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First session
Geneva, 11–12 April 2013

Report of the Multi-year Expert Meeting on Promoting Economic Integration and Cooperation on its first session

Held at the Palais des Nations, Geneva, from 11 to 12 April 2013

Contents

I. Chair's summary

A. Opening statements

1. The first session of the Multi-year Expert Meeting on Promoting Economic Integration and Cooperation was held at the Palais des Nations in Geneva on 11 and 12 April 2013 in accordance with the decision of the Trade and Development Board at its fifty-sixth executive session on 3–4 December 2012.

2. In his opening remarks, the Chair of the meeting suggested that the prolonged weakness in growth performance of industrial economies makes South–South economic integration and cooperation of critical importance to sustain growth and development in the developing world. Although trade and capital flows among economies from the South grew rapidly in the last decade, there still exist significant obstacles to their future expansion, most notably in the form of infrastructure gaps, which arises from an imbalance between the supply and demand for infrastructure services in many developing countries. The Chair emphasized that a primary objective of this meeting was to explore the different delivery and funding mechanisms that could be employed to close this gap and, in particular, the new role that the regional development banks should play and those that involve cooperation between the public and private sectors.

3. The Head of UNCTAD's Programme on Economic Cooperation and Integration among Developing Countries elaborated on the opening statement by adding more detail on the topics dealt with by the meeting. He described the infrastructure challenge in the developing world as a classic public good problem that cannot be handled by the markets alone and requires mobilization of public finance. This challenge is even more difficult for cross-border infrastructure projects, which require coordination at the international level. He also stressed that the current provision of affordable long-term finance is undermined by the turn to austerity in many industrial economies that seem to be entering their own "lost decade", and that new financing mechanisms within the South will need to be created.

B. Supporting infrastructure development to promote economic integration: the role of the public and private sectors

(Agenda item 3)

Infrastructure development: what kinds of partnerships work?

4. In the first session, the experts documented the huge infrastructure and financing gaps existing across the South and the need for a major increase in infrastructure investment to encourage an inclusive growth, respond to a growing urban population and meet development goals such as poverty reduction and environmental protection. The experts suggested that the largest infrastructure deficits exist in electricity, water, sanitation access, roads and communications. These deficits are greatest in relative terms in least developed countries, especially in Africa, but gaps are significant even in dynamic Southern economies such as India. The absence of adequate roads and electricity tend to isolate even further rural from urban economies generating an uneven pattern of development.

5. In terms of finance, it emerged from the discussion that the current spending is under US$1 trillion per year (a figure substantially far from the required amount, which has been estimated to be around US$2.5 trillion) and that this is still provided mostly through government expenditures. This can create problems in many developing countries. In fact,

the heavy reliance on budgetary expenditure can lead to adverse distributional consequences whereby a heavy tax burden on lower income groups (particularly through indirect taxes) pays for services that unduly benefit those in a higher income bracket, resulting in asymmetric impacts from infrastructure provision.

6. The remaining financing is provided by private-sector institutions, overseas development assistance and multilateral development banks. Multilateral development banks, however, tend to exhibit high costs in relation to other investment banks, can be slow in assessing projects and often impose highly intrusive conditionalities through their lending. The experts discussed in detail the high operating costs of the World Bank and the problems with its governance structure, which is still strongly biased towards industrial economies. The experts advocated, therefore, the creation of a new development bank for the South that could serve as a catalyst for change, with a mandate to focus on sustainable infrastructure, improved financing instruments, and more effective global representation. According to the experts, at least a part of the huge amount of foreign exchange reserves accumulated by developing and emerging countries during the last decade (part of which are invested in low-yield United States Treasury bonds) could be used to fund such a South–South development bank. This would be more efficient also from a purely financial perspective, since portfolio diversification should offer developing countries higher returns from their investments, the more so to the extent that developing country growth performance becomes less correlated with performance in advanced economies.

7. The experts also discussed the issue of public–private partnerships (PPPs). While there is no single definition of a PPP, the term broadly refers to long-term, contractual partnerships between public agencies and private-sector firms where the former retains full ownership of assets involved in the project as well as full oversight of the private sector's activities in that project. The private-sector partner is allowed to operate the facility and collect the generated revenue. PPPs have been promoted as a means to help scale up investment in public infrastructure by providing additional capital. Moreover, PPPs mean involving the private-sector partner in project design, construction and operation, thereby helping the State to overcome capacity constraints in these areas. Finally, through PPPs, risks can be transferred to the private-sector partner and thus be reduced, to the extent that the latter is better able to manage them (for example, interest rate risk, due to access to international capital markets or hedging). Although, the record of PPPs has not yet been fully examined, the experts presented evidence that suggested the record is very uneven, and the meeting provided a venue for an initial discussion of why this has been the case. The experts stressed the importance of improving regulations and transparency in order to improve this record.

8. The discussion also touched on the use of financing for infrastructure as a countercyclical instrument and emphasized the example of Chinese infrastructure policy. In this context, they stressed the importance of avoiding harmful austerity measures both in developing and industrial economies.

9. Finally during this first session, the experts devoted some attention to the positive and negative implications of infrastructure projects on the environment. They stressed that infrastructure projects that are permanently destructive to the environment can be avoided with better coordination, assessment and management systems. Unfortunately, the toolkit of economists in this area is not well developed. The experts discussed the importance of environmentally friendly programming which aims to reduce long-term environmental costs, and mentioned the example of "green growth projects" that successfully blend normal costs of finance with concessional finance to take on environmental costs.

Lessons from regional experiences

10. The second session discussed the lessons from Africa, Asia and Latin America in the provision of regional infrastructure. The session focused on the role of the Asian Development Bank (ADB) in providing financing for infrastructure projects in three subregions: the greater Mekong subregion, the Central Asia Regional Economic Cooperation and the South Asia Subregional Economic Cooperation. Also discussed were the experience of the Brazil National Development Bank (Banco Nacional de Desenvolvimento Econômico e Social – BNDES) in providing support for cross-border infrastructure projects in South America and other developing regions, and a presentation by the Department of Trade and Industry of the Republic of South Africa about the infrastructure challenge facing Africa to interconnect, integrate and transform the continent.

11. The ADB is currently pursuing a "2020 strategy", aimed at inclusive and environmentally sustainable growth and regional integration as part of its mission to help developing Asia to reduce poverty and improve its living conditions. To achieve these goals, the Bank has a large number of regional and subregional economic cooperation programmes, which include the provision of regional public goods. To foster the latter, the ADB has initiated investment programmes in railways, ports and border crossings in order to build and complete transport corridors across countries within the three subregions mentioned in the preceding paragraph. In addition, the Bank has financed projects to develop energy and trade links by investing in cross-border power links and an information superhighway for information and communications technology (ICT) applications. In total, the Bank has invested over US$42 billion in these various infrastructure projects.

12. The main source of financing comes from the ADB's lending operations. In addition to the lending operations, the Bank supports a number of financing mechanisms and instruments to mobilize financial resources from Asia within the region, including the Regional Infrastructure Investment Preparation Partnership for Asia, the Asian Bonds Market Initiative and the Association of Southeast Asian Nations Infrastructure Fund.

13. The main benefits of subregional integration have included the creation of more jobs and enhanced growth, member countries moving up the value chain, maximization of comparative advantages and complementarity, improvement of trade and more solid and lasting relationships among countries, thereby creating a virtuous circle. Challenges that the Bank is still facing include the need for additional long-term financing, capacity strengthening for management, and the negative impacts that the projects create, such as higher inequality arising, for example, from lack of electricity needed to benefit from increased connectivity.

14. In Latin America, BNDES is a national bank created in Brazil in the early 1950s to support the ongoing industrialization process in the country. In the early 1990s, the BNDES began to finance exports of capital goods, a decision that was consistent with the Bank's mandate to support industrial development in Brazil. However, as time went by, demands from Brazilian companies started to emerge to invest in infrastructure abroad, not only in neighbouring countries of South America, but in Africa as well.

15. BNDES funding comes mainly from national sources. However, some resources are also raised internationally and the Bank`s recently established subsidiary in London is expected to enhance its ability to raise funds abroad. The Bank provides both corporate and project finance, and financing through credit tools and through equity participation; the BNDES also operates as an export credit agency and it also supports start-ups through venture capital funds.

16. Some projects have a clear connection with regional integration – for example, those of the Initiative for the Integration of Regional Infrastructure in South America and the transmission lines in Uruguay which will provide integration between this country and

Brazil. In Africa, infrastructure projects that enhance regional integration include airports. Fostering regional integration is not limited to physical integration, however, but also includes productive integration – the building up of a value chain that involves different countries.

17. BNDES promotes study tools, as it has quite long and interesting experiences and is open to share these with other countries. It does this with the expectation that this sharing will convert into something more concrete, such as technical assistance to El Salvador for the creation of its own development bank. Currently, BNDES is undertaking a number of initiatives to expand its role abroad, including cofinancing efforts with the Inter-American Development Bank to identify projects within the region that the banks can support together. Other initiatives include talks with South Africa's Development Bank of Southern Africa to support projects in Africa.

18. In Africa, despite robust growth in gross domestic product (GDP) in recent years, growth acceleration is hampered by lack of appropriate infrastructure as there are still serious gaps in the region – transport, energy, water, ICT and soft infrastructure. The aim, therefore, is to promote interconnection, integration and transformation through the Programme for Infrastructure Development in Africa (PIDA). It is very difficult to be competitive among large producers when one is isolated, and regional integration is very important to overcome those limitations. Therefore, the South African Government has begun to explore possible areas – transport and corridor modernization, water, capacity building, ICT, Internet exchange points – where it can support regional initiatives. Leveraging infrastructure development is critical particularly because it can underpin industrial development in a region which is still lacking a manufacturing base. The estimated costs of PIDA are US$360 billion through to 2020. To achieve this target, PIDA envisages that countries will provide their own funding for projects within their borders, coming from both private and public sources, together with official development assistance. There are also expectations that the future Brazil, Russian Federation, India, China, South Africa group of countries (BRICS) formation of the BRICS Bank will also provide a source of finance for the programmes.

19. Questions and issues raised from the floor included: financing constraints for projects; risks of projects and sharing such risks; concerns about environmental risks and how to mitigate them; possible impacts that are not anticipated, even when environmental and social safeguards are in place; the need for reforms of international financial institutions; differences between public and private interests concerning specific infrastructure projects; the link between infrastructure and industrial development (as can be witnessed in Asia, a region with historically a very dynamic and high level of capital formation and industrial development, generating very strong South–South trade and foreign direct investment links).

Trade facilitation: the development dimension

20. Infrastructure is a key component of trade facilitation, which was the topic examined in the last session of the meeting. The debate focused on the gains from trade facilitation and distribution of these gains between developed and developing countries with strong differences of opinion expressed by different experts. The presentation from the World Bank expert quantified the gains from trade facilitation and found that reducing supply chain barriers could increase global GDP by six times more than the removal of tariffs, leading to a 5 per cent increase in global GDP and a 15 per cent increase in international trade. These gains differ across countries and by industries, but highest gains were found to accrue to Africa. However, it was noted that small changes to the assumptions behind these statistical exercises can lead to large changes in the predicted gains. Nevertheless, there was broad agreement that lower transport costs could bring strong gains to developing regions,

particularly Africa, and that South–South cooperation in this area could be particularly helpful. It was also pointed out that these gains cannot be realized until a holistic approach is taken covering the entire system of supply chains. Lack of capacity to put in place clear regulations and better coordination among agencies as well as the vested interests of few companies are some of the factors which hinder developing countries to realize these gains.

21. The experts pointed out that trade facilitation includes both export facilitation and import facilitation. The developing countries stand to gain much more from the former than the latter as overall import intensity and import intensity of exports of developing countries and least developed countries (LDCs), barring a few, are not very high. The experts noted that import intensity is more pronounced for countries participating in global value chains.

22. The Trade Facilitation Agreement, which is being negotiated within the World Trade Organization, includes more elements of import facilitation than export facilitation. Explaining the Agreement in some detail, the experts emphasized that two thirds of the new rules negotiated in the Agreement focus on import facilitation, which if agreed will imply disproportionately high gains for large exporting countries. Further, the need to advance trade facilitation differs between countries and may not be the first priority for most of the LDCs and landlocked developing countries when compared to the need for investing in hard infrastructure. The costs of putting in place the trade facilitation infrastructure and maintaining it, as suggested in the negotiated Agreement, may be much higher than the gains for developing countries. It may, therefore, lead to adverse implications for trade balance and in some cases may aggravate balance of payments problems. Concern was expressed on the progress made in different parts of the Trade Facilitation Agreement. While negotiations are progressing much more rapidly in the first part dealing with the rules of the Agreement, the pace is much slower in the second part dealing with special and differential treatment which covers the technical and financial assistance needed by the developing countries in order to put in place trade facilitation as suggested by the Agreement.

23. The experts emphasized the need to maintain a balance between the two parts of the Trade Facilitation Agreement and between it and other agreements in order to arrive at net gains for the developing countries under the World Trade Organization single undertaking principle. The appropriate degree of policy space was also seen as essential to orientating the Agreement towards development.

24. The discussions generated by the questions from the floor focused on the gap between the trade facilitation negotiations and development per se, emphasizing the need to bridge this gap. Developed countries are still able to take carveouts for themselves in negotiations and continue subsidizing agriculture, but developing countries are constrained by the rules even in designing their industrial policies. In any trade facilitation agreement, the participation and needs of LDCs needs to be prominent. Higher flexibilities are needed in terms of special and differential treatment for developing countries in this Trade Facilitation Agreement, as at present the only flexibility available to developing countries is the time they can take to put in place the trade facilitating infrastructure. Given the lack of technical capacities and financial resources in developing countries, it may be very difficult for them to take binding commitments at the international level, as it is still not clear what kind of technical assistance is needed and whether it can be delivered bilaterally in the stipulated time. Efforts by the World Customs Organization and the United Nations to simplify and expedite custom procedures are largely being ignored. The discussions concluded by taking note that human development and not income maximization should take centre stage in trade negotiations.

II. Organizational matters

A. Election of officers

(Agenda item 1)

25. At its opening plenary, on 11 April 2013, the multi-year expert meeting elected H.E. Mr. Selim Kuneralp, Ambassador, Permanent Representative of Turkey to the World Trade Organization as its Chair, and Mr. Carlos Rossi Covarrubias, Counsellor, Permanent Mission of Peru to the United Nations Office and Other International Organizations at Geneva, as its Vice-Chair-cum-Rapporteur.

B. Adoption of the agenda and organization of work

(Agenda item 2)

26. Also at its opening plenary, the multi-year expert meeting adopted the provisional agenda for the session (contained in document TD/B/C.I/MEM.6/1). The agenda was thus as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Supporting infrastructure development to promote economic integration: the role of the public and private sectors
4. Adoption of the report of the meeting

C. Outcome of the session

27. At its closing plenary, on 12 April 2013, the multi-year expert meeting agreed that the Chair should summarize the discussions (see chapter I).

D. Adoption of the report of the meeting

(Agenda item 4)

28. Also at its closing plenary, the multi-year expert meeting authorized the Vice-Chair-cum-Rapporteur, under the authority of the Chair, to finalize the report after the conclusion of the meeting.

Annex

Attendance[1]

1. Representatives of the following States members of UNCTAD attended the expert meeting:

Benin
Canada
China
Côte d'Ivoire
Democratic Republic of the Congo
Ecuador
Ethiopia
India
Indonesia
Iran (Islamic Republic of)
Ireland
Kazakhstan
Madagascar
Mexico
Morocco
Myanmar
Peru
Philippines
Saudi Arabia
South Africa
Spain
Sudan
Turkey
Zambia

2. The following intergovernmental organizations were represented at the session:

European Union
South Centre

3. The following specialized agencies and related organizations were represented at the session:

World Bank Group

4. The following United Nations organs, bodies and programmes were represented at the session:

Department of Economic and Social Affairs
United Nations Development Programme

5. The following non-governmental organizations were represented at the session:

General category
Ingénieurs du Monde
Village Suisse ONG

[1] This attendance list contains registered participants. For the list of participants, see TD/B/C.I/MEM.6/INF.1.