainable debt burden and long-term economic stagnation. The Moderator reiterated the importance of export diversification for enabling developing countries to increase their export earnings. Yet, some countries did not have access to debt and loan financing, which could be caused by cyclical as well as structural reasons. Adequate international mechanisms were thus needed for tackling those structural imbalances. Similarly, ODA played a crucial role in assisting developing countries that had little or no access to private capital.

23. Mr. Dodd, responding to Ms. Adaba’s questions regarding prudential regulation and performance requirements for FDI, said that apart from passing regulatory laws there was also a need for new mechanisms of enforcement, surveillance and prosecution. Establishing those mechanisms was an ongoing process even as it concerned the United States. In referring to the example of Enron, Mr. Dodd said that some of the procedures undertaken by the company had in fact been legal at the time. The challenge lay in creating an appropriate magnitude of domestic and international prudential regulation.

24. Ms. Berensmann, acknowledging Mr. Neil’s comments regarding the difficulties associated with the process of export diversification, reiterated her view that economic diversification was the best strategy to solve the problem of the highly indebted poor countries at its root. She also stressed the importance for HIPCs of borrowing not only in international but also in domestic markets. She agreed with Mr. Caliari’s view that more debt of HIPCs should be written off, since many of them would not be able to repay it. With regard to the relationship between debt sustainability and the Millennium Development Goals, she recalled the estimates by the international community that attaining the Millennium Development Goals would require at least an additional $50 billion of ODA per year.

Recommendations

25. The following recommendations were made by individual panellists, discussants and speakers from the audience:

- **Adverse effects of the volatility of private capital flows should be reduced through policies of prudential regulation, capital controls, anti-trust laws and performance requirements. These policies should be accompanied by mechanisms of enforcement, surveillance and prosecution.**
- **Linkages between FDI and local labour markets, including those of the informal economy, should be strengthened. Receiving countries should benefit from gainful and decent employment, training and technology transfer.**
- **Government infrastructure and public projects should increase partnerships with domestic capital investments. Such joint projects would serve as a mechanism to mitigate risks and decrease capital flight.**
- **Domestic resource mobilization should be strengthened through fostering an effective, efficient and transparent economic environment based on good governance and sound macroeconomic policies.**
- **To cope with the risks associated with fluctuating exchange rates, debtor countries should make sensible use of derivative instruments.**
- **Consistent with Millennium Development Goal 8, which calls for a global partnership for development, the issue of linking debt sustainability to the achievement of the Millennium Development Goals should be studied.**
- **To secure debt sustainability and facilitate the attainment of the Millennium Development Goals, the international community should increase grants and concessional loans to developing countries.**
- **An interdisciplinary working group of experts from the relevant international institutions should be created to devise mechanisms for calculating the long-term financing needs of low-income countries to reduce the impacts of external shocks.**
- **To achieve debt sustainability, HIPCs should diversify their export base, strengthen their domestic debt markets and improve their public expenditure management. Industrialized countries on the other hand should improve the access of HIPCs to their markets.**
- **So-called “phantom debt” resulting in falling into arrears in debt payments, owing to negative exogenous factors, should be forgiven.**
- **An expert study group on debt sustainability should be convened within the framework of the financing for development process.**

Panel 2
Coherence of the international trading system in support of development

Overview

26. The second panel discussion focused on the implementation of the Monterrey Consensus in areas related to the international trading system and commodities. Eliminating agricultural subsidies and increasing market access were identified as major concerns of developing countries. To address those and other trade-related issues, participants called for an early resumption of multilateral trade negotiations. In the area of commodities, short-term price fluctuations, a long-term trend of declining prices and a diminishing share of producers in the value chain were acknowledged as critical challenges for developing economies. In particular, the need to fill the current institutional vacuum in dealing with those issues was stressed.

Presentations by panellists

27. Mr. Goh Chien Yen, Third World Network, spoke on current issues in trade and development. The panellist recalled that the Monterrey Consensus had highlighted the role of trade as an engine for development and had established several benchmarks to ascertain whether international trade was indeed playing such a role. He felt that in the light of the recent failure of negotiations at the World Trade Organization (WTO) Ministerial Conference in Cancun, the outcome of the Doha work programme and the future role of WTO needed to be reconsidered.

28. The speaker analysed the draft document, known as the Derbez text, which had not been adopted in Cancun but was often used as a reference point. The text contained, in relation to the negotiations on agriculture, a blended formula for tariff cuts that would disadvantage developing countries by subjecting them to an average tariff reduction of 30 to 70 per cent, as compared to only a 25 to 30 per cent reduction for developed countries. According to Mr. Goh, that formula should not be accepted. In addition, special products and special safeguards mechanisms should be given more importance as they provided an effective way to counter import surges in developing countries, thus protecting their farmers' livelihoods and food security.

29. In terms of non-agricultural market access, the Derbez text recommended further work on a non-linear formula on tariff reduction. That type of formula, stressed the panellist, should not be accepted by developing countries because it would threaten their domestic industries.

30. Mr. Goh also referred to the role of the so-called "Singapore Issues", namely: investment, competition, transparency in government procurement and trade facilitation. A majority of the member countries, including the United States, felt that at least the first three of those issues should be dropped from the WTO negotiations.

31. In concluding, Mr. Goh recommended that the Derbez text should be disregarded in future negotiations, that more attention should be paid to proposals submitted by developing countries and that the Singapore Issues should be dropped from the WTO negotiations. The role of the financing for development process should be to monitor developments in WTO and to help examine and assess

bilateral, regional and multilateral agreements, IMF and World Bank trade conditionalities and their impact on developing countries. Furthermore, it should identify and address the impediments facing developing countries in decision-making processes in all trade negotiation forums.

32. Mr. Irfan ul Haque, New Rules for Global Finance Coalition, focused on commodities as a development issue. The panellist expressed the view that there were many trade-related concerns such as the issue of commodities which went beyond the scope of the WTO mandate. In the absence of other institutions, the financing for development process provided a forum for discussing those matters. Although a number of developing country exporters of agriculture products suffered from the protection and agricultural subsidies in the industrial countries, the commodity problem was not, by and large, an issue of market access.

33. Mr. ul Haque outlined three major issues of concern in the area of commodities: (i) short-term price fluctuations; (ii) a long-term declining price trend; and (iii) a declining share of producers in the value chain. He noted that the decline in commodity prices and the associated long-term decline in the terms of trade for developing countries implied a real resource transfer to consuming industrial countries. The situation had been aggravated by the market liberalization measures that had tended to increase developing country dependence on commodity exports. With respect to short-term price fluctuations, the speaker mentioned that neither of the two international arrangements launched to provide relief to commodity producers — the European Union (EU) Stabex and the IMF Compensatory Financing Scheme (CFS) — were currently operational. However, the panellist, while recognizing the grave problem created by declining and fluctuating prices, placed special emphasis on the problem of the declining share of primary producers in the value chain, defined as the addition to value at each stage as a product moved from the primary producer to the final consumer.

34. According to the panellist, there were two major reasons for the long-term declining commodity price trend, namely, improved productivity and persistent overproduction resulting in structural oversupply. In the case of structural oversupply, there was no alternative to steps to manage the supply situation. If arrangements to regulate production or exports of surplus commodities were not possible under an international agreement, producers could come together with the aim of curtailing supplies and improving market conditions. Where appropriate and feasible, that might include producer-consumer schemes, joint measures by producers and national-level measures.

35. In discussing the problem of the declining share in the value chain, the panellist noted that, while in an ideal market setting the value chain would be determined through fair competition, in the real world the power to trade was determined by economic status. That resulted in unequal exchange and increased vulnerability of developing countries. The speaker pointed to the urgent need for an international institution to deal with the issue of commodities. While the United Nations Conference on Trade and Development (UNCTAD) used to be such a forum, its capacity in that area had been greatly reduced over the last decade. Similarly, the World Bank and IMF too had disbanded their commodity divisions and cut down on research on commodity markets. The speaker concluded his presentation by calling on the international community to close that institutional gap at the international level.

Comments by discussants

36. Mr. John B. Richardson, Head of the Delegation of the European Commission to the United Nations, reaffirmed EU commitment to all elements of the Doha Agenda. The EU was determined to get the trade negotiations back on track. The EU had reassessed its strategy in the light of Cancun. It was time for the WTO membership to work out new modalities for the further trade negotiations under the Doha work programme. According to the discussant, the December meeting of the WTO General Council showed political will to relaunch the talks. The pillars to address in that context were development issues, the Singapore Issues, non-agricultural market access and agricultural market access. In terms of development issues, there was a need to look at special circumstances of the least developed countries and find special arrangements to deal with them. The idea should be to produce development results. On the Singapore Issues, the speaker argued against the idea that those were not trade-related issues. Nevertheless, the EU was willing to drop investment and competition from the negotiation package.

37. On agricultural subsidies, Mr. Richardson expressed the view that some forms of that type of subsidies had proved to be useful. For example, the so-called "green box" subsidies had valuable social implications as they could promote rural development and environmental protection without any trade-distorting effect. He underscored that the forthcoming EU enlargement would result in a reduction of export subsidies as the current subsidies could not be extended to new members. Linked to the EU enlargement also was a massive reform of common agricultural policy. A key point of the Doha mandate concerned the reduction or elimination of tariff peaks and escalations, in particular for products of export interest to developing countries. In that regard, the speaker mentioned cotton as a classical example of tariff escalation in some markets. He then pointed to some new trade facilitating activities of the EU, which went beyond trade negotiations. A recently launched Trade Help Desk was supposed to help exporters from developing countries interested in EU markets to obtain essential information. Another initiative was current projects worth euro 1.5 billion to provide trade-related technical assistance for capacity-building in developing countries. In concluding, the discussant referred to the paradox of preferences in the context of the current trade negotiations. The more the tariffs were reduced, the less preferential margin was left to the poorest countries such as the least developed countries. Solutions needed to be found, including outside the Doha framework, perhaps in a dialogue among countries of the South and by South-South liberalization.

38. Mr. Munir Akram, Permanent Representative of Pakistan to the United Nations, asserted that developing countries did not have much choice in the area of trade but to obtain the best possible deal within the setting of WTO. Since decision-making in WTO was done by consensus, any group of developing countries which was well organized and articulate could negotiate effectively. While the Doha round could not be called a "development round", it could be transformed into one once developing countries were clear on their objective and strategy. The discussant underscored the need to reinstall the multilateral trade negotiations, following the setback of Cancun. Certain confidence-building measures, however, needed to be established to strengthen the trust of developing countries. Possible actions towards that goal would be a moratorium on anti-dumping measures, duty-free and quota-free trade for least developed countries, the reduction of subsidies and commitment to capacity-building in developing countries.

39. According to the speaker, some of the most urgent issues from the point of view of developing countries were the phasing out of textile tariffs and the resolution of institutional issues, as well as that of addressing the issue of tariff peaks and escalations. However, if tariff peaks and escalations were just to be removed, some countries would benefit and others would suffer. The purpose of trade negotiations, however, should not only be to liberalize trade but also to create a level playing field. Hence, another solution had to be found to protect the poorest countries. Additional critical issues to be addressed included the operationalization of special and differential treatment provisions, the movement of natural persons, including the controversy over outsourcing, as well as trade-related aspects of intellectual property rights (TRIPS) agreements. Most importantly, however, the multilateral trade negotiations had to be relaunched quickly and the issue of agricultural subsidies should be given the utmost priority in the process of negotiations.

Discussion

40. Mr. Randall Dodd remarked that even if there were an upward long-term trend in commodity prices, short-term price volatility would remain a problem. To remedy it, Governments and relevant institutions should provide commodity price risk instruments.

41. Ms. Kristin Dawkins, Institute for Agriculture and Trade Policy, identified structural oversupply and vertical integration of monopolies as the main reasons for the steady decline in commodity prices. In the case of cotton, for example, while prices had fallen by half, production had doubled over the years. She stated that the United States owned 40 per cent of the market share in cotton and dumped exports at prices dramatically below the cost of production. According to the NGO participant, banning all forms of export dumping was essential for reaching the Millennium Development Goals. Also, new policies needed to be developed to manage the international supply of commodities. To that end, she proposed that UNCTAD should be commissioned as an appropriate agency for devising policy recommendations in that area.

42. Mr. Frank Schroeder, Friedrich-Ebert-Stiftung, referred to Mr. ul Haque’s claim that there was an institutional vacuum surrounding the commodity issue. He asked if any suggestions had been made in the Eminent Persons’ Report on Commodity Issues as to how to fill that void. He also wondered if a new institution was needed to address the commodity issue or if an existing one such as UNCTAD could be utilized in that regard. The NGO participant also asked what scope for action the WTO Committee on Trade and Development had with regard to the long-term price decline of primary commodities and if special and differential treatment would be an adequate instrument to address the commodity problem.

43. Ms. Narelle Townsend, NGO Committee on Human Settlements, pointed out that more investment was needed for water infrastructure and land development. She emphasized that developing real estate markets for housing and asset markets was crucial and that new and innovative modalities to engage foreign investment as well as domestic savings were necessary. The NGO participant raised the question of how to finance the enormous expenditure that was required in the areas of infrastructure and human settlements in developing countries.

44. The Moderator, Mr. José Antonio Ocampo, reiterated Mr. ul Haque's remark about the necessity of filling the institutional vacuum surrounding the area of commodities. He also recalled that massive debt adjustments in Latin America and Africa in the 1980s had been closely related to commodity price collapses. On a cautionary note, the Moderator reminded participants that export diversification, despite its potential for economic benefits, could lead to global oversupply and a further decline of commodity prices.

45. In response to Mr. Richardson, Mr. Goh Chien Yen argued that while the so-called "green-box" subsidies purported to be less trade distorting it remained to be seen whether that would indeed be the case. The latitude in the Derbez text in that regard could provide the opportunity for the developed countries to shift from one kind of domestic support to another. He also pointed out that the EU was back-pedalling on its offer made at Cancun to drop the Singapore Issues.

46. Mr. Irfan ul Haque, in responding to the question regarding institutional arrangements to deal with commodities, called for considering the use of existing institutions before creating any new ones. In that regard, he reiterated that UNCTAD had been created to deal with trade-related issues not covered by the General Agreement on Tariffs and Trade (GATT), the predecessor of WTO.

47. The Chair thanked all the participants in the hearings and encouraged civil society to remain deeply and actively involved in the financing for development process.

Recommendations

48. The following recommendations were made by individual panellists, discussants and speakers from the audience:

- **In the area of trade as an engine for development, the role of the financing for development process should include: monitoring and assessing developments in the multilateral trade negotiations under the Doha work programme; promoting the coherence and consistency of the international financial and trading systems in support of development; examining the developmental impacts of bilateral and regional trading agreements; identifying and addressing impediments confronting developing countries in the decision-making processes in the Bretton Woods institutions and WTO.**

- **Developing countries should set a clear objective and strategy and should utilize better the negotiating processes within the setting of WTO, in order to transform the Doha round into a "development round" of multilateral trade negotiations.**

- **Developed countries should adopt confidence-building measures to regain the trust of developing countries. Such measures should include a moratorium on anti-dumping, duty-free and quota-free trade for the least developed countries, reduction of subsidies and commitment to capacity-building in developing countries. In addition, developed countries should proceed to banish textile tariffs, introduce tariff peaks and prevent tariff escalation.**

- **The primary focus of trade negotiations after Cancun should be on agriculture.**
- **The Singapore Issues should be dropped from the WTO agenda.**
- **Special and differential treatment provisions in the WTO rules should be fully operationalized and further strengthened. However, trading preferences given to the least developed countries should not be exerted to the disadvantage of more competitive developing countries.**
- **The TRIPS Agreement needs to be re-evaluated from a development perspective.**
- **Compensatory finance should be made operational to help insulate developing countries from adverse effects of international commodity price volatility.**
- **Where appropriate, market-based tools for providing better price risk management should be used more extensively.**
- **The international community should work in a concerted manner with a view to filling the institutional vacuum surrounding the issue of commodities. In this regard, existing institutions should be considered, in particular UNCTAD.**
- **In the long run, policies such as commodity agreements should be adopted at the international level.**
- **In the short term, measures to reduce the oversupply of commodities may be necessary. Where appropriate or feasible, these may include producer-consumer schemes, joint measures by producers only and national-level measures.**
- **Developed countries could help solve the problem of oversupply by eliminating agricultural subsidies.**
- **Support for strengthening supply capacity in the commodity sector should be made an integral part of international assistance to commodity-dependent countries.**
- **An "international diversification fund", which could be linked to an existing institution, such as the Common Fund for Commodities, should be established to enhance the ability of countries to move away from excessive dependence on a few commodities.**
- **The place of primary producers in the value chain should be enhanced through commodity-based development and diversification.**