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II. President's summary *(continued)*

Evolution of the international trading system and of international trade from a development perspective: Impact of the crisis

1. The Board's deliberations under the agenda item were opened by the Secretary-General of UNCTAD and conducted with the participation of a high-level panel composed of Mr. Pascal Lamy, Director-General of the World Trade Organization (WTO), and Mr. Pedro Páez Pérez, member of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System (the "Stiglitz Commission"), former Minister of Economic Policy Coordination, and currently Chair of the Ecuadorian Presidential Technical Commission for a New Regional Financial Architecture and Bank of the South, Ecuador.

2. Participants agreed that the current global financial and economic crisis, which had originated in developed countries, affected all countries and incurred severe social, economic and developmental implications, particularly for developing countries. The collapse of demand and production had caused high unemployment, and had led to a sharp contraction of trade, investment, remittances and possibly official development assistance flows. Combined with a series of crises affecting energy, food, commodities and climate change, and the limited ability of countries to put in place social safety nets, the crisis had aggravated poverty and social misery, and rendered the achievement of the Millennium Development Goals and poverty reduction by 2015 practically impossible. While there had emerged signs of "green shoots" pointing to recovery, there was no place for complacency, as social effects of the crisis would last even after output had rebounded. The shape and speed of the recovery mattered, as did macroeconomic conditions and correcting global imbalances.

3. Noting the deep, sudden and synchronized contraction of world trade, including South–South trade, many stressed that trade was not the direct cause of the crisis, although it had linkages with global imbalances. Effects of trade contraction fell disproportionately on developing countries, particularly on the poorest and most vulnerable, as they relied heavily on external trade for income. The internationalization of production chains had transmitted the contraction to countries worldwide. The shortage in trade finance had limited exporters' ability to export. The credit crunch had reduced demand particularly for durable and capital goods. Since mid-2008, falling commodity prices had significantly reduced the export earnings of commodity exporters, particularly single-commodity exporters, even though this represented a relief for net importers, including net food-importing developing countries. Services sectors of importance to developing countries were also affected, particularly income-sensitive sectors such as tourism, travel, transport and construction.

4. Many participants underlined the importance of a coordinated approach to the crisis, including through a stronger partnership among the family of international organizations. There was a need for innovative and viable solutions to improve the availability and affordability of trade finance, including by activities of the network of export–import banks and by initiatives aimed at increasing global trade liquidity. Supporting a sustainable agricultural sector was particularly important for diversification of economies, food security and climate change mitigation. Addressing speculative movement in commodity markets would be crucial. Increasing official aid flows and Aid for Trade, as well as immediate meaningful debt relief initiatives, could make an important contribution. It was noted that there had been positive developments in WTO's Second Global Review on Aid for Trade in

July. Continued mobilization of additional and predictable resources would be a key priority.

5. There was a shared view that, while the rapid spreading of the crisis demonstrated globalization and interdependence of economies, it also highlighted the extent of vulnerability facing developing countries from their excessive reliance on external demand, especially on a narrow range of commodities and markets. This highlighted the need for boosting domestic demand and productive capacities. However, for many developing countries, domestic demand remained small. Thus, external demand was indispensable in sustaining growth. The challenge facing countries was how to make their economies and trade more resilient to external shocks by diversifying their markets and their production and export sectors. Such sectors could include sustainable agriculture, services, renewable energy and environmental goods. Facilitated movement of people would also be important. While developed countries' markets remained important, South–South cooperation and intraregional trade provided a viable avenue for recovery. Enhancing competitive productive capacities, together with greater value added and retention – with the support of the international community and Aid for Trade – were essential.

6. Many stressed that markets could not self-regulate, and that governments should play a central role in guiding investments and economic activities, regulating markets and facilitating trade in key sectors. The role of government needed to be redefined as enabling a developmental state, so that it could play a more proactive role, including through the use of policy space. Others emphasized that gradual integration into world markets continued to be a part of comprehensive development strategies, and that regulation and market opening were not mutually exclusive.

7. Participants concurred that economic nationalism and protectionist sentiments were a matter of concern, as they affected developing countries in particular. While high-intensity protectionist measures had been contained, so-called "buy–invest–lend–hire locals" policies permeated various crisis-mitigation measures, and various non-tariff measures had been put in place. There was thus a need to contain such sentiments and roll back existing measures. Many expressed concern that developing countries were not able to take large-scale fiscal stimulus measures due to their lack of resources, which could place them in a less competitive position and distort future production location at their expense. Regular monitoring, transparency and peer pressure was considered essential, as conducted by WTO in partnership with UNCTAD and other institutions.

8. The importance of concluding the Doha round of trade negotiations with substantial development content by 2010 was stressed. The latest ministerial meeting in India (3–4 September 2009) had created a renewed momentum, and the forthcoming G-20 summit in Pittsburgh would provide a unique opportunity to demonstrate leadership and responsibility. Several speakers underscored the primacy of the multilateral process over bilateral processes. Many speakers highlighted the need to scale up efforts to fully deliver its development dimension, including special and differential treatment and policy space in allowing developing countries to implement proactive policies to mitigate the crisis. Other speakers noted that the emerging Doha package had already incorporated a sufficient degree of flexibility for developing countries, particularly for least developed countries (LDCs) and for various categories of countries with special needs, such as in the form of exemption from reduction commitments, and lesser reduction commitments, in tariffs and agricultural subsidies. One participant highlighted the need to tackle competition policy and transparency in government procurement in WTO to contain protectionist measures. Coherence between multilateral, regional and subregional processes was considered important. Several participants underlined the need for North–South agreements to strengthen development cooperation to foster development and productive capacity.

9. Many participants emphasized the need to reform the global economic governance system, as the highly regulated trading system and unregulated financial markets had marked a stark contrast. Coherence in trade, development, financial and monetary policies was therefore essential, including by strengthening regulations in the financial sector. Participants concurred regarding the value of the multilateral trading system in maintaining trade flows. There was a need to strengthen the system by realizing a universal, rules-based, open, non-discriminatory and equitable multilateral trading system. WTO accession was important for the universality of the system. Acceding countries considered that the stringent commitments requested of them were not commensurate with their level of development. In the long term, there was a need to rethink the operation of the trading system in terms of its scope and ways to reduce the risk of non-implementation and trade disputes, while some cautioned against reform of the trading system.

10. Participants commended the secretariat’s background note as providing particularly relevant analysis. They reaffirmed that UNCTAD played an important role as catalyst for monitoring the evolution of the global economic crisis and building consensus on measures needed to address its trade and development implications. The universal character of the crisis had called for committed engagement of the “G-192” and the United Nations. Participants thus felt that UNCTAD should continue to analyse trade and development implications of the crisis, including regulatory and institutional frameworks, commodities, trade finance, South–South cooperation and investment measures. UNCTAD should also continue to help developing countries to engage in the international trading system, and build trade and productive capacities, including through Aid for Trade.