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PART ONE. OVERVIEW BY THE SECRETARY-GENERAL OF UNCTAD

A. UNCTAD forty years on: Trade and development in historical perspective

1. It could be said that Dickens' description of the period preceding the French Revolution – "it was the best of times, it was the worst of times" – applies to *all* times. (The same could perhaps be said about the subsequent, less often quoted sentence in the opening paragraph of *A Tale of Two Cities*: "It was the age of wisdom, it was the age of foolishness".)

2. The first half of the 1960s, when UNCTAD was created, was in some ways the worst of times. The Cold War was at its most intense. The Berlin Wall had been built in August 1961, and a year later the Cuban missile crisis had brought the world closer to a nuclear holocaust than it had ever been. The conflict in Viet Nam was beginning to move inexorably towards becoming one of the most tragic episodes of the post-war period.

3. And yet in other respects, the early 1960s were a time of hope and anticipation. Decolonization had changed the international landscape and held a promise not only of political independence but also of economic development and social justice for millions of hitherto forgotten peoples. In Latin America, the Cuban Revolution had captured the imagination of a whole generation; partly in response, a social democratic alternative emerged, championed by the young new President of the United States, in the form of the Alliance for Progress, the creation of the Inter-American Development Bank, and the launching of LAFTA with the signing of the first Montevideo treaty. In India, a formidable effort was being made under the inspirational political leadership of Nehru and with the brilliant intellectual contribution of Mahalanobis to transform the economy from an agricultural to an industrial one. Comparable, but richly diverse, efforts were taking place elsewhere in Asia and Africa. It was what could be called the first cycle of global hope – and, to some extent, illusion – of apparently irreversible economic and social progress. In the spiritual world, after the ecumenical renaissance introduced by Pope John XXIII, those were the years in which Pope Paul VI could refer to development as "the new name for peace".

4. The philosophy behind all these efforts was that of a benevolent nation-state guiding a process of growth and industrialization animated by national economic actors, entrepreneurs and workers. The expansion of the domestic market, assisted by regional integration, would provide the stimulus.

5. It was, therefore, a philosophy of economic nationalism. Not in the sense of xenophobia (the Alliance for Progress, for instance, was predicated upon a substantial increase of US private investment in Latin America, and just about all Latin American Governments responded favourably) but in the sense of asserting that, in a system where private capital has the ultimate responsibility for organizing production, the nationality of capital matters. Foreign firms were welcome, but the central purpose of the development effort was to help strengthen a national industrial sector. It was a rejection – *avant la lettre* – of the notion that maximizing "global welfare" was always good for all, and a reaffirmation of the old political economists' discovery that every economic policy choice involves social and political trade-offs.

6. Perhaps the most articulate advocate of this approach in the world of international organizations was the Executive Secretary of the United Nations Economic Commission for Latin America, later the first Secretary-General of UNCTAD, Dr. Raul Prebisch. Under his

leadership, ECLAC had been putting forward proposals along these lines since the 1950s, and Latin American Governments had embraced the approach enthusiastically. And yet, at the beginning of the 1960s, Prebisch – and others – felt that something crucial was missing.

7. What was missing was a favourable external environment, one that would help close the "trade gap" created by secularly deteriorating terms of trade. This was to be achieved by improving the working of commodity markets, expanding developing countries' access to the markets of industrialized countries, increasing the flow of resources to developing countries, facilitating the transfer of technology, and generally supporting developing countries' efforts to build a national development base. The underlying assumption remained the drive for industrialization in the context of an increasingly interdependent world economy.

8. When this intellectual realization reached the international political level through the involvement of the Non-Aligned Movement, the conditions were ripe for the creation of UNCTAD. The breadth of the vision behind it is well summed up in the Preamble of the Final Act of the first session of the Conference:

> "The developing countries recognize that they have the primary responsibility to raise the standard of living of their peoples; but their national exertions to this end will be greatly impaired if not supplemented and strengthened by constructive international action based on respect for national sovereignty. An essential element of such action is that international policies in the field of trade and development should result in a modified international division of labour, which is more rational and equitable and is accompanied by the necessary adjustments in world production and trade. The resultant increase in productivity and purchasing power of the developing countries will contribute to the economic growth of the industrialized countries as well, and thus become a means to worldwide prosperity."[1]

9. UNCTAD thus emerged in the international arena as an expression of what the Final Act terms "the growing conviction" about the need for "a bold new programme of international economic co-operation".[2] In the period that followed, it achieved some significant successes in dealing with the issues that had prompted its emergence. The creation of the generalized system of preferences, agreed at the second UNCTAD Conference in 1968, was an innovative and successful approach to the question of access for developing countries in the markets of the industrialized countries. Also novel and important were its proposals to deal with the debt problems of developing countries, contained in the Report of the Group of Governmental Experts on the Debt Problems of Developing Countries adopted in 1975, which helped structure the discussions in the Paris Club mechanism for renegotiation of the official and officially guaranteed non-concessional debt of developing countries. The Convention on a Code of Conduct for Liner Conferences, approved in April 1974, included provisions to strengthen the ability of developing countries to support national merchant fleets. UNCTAD also made an important contribution in identifying the group of least developed countries in 1971; it played a lead role in organizing the three decennial United Nations Conferences on LDCs and served as a focal point in the United Nations system for coordinating, reviewing and monitoring the implementation of the outcomes of the first two Conferences.

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[1] United Nations, *Proceedings of the United Nations Conference on Trade and Development, Geneva, 23 March – 16 June 1964*, Final Act, paragraph 5.

[2] *Ibid*, paragraph 10. A history of the intellectual contribution of UNCTAD to the analysis of development issues and to development policy is being prepared in the form of an annotated collection of essential documents produced through the lifespan of the organization. The volumes will be available for the eleventh session of the Conference.

10. In other cases, the achievements in this period were mixed. UNCTAD IV in 1976 approved the Integrated Programme for Commodities, but the agreement establishing the institutional cornerstone of the proposal, the Common Fund for Commodities, took over 10 years to negotiate and ratify, and only entered into force in June 1989; by then the philosophy it embodied – intervention in commodity markets by producer-consumer bodies through buffer stocks – had been essentially abandoned and the Fund had to search for a new role centred on the objective of commodity development. A proposal for instituting trade preferences among developing countries was also presented at UNCTAD IV in 1976, but the Generalized System of Trade Preferences among Developing Countries (GSTP) that eventually resulted also entered into force only in 1989.[3] A Code of Conduct for the Transfer of Technology was negotiated but never approved, although the process leading to a complete text was a valuable learning experience for developing countries.

11. And yet the following two decades were on the whole bright periods for development. For all its fundamental shortcomings, the industrialization strategy espoused by Prebisch, ECLAC and UNCTAD resulted in growth rates for the developing world that have not been equalled since, as table 1 shows.

Table 1. Annual average growth

	Total real GDP				**Real GDP per capita**			
	1960-70	**1970-80**	**1980-90**	**1990-00**	**1960-70**	**1970-80**	**1980-90**	**1990-00**
Developing countries*	5.7	6.0	3.5	3.8	3.1	3.4	0.6	1.8
Africa**	6.3	4.5	2.0	2.5	3.6	1.7	-0.9	-0.1
Asia* ***	6.1	6.5	5.2	4.4	3.6	4.1	2.2	2.5
Latin America	5.2	5.6	1.7	3.4	2.4	3.1	-0.3	1.6
Developed market ecs	5.4	3.3	3.2	2.4	4.4	2.5	2.6	1.7

**Excluding China.*

*** Including South Africa.*

*** 1990-2000 include Central Asian Republics.*
Source: UNCTAD ETS Database

12. Some of the largest developing economies in all three continents in fact exceeded the regional average by significant margins, particularly in the 1970s. This was the case of Brazil and Mexico, Egypt and the Maghreb countries, and the East Asian newly industrializing countries.

13. The specifics of the approach varied from region to region and indeed among countries within the same region. Particular attention has been paid in the debates on development to the differences between the East Asian and the Latin American approaches, and these have been analysed in some detail in UNCTAD's *Trade and Development Report* of the last 10 years.[4] In essence, in the Latin American case, domestic industrialization,

[3] At present the GSTP has 44 members.
[4] See *TDR 1994*, Part Two, Chapter I, "The visible hand and the industrialization of East Asia", pp. 49-76; *TDR 1995*, Part Two, Chapter II, "The invisible hand, capital flows and stalled recovery in Latin America", pp. 73-

particularly in the 1970s, was financed with increased external borrowing without generating a commensurate export capacity in a context in which real interest rates were negative because of rising commodity prices. A sudden shift to an anti-inflationary monetary policy in the United States at the end of the 1970s increased interest rates sharply and led to a collapse of commodity prices. As a result, Latin America plunged into the debt crisis of the early 1980s. This in turn led to an outward-oriented development strategy based on liberalization, deregulation and privatization. Similar liberalization policies were in fact adopted elsewhere in the developing world, including in East Asia. There was, however, a major difference between East Asia and Latin America. In East Asia, protection and support for domestic industry had been combined with export growth, technological upgrading and increasing competitiveness. Protection and support were then removed when they were no longer needed. In Latin America they were introduced as a reaction to the exhaustion of the import-substitution development strategy based on extensive government intervention and in recognition of its inability to sustain rapid growth and development in the longer run.

14. Thus, the past two decades have been marked by a radical break in development thinking and practice. The new approach promised to liberate enterprise from the heavy hand of the state, deferring to the invisible touch of the market and allowing free market forces to set the pace and pattern of integration into the global economy. The promise was for an end to macroeconomic instability, stop-go development cycles and debilitating levels of debt, ushering in an era of sustained growth and poverty reduction.

15. In the 1990s what emerged as essential to the approach was the concept of globalization. At its simplest, globalization involves the assumption that, as a result of technological progress, borders are less and less relevant for the working of the world economy and indeed for domestic economic management. The globalized world economy offers opportunities for firms from all countries in an increasingly unified global market. The task of Governments is to push globalization forward by facilitating the access of firms to that global market through the reduction of border restrictions on the flow of goods, services and factors of production. This will lead to an optimal allocation of resources at the global level and the maximization of global welfare. The new approach is therefore the opposite of the one that prevailed in the 1950s, 1960s and 1970s. It is a philosophy of economic globalism, where nationality does not matter; what matters is allocative efficiency at the global level.

16. The 1990s also witnessed important evolutions in the multilateral trading system. The Uruguay Round of Multilateral Trade Negotiations, which led to the creation of the World Trade Organization with a more comprehensive mandate, went beyond tariffs and brought into the ambit of the multilateral trading system a number of within-the-border issues such as intellectual property, investment measures and services with profound implications for social and economic development policies and prospects. By introducing a “single undertaking” character into the multilateral trading system, it virtually ended the option heretofore available to developing countries to opt out of obligations under the multilateral trade agreements.

17. UNCTAD responded to the new approach through an effort to build on its fundamental tenet – that international trade should be a prime lever for development – and further emphasis on the idea of interdependence, while updating its mandates, functions and

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97; *TDR 1996*, Part Two, “Rethinking development strategies: Some lessons from East Asian experience”, pp.71-159; *TDR 1997*, Part Two, Chapter VI, “Promoting investments: Some lessons from East Asia”, pp. 177-190; and particularly *TDR 2003* (forthcoming), *passim.* For an analysis of the African development experience, see *TDR 1998*, Part Two, “African development in a comparative perspective”, pp. 113-226.

activities. The process began with the eighth Conference in Cartagena de Indias, Colombia, in 1992, evolved through the ninth Conference in Midrand, South Africa, in 1996 and culminated with the tenth Conference in Bangkok, Thailand, in 2000. The broad contours of UNCTAD's mission are well summed up in the Plan of Action approved by the tenth Conference:

> "Ensuring that all countries enjoy the benefits of globalization requires meeting complex policy challenges which arise, particularly at the global macroeconomic level, from the growing interdependence of the various spheres of economic activity, including particularly trade, finance and investment, and the downside risks which interdependence sometimes carries. UNCTAD as the focal point within the United Nations for the integrated treatments of trade and development and the interrelated issues in the areas of technology, investment, and sustainable development, is pre-eminently placed to examine these issues and to build consensus for reformulation of policies in a globalizing world from a development perspective and has a major role to play in helping developing countries, in particular the least developed countries, and the economies in transition better understand how to design policies for efficient integration into the world economy, taking into account the many new issues which confront policy-makers, and tailoring the process to each country's level of economic development and institutions. In this respect UNCTAD should continue to explore, based on relevant experience, how to enhance the development opportunities at the domestic, regional and international level offered by the globalization process."[5]

18. The Conference went on to confirm that the functions of UNCTAD – for the purposes and in the subject` areas described – are to act as a forum for consensus building, to undertake research and analysis and to provide technical assistance to developing countries (paragraph 104 of the Plan of Action). More specifically, it identified four fields of activity as providing the focus for work: globalization and development; investment, enterprise development and technology; trade in goods and services and commodity issues; and services infrastructure for development and trade efficiency. Special attention was to be devoted to the problems of the least developed countries (paragraph 105 of the Plan of Action). In each of the fields indicated, the Plan of Action identified more specific activity areas in which UNCTAD should deploy efforts in support developing countries.

19. The Bangkok Plan of Action served as a comprehensive basis for the work of the organization in the four years following the tenth Conference. It should continue to be the framework defining the broad contours of UNCTAD's work in the years to come. In a sense, it summarizes the *acquis* of the institution. However, both the experience in the 1990s as a whole – the period of fast expansion of globalization – and more specifically the period after the Bangkok Conference exhibit specific features that call for some aspects of the work to be revisited with a view to updating them and elaborating on them.

B. Assessment of major global developments since Bangkok and their roots in the experience of the 1990s: Implications for approaches to development policy

20. The decade of the 1990s exemplified the development opportunities, challenges and pitfalls of globalization in all their complexity. Twenty-five developing economies – a small, but not insignificant number – were able to take advantage of the opportunities and grew at rates of five per cent or more per year throughout the decade (table 2).

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[5] UNCTAD, tenth session, Bangkok, 12-19 February 2000, "Plan of Action" (TD/386), paragraph 103.

Table 2. Real GDP – annual average growth rate 1990-2000

Africa	
Cape Verde	6.0
Equatorial Guinea	22.1
Mauritius	5.3
Mozambique	6.4
Sudan	6.1
Uganda	7.0
Asia	
Bhutan	6.5
India	6.0
Jordan	5.0
Lebanon	6.0
Malaysia	7.0
Maldives	8.2
People's Democratic Republic of Lao	6.5
Republic of Korea	5.7
Singapore	7.8
Sri Lanka	5.3
Syrian Arab Republic	5.8
Taiwan Province of China	6.4
Tuvalu	5.2
Viet Nam	7.9
Yemen	5.8
Latin America	
Chile	6.8
Costa Rica	5.3
Dominican Republic	6.0
Guyana	5.4

Source: UNCTAD ETS Database.

21. Some 28 other developing countries in all three regions achieved average annual growth rates of 4 per cent or above, leading to growth rates of per capita GDP of between 2 and 2.5 per cent per year. China, of course, grew at 10.3 per cent per year in 1990-2000.

22. While the concrete experience of each of the countries listed was different (the spectacular growth rate of Equatorial Guinea, for instance, is due to the appearance of oil exports in mid-decade) and while in many cases the specific features of the growth achieved do not warrant the conclusion that the countries concerned are truly on their way out of underdevelopment, the figures show that opportunities were offered by the global economy.

23. On the other hand, the figures show that three-fifths of developing countries did not found it possible to benefit in a substantial way. Thirty of them, in effect, posted negative growth rates of per capita GDP during the decade. Furthermore, the 1990s were punctuated by two major financial crises (1994-1995, beginning with Mexico and spreading quickly to

the rest of Latin America, and 1997-1998, initially centred in East Asia), which set back sharply even those countries that had been doing well earlier in the decade (table 3).

Table 3. Real GDP – growth rates 1997-1998 and 1998-1999 – selected countries

	1997-1998	**1998-1999**
East Asia		
Hong Kong (China)	-5.3	
Indonesia	-13.1	
Republic of Korea	-6.7	
Malaysia	-7.4	
Thailand	-10.8	
Russian Federation	-4.9	
Latin America		
Argentina		-3.4
Chile		-1.1
Colombia		-4.1
Ecuador		-7.3
Uruguay		-2.8
Venezuela		-6.1

Source: UNCTAD ETS Database.

24. UNCTAD'S *Trade and Development Report 1998* analysed the East Asian crisis in detail and argued that it was primarily the result of precipitous integration into the global financial system. While there were also structural and policy determinants, these varied from country to country. The common factor was overexposure to the vagaries of international financial markets.[6] The *TDR 1998* recalled how, eight years before, it had warned – without getting a hearing – about how international financial instability was becoming a major threat to the development prospects of developing countries that had advanced in the process of integration into the world economy.[7]

25. That the fundamentals in the East Asian economies were not the basic problem was shown by the fact that those economies recovered quite rapidly. In 1999 the Republic of Korea grew by nearly 11 per cent, Malaysia by over 6 per cent and Thailand by over 4 per cent. Indonesia, the country most affected by the crisis, only recovered in 2000, with growth approaching 5 per cent. Interestingly, the policies followed to address the crisis varied, although some elements were common: initially all countries adopted restrictive monetary policies and high interest rates in an effort to stabilize the currencies and produce an

[6] *TDR 1998*, Part I, Chapter III, "International financial instability and the East Asian crisis", pp. 53-79

[7] "The ascendancy of finance over industry together with the globalization of finance have become underlying sources of instability and unpredictability in the world economy. Financial markets have for some time had an independent capacity to destabilize developing countries, and there are now increasing indications of the vulnerability of all countries to financial crisis…Overall, there appears to be a need for more collective control and guidance over international finance". *TDR 1990*, "Overview", p. I.

investment-led recovery; subsequently in all of them there was a relaxation of austerity and Governments took a more active role, at which point the pace of recovery quickened. However, the specifics of the policy courses were different: Malaysia's was the most unorthodox, with an initially modest increase in interest rates and the subsequent imposition of capital controls; by contrast the initial Korean and Thai policies were more rigorously orthodox.[8]

26. By the time UNCTAD X met in Bangkok – in February 2000 – optimism was returning to economic policy debates following the shocks of the Asian crisis: world trade was growing rapidly, FDI was relatively buoyant, the IT revolution was promising to overcome business cycles, and the US economy was powering ahead, with Europe and Japan poised to join it.

27. Since then there have been some encouraging trends and initiatives at the global level that have helped to refocus international attention on trade and development. In the Millennium Declaration, poverty reduction through sustained and broad-based economic growth and development was identified as a priority area of work for the United Nations and the international community as a whole. There have also been efforts to improve market access opportunities for the least developed countries through the introduction of the Everything but Arms (EBA) initiative by the European Union, the African Growth and Opportunity Act (AGOA) of the United States aimed at sub-Saharan African countries, and the Japanese ninety-nine per cent initiative on industrial tariffs for the LDCs. The New Partnership for Africa's Development (NEPAD) has also set a new trend in national ownership of development strategies and mutual accountability in development cooperation. At Brussels, the Third Programme of Action for the LDCs was adopted comprising concrete commitments and actions. By highlighting the need to remove the financial constraints on development, the Monterrey Consensus generated new momentum for the reversal of the declining trend in official development assistance (ODA). At Doha, the development dimension was brought to the forefront of the trade negotiations agenda, including recognition of the need for special and differential treatment.

28. On the other hand, economic performance in the years since 2000 has been mixed. Reversals on several fronts have introduced an element of uncertainty in the world economy. Recession in major economies since 2001, coupled with the concomitant instability in the major global capital markets, has posed new challenges to developing countries resulting from falling trade volumes and commodity prices, declining and unstable capital flows and volatile exchange rates.

29. Specifically, the growth of world output fell in the past two years from almost 4 per cent in 2000 to below 2 per cent for the first time since 1993. In industrial countries, growth more than halved between 2000 and 2002, while in developing countries it fell by 2 percentage points. In the developing world, however, there was considerable diversity in the performance of individual countries. East Asian economies, partly because of their lower dependence on capital inflows and buoyant intraregional trade but also because of the

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[8] See Jomo K.S., "Growth after the East Asian Crisis: What Remains of the East Asian Model?", G-24 Papers Series, United Nations, New York and Geneva, March 2000. However, the Republic of Korea's recession was less sharp than Malaysia's (the respective falls in real GDP in 1998 were 6.7 and 7.4 per cent) and its recovery more vigorous (the growth of real GDP in 1999 was 10.9 per cent in Korea and 7.4 per cent in Malaysia). Jomo also writes that, in the light of changed monetary policies in the West, "it is not clear whether Malaysia's capital controls were really necessary for bringing down interest rates by the third quarter of 1998". Although policy always matters, the specific features of the appropriate policy prescription are as much a function of the concrete characteristics of the economy – and indeed the society and the polity – of the country concerned as of the abstract merits or demerits of the policy itself.

performance of their exports to the US market, managed to maintain momentum, with growth rates ranging between 5 and 8 per cent in many countries in 2002. In contrast, output declined in Latin America for the first time since the 1980s. Africa and the transition economies were less affected by the global slowdown, maintaining growth rates of around 3 and 4 per cent, respectively.

30. The slowdown affected both international trade and investment flows. World trade had expanded steadily throughout the 1990s, at a rate of more than 6 per cent per annum, exceeding growth in world output by a wide margin. This expansion continued at an accelerated pace in 2000, with growth in the volume of world trade exceeding 10 per cent. However, the subsequent bursting of the IT bubble and the slowdown of growth in world output were accompanied by an even more marked deceleration of growth in international trade in 2001. This was compounded by the events of 11 September and the subsequent "fight against terrorism". Trade in services, particularly tourism and air transport, was hurt by the effects of an increased perception of insecurity; tightened administrative and security procedures and inspection of shipments at ports and airports slowed down the movement of goods as well as people. These developments reconfirmed the critical importance of adequate transport services as a prerequisite for an effective integration of all countries in the global economy. Growth in world trade fell behind that of world output for the first time since the 1980-1982 recession, and there was also an absolute decline in trade volumes. This was followed by a modest recovery in 2002. Although the growth rate of the volume of world trade again exceeded that of world output, the margin was much smaller than it had been in the previous 10 years.

31. Financial flows to developing countries and economies in transition have also been affected. Net private capital flows to developing countries rebounded in 2002, after falling below $20 billion in 2000 and 2001. However, they stayed at less than a quarter of the peak reached in 1996, before the outbreak of the East Asian financial crisis. By contrast, in transition economies net private capital inflows rose in 2002, reaching their highest level since 1995, helped by expectations of accession to the European Union. Foreign direct investment (FDI) remained the only positive component among the broad categories of private capital inflows to developing countries, but it was well below the historical high registered in 2001. The other components, net portfolio investment and bank lending, were again negative. Net official flows, including IMF lending, were stable at the level attained in 2001.

32. Net resource flows to developing countries, as measured by the current account balance, were negative. According to preliminary estimates by the United Nations Department of Economic and Social Affairs (UN/DESA), the net transfer of financial resources from developing countries, including net capital inflows, increases in reserve holdings and net payments on foreign investment income, reached an unprecedented $192 billion in 2002. About $90 billion of this was transferred as net payments on foreign investment income, which exceeded total net capital inflows, including official capital inflows, by some $15 billion.

33. As the *Trade and Development Report 2003* (forthcoming) argues, the prospects for development in the period to come will be a function of substantial improvement in all three fronts indicated above: the growth of the world economy, the growth of international trade, and the increase of resource flows to developing countries. The three are furthermore closely related. The acceleration in trade relative to world GDP and merchandise production from the late 1980s onward was to an important extent the result of the rapid liberalization of international trade and the consequent expansion of developing country imports. The latter,

however, was made possible by the rapid surge in capital flows to developing countries in the 1990s, as well as the spread of international production networks and expansion of intra-industry trade, itself a result of increased flows of FDI. These factors were underpinned by the slow but sustained expansion of global economic activity in the 1990s.

34. The rapid expansion of international capital flows in the 1990s was also a result of the liberalization of international financial flows and the deregulation of financial markets, and in developing countries the introduction of stabilization policies which brought inflation down and created an "investor-friendly" environment. It was also, though, greatly assisted by the change in the international approach to the debt problem represented by the Brady Plan, which effectively dealt with the Latin American debt overhang and restored creditworthiness. Again, these specific elements were supported by the expansion of global output.

35. The *TDR 2003* suggests that these specific factors affecting trade and capital flows in the 1990s are unlikely to reappear in the period to come, at least to the same extent as in the 1990s. By contrast, new complications have emerged, in the form of a resurgence of the debt problem of developing countries and the crisis in commodity prices affecting particularly the poorest countries. Every effort should be made, of course, to address these issues. Substantial movement in the Doha Round to increase market access in products of interest to developing countries is essential, as is an effort to advance in the implementation of the agreements on resource transfers contained in the Monterrey Consensus. In the same vein, a determined effort should be made to address the debt problems of developing countries, including, as agreed in Monterrey, speedy, effective and full implementation of the enhanced Heavily Indebted Poor Countries Initiative, which should be fully financed with additional resources. The plight of commodity-dependent countries should equally be addressed, and linked to discussions about the debt problem of commodity-dependent countries and the HIPC initiative. Efforts should be deployed towards the implementation of the Programme of Action for the Least Developed Countries agreed at the Third United Nations Conference on the Least Developed Countries in Brussels.

36. However, a strong recovery of economic activity at the global level is a necessary – although not sufficient – condition to improve the development prospects of developing countries and make possible the achievement of the goals agreed in the Millennium Declaration. As the *TDR 2003* argues, this calls for an expansionary fiscal stance in the industrialized countries, coupled with monetary policy coordination to bring stability to capital flows and an orderly adjustment of exchange rates.

37. Developing countries, in turn, need to address the challenge of integrating into the world economy under conditions conducive to their development. Central to this challenge is the need to identify development strategies and policies that will strengthen their productive capacity and enhance their competitiveness in the global markets. Such policies will vary depending on endowments, development experiences, levels of development and regional perspectives. Developing countries should also identify their agenda for international economic negotiations in the light of the requirements – as they see them – for a development-friendly international environment. The approach should incorporate an updated, modernized concept of South-South cooperation. Overall, developing countries should strive for coherence between their stance in international negotiations and processes and their national development strategies.

38. Which brings us back to the issue of the role of the nation-state. A recurrent question asked in developing country debates on globalization and development is that of the extent to which globalization processes are restricting the ability of developing countries to define and implement economic policy. International disciplines and commitments – essential for the

establishment of a rule-based international economic regime – are beginning to extend to areas which in the past were the sole province of national Governments. The issue is discussed in the *World Investment Report 2003* (forthcoming) in relation to possible international frameworks for foreign investment, and it is implicit in the discussion in the *TDR 2003* on "Industrialization, trade and structural change".

39. This debate is specifically relevant to developing countries, but the issue is more general. The rapid spread of globalization has given rise to a reaction in the form of a return to a sort of economic nationalism. This is not confined to developing countries. Anecdotal, but persuasive evidence has begun to feature in the analysis of astute observers of the global scene for the proposition that Governments are once again feeling that "nationality matters". The recent debate in French business and government circles about the fate and the future of Vivendi Universal has openly raised the issue of the legitimate roles of national and foreign companies in the field of communications and the media, and more generally the right to protect the national champions.[9] In a variation of the theme, Governments are considering extending the application of their rules and laws to companies and economic agents not domiciled in their territory. The trend has been further stimulated by, on the one hand, corporate scandals and, on the other, security concerns stemming from the threat of terrorism, which has posed starkly the dilemma of either facilitating globalization and trade or improving security and safety. Specifically, the recently passed Sarbanes-Oxley Act on corporate governance extends the application of US accounting and reporting rules to any company that is listed in US stock exchanges, irrespective of its domicile.[10] The Maritime Transportation Security Act of 2002, which was passed by US Congress in November 2002, directs the Secretary of Transportation to assess the effectiveness of the anti-terrorism measures maintained by foreign ports, and to deny entry to vessels that call at foreign ports without effective anti-terrorism measures. The Customs-Trade Partnership Against Terrorism (C-TPAT) and the Container Security Initiative (CSI) launched by the United States Customs Service are being considered at the international level. In effect, in some areas it would appear that national Governments are beginning to show a preference for dealing with national companies or for bringing the foreign company closer to the national by subjecting them to common regimes.

40. These developments are, of course, not the same as those taking place in developing countries. In many of the latter there is indeed a return to a more traditional nationalistic stance that asserts the priority of national goals and national actors. This, however, does not necessarily involve a rejection of globalization or integration into the world economy. A good example is the statement of President Luiz Ignacio Lula da Silva of Brazil, reported in *The Guardian* of 12 July 2003. President Lula writes:

> "The Brazilian Workers' party (PT), in alliance with others, is now putting in place a project that combines economic growth with income redistribution, deepens political democracy and asserts the sovereignty of our country in the world.
>
> A broad social and political coalition was formed, bringing together state governors, parliament, the trade unions, the business community and other sectors. There are

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[9] For a perceptive account, see Robert Graham, "Contradictory role of the state has reached its limits", *Financial Times*, 24 April 2003, p.11

[10] Foreign companies, notably European ones, are requesting exemptions from the US authorities; those requests are being considered, so it is possible that the actual enforcement of the regulations will in the end be less strict for foreign companies

> times when only a major coming together of wills can overcome situations of dire crisis.
>
> The social and political conditions are now in place to launch a sustainable cycle of development. That will require the enlargement of the internal market, particularly for mass consumer goods, by integrating into it millions of excluded citizens. Agrarian reform is also fundamental if the Brazilian economy is to be rebuilt. And it will play a crucial role in making the country fully democratic."[11]

41. Part of the challenge for national political leaders and for international organizations, such as UNCTAD, is to make sure that this rediscovered economic nationalism is an "open nationalism", that it remains firmly within the limits of the legitimate defence of national interests in the context of an increasingly interdependent world society where the free flow of ideas and goods, the sharing of goals and aspirations, the collective building of social and economic projects, and the dialogue and coexistence of cultures and values are the ultimate objective. The search for coherence both between global processes and national strategies and among the various sectors of the global economy assumes added relevance in this context.

42. Areas in which an "open nationalism" could be a particularly adept approach include trade and poverty, trade and gender, and trade and the creative industries. All three require that special attention be given to national groups and segments of society; in all three, though, appropriate integration into the world trading system can be a powerful adjunct to domestic policy. The Conference could profitably devote some attention to these areas.

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[11] Luiz Ignacio Lula da Silva, "Political realism doesn't mean we ditch our dreams", *The Guardian*, London, 12 July 2003.

PART TWO. PRE-CONFERENCE TEXT

1. The debate about globalization and its impact on development has for some time now been running far ahead of the reality facing policymakers in developing countries. There is no doubt that allowing more goods and services to flow across borders can, under the right circumstances, bring large gains for both rich and poor countries. What exactly these circumstances are, and how developing countries can attain and benefit from them, are questions that have been central to UNCTAD’s policy and analytical work in recent years. There are no simple answers or universal prescriptions, as the diversity among countries has rendered inappropriate a one-size-fits-all approach to policymaking. It is evident, however, that in an interdependent global economy, resorting exclusively either to national responses or to international processes will not bring a solution. The interface and greater coherence between international processes and negotiations on the one hand, and the development strategies that developing countries need to pursue to achieve their development objectives on the other hand, are critical. The role of UNCTAD should be to help ensure that coherence.

2. This role is in keeping with what has long been the main challenge of UNCTAD. That challenge consists of identifying areas for policy attention at both national and international levels, and ensuring that national policies and the international trading system work to promote sustained economic growth and development. As indicated above, in the four years following the tenth session of UNCTAD, the Bangkok Plan of Action served as a comprehensive blueprint for the work of the organization. It should continue to be the basic framework defining the broad contours of UNCTAD’s work in the years to come. However, UNCTAD’s work should also contribute to the implementation of the outcomes of major conferences that have taken place since the tenth Conference. It should specifically aim at contributing to the implementation of the Programme of Action for the LDCs, agreed at the Third United Nations Conference on the Least Developed Countries, the internationally agreed development goals contained in the Millennium Declaration, the Monterrey Consensus, and the Plan of Implementation agreed at the World Summit on Sustainable Development, as well as the Doha Ministerial Declaration and the Decision on Implementation-related Issues and Concerns of the World Trade Organization.

I. DEVELOPMENT STRATEGIES IN A GLOBALIZING WORLD ECONOMY

A. The issues

3. Development is a continuous learning process. At the time of UNCTAD’s creation, development economics was essentially based on historical reconstructions of patterns and processes of economic change in the now-rich industrialized countries, supplemented by theoretical models – such as Prebisch’s “centre-periphery” – that tried to explain the origins of the prevailing division of labour at the global level. The situation today is very different. It is now possible to look back on 40 years of development experience within developing countries and to identify successful countries, those that have been partially successful, and those that have stagnated or economically regressed. This development record holds important lessons.

4. With globalization there was an increasing conviction in the 1990s that the centre-piece of development strategies should be greater openness to international market forces and competition. This encompassed not simply the dismantling of at-the-border impediments to international economic transactions but also the removal of behind-the-border state interventions, and linked to measures to remove macroeconomic financial imbalances. The assumption was that resources would be allocated more efficiently; foreign savings would be attracted; and technological capabilities would be deepened through greater inflows of foreign direct investment (FDI). Together with political stability, good governance, respect for property rights and public investment in human capital, these elements made up what was regarded as a generally applicable strategy for sustainable growth in a globalizing world.

5. This approach is now widely regarded as insufficient on two counts. On the one hand, it is argued that development must be about the lives of people and that it is thus necessary to take account of poverty, human development and environmental concerns in a more comprehensive development approach. On the other, it is suggested that economic growth and development involve a number of other factors that can only be captured through a more concrete and disaggregated account of actual experiences. In this regard, it is apparent that in those few countries that have most successfully managed to launch and sustain a process of economic convergence with the richest countries, development strategy diverges from the orthodox approach. Moreover, in those countries that have implemented the general approach, the expected economic results have been less than promised. This is particularly so in the poorest countries, many of which continue to experience long-term growth failure.

6. From the development record, it is clear that all of the basic elements of the orthodox approach have some role to play. Private enterprise and the drive of the business class are the motors of development. Integration with the global economy is imperative for sustained development. A stable macroeconomic environment is also vital. But the elements of this approach need to be articulated in a pragmatic way that sequences changes carefully, that is tailored more closely to different country settings, that recognizes the structural deficiencies of developing economies, that does not unduly idealize the workings of global markets, and that is founded on the good governance of national markets.

7. The challenge is particularly formidable owing to continued asymmetries in economic power between developing and developed countries. The annual value-added of some of the large developed country TNCs is larger than the GDP of most developing countries. Scarcity of infrastructure, finance, technology, marketing and skill-intensive services makes them much costlier for many developing countries, with major implications for capacity, risk and sustainability of diversification into higher value-added items and competitiveness. Structural deficits and institutional thinness also mean little endogenous capacity to absorb economic, social and human costs arising from adjustment or domestic and external shocks. These realities must not be lost sight of.

1. Ingredients of the most successful development strategies

8. In almost all successful cases of rapid and sustained growth in developing countries, there has been a process of late industrialization in which a dramatic shift in economic structure from the primary sector to manufacturing has been associated with a progressive rise in productivity and income levels. This rise has been sustained by a move from less to more technology- and capital-intensive activities both within and across sectors, and the

resulting improvement in productivity has helped domestic producers compete in increasingly demanding international markets. The engine of this process of structural change and productivity growth has been rapid and sustained capital accumulation.

9. The basic components of the development strategies stimulating and guiding this process have been:

- Policies to create a good investment climate in which corporate and national development interests converge;
- Policies to manage integration with the global economy;
- Policies to manage the distribution of the benefits of development .

10. In the initial stages, policies aimed at creating a good investment climate were designed for a predominantly rural economy where agricultural activities formed the main basis of wealth creation. The basic strategic focus was to increase productivity in the agricultural sector – particularly among smallholders – and to generate a net agricultural surplus that could be used to nurture non-traditional activities.

11. As industrial activity began to take off and a corporate sector emerged, industrial accumulation became a relatively more important source of accumulation. Sustained growth then depended increasingly on mutually supporting interactions between the expansion of savings, investment and exports. A strong investment-profits nexus provided firms with profits and the capacity to invest, and investment in turn raised profits by enlarging the stock of productive capital and by increasing the pace of productivity growth. Various policies were used to animate this nexus and create an investment climate in which corporate and national development interests coincided. Fiscal policies were used to facilitate corporate profits and to encourage their retention and discourage their distribution in the form of personal income so as to prevent their draining into luxury consumption. On top of this, working through the market, sectorally focused trade, financial and technology policies were used to create profitable investment opportunities in productive activities. Measures included: selective protection, controls over interest rates and credit allocation, managed competition, including the management of mergers, the coordination of capacity expansion, restrictions on entry into specific industries, screening of technology acquisition, and the promotion of cartels for specific purposes such as product standardization, specialization and exports. Some of these policy instruments have since been made illegal as a result of the adoption of international trade disciplines, but others are still available to national Governments. In the case of the successful development experiences, all these policies were applied in a time-limited and targeted manner with clear performance standards linked to learning, scale economies, investment, exports and productivity growth.

12. The early stages of rapid growth and industry take-off are likely to face a significant financing gap as investment surges ahead of domestic savings. In successful cases, official financing played a key role in filling the gap, acting as a catalyst for domestic savings and for private capital inflows. Later on, private capital inflows became more important, but their form varied. FDI was central in some of the successful late industrializing economies. But others relied on international capital markets instead, particularly bank lending, albeit carefully monitored and subject to government approval and guarantees.

13. Trade was pivotal in the development process. In some sectors, the domestic market provided initial growth opportunities to fledgling industrial activities and allowed tentative

steps towards building industrial capacity through infant-industry programmes designed to reduce the import content of growth. But channelling investment into exports and encouraging domestic firms to compete in international markets was essential. Exporting provided efficiency gains resulting both from better resource allocation in the economy and from the effects of competitive pressure at the level of the firm, and it also had productivity-enhancing spillovers. Export expansion was also vital in overcoming balance-of-payments constraints, allowing the importation of capital and intermediate goods required to build up industrial capacity and competitive strength. Export development proceeded in a dynamic sequence that began by exploiting initial advantages in the primary sector and then invested in increased processing and quality improvements in natural-resource-based products. The shift towards the production and export of manufactured goods was deepened through the introduction of unskilled activities that tended to be technologically less demanding and could quickly absorb large numbers of workers from the traditional sectors. But successful developing countries not only fully exploited investment opportunities in labour-intensive activities, but also, as factor proportions and world markets changed, undertook the gradual and purposeful nurturing of a new generation of industries, particularly in capital goods and intermediate products, with greater potential for innovation, productivity growth and export dynamism. Measures to raise investment and enhance productivity were linked with measures to promote exports through tariff rebates, preferential credits and export credit insurance. In the earliest stages, careful attention was also paid to the management of exchange rates to sustain competitive rates over the long term and to make orderly adjustments to exogenous shocks. Later on, measures aimed at actively encouraging the development of more sophisticated industries included import restrictions, rolling back tax exemptions on the import of certain intermediate and capital goods, and granting higher investment tax credits to businesses purchasing domestically produced machinery. In addition, measures were undertaken to build and strengthen technological capacity at the national, industry and firm levels. These included tax and other incentives for vocational and other forms of training in firms and educational institutions. Measures to facilitate local research and development, including financial subsidies, particularly for large and risky projects, the creation of science parks and special industrial estates, have also been used to strengthen technological capacity.

14. The final important component of successful development strategies consisted of policies to manage distribution of the benefits of development. Within the most successful developing countries, agrarian reform measures were undertaken at an early stage, thus ensuring a more equal distribution of assets. This, together with broad-based human resource development and the expansion of productive employment opportunities, provided the basis for more inclusive development.

2. The problem of achieving long-term growth

15. In the absence of such supporting policies to create profitable investment opportunities as well as exports and to support productive development and structural change, the integration of many developing countries into the world economy has fallen short of expectations in terms of long-term development gains.

16. In some middle-income developing countries, trade liberalization has been associated with the modernization of production processes within exporting firms, but at the same time there has been a loss of local capability in product imitation and adaptation, as well as a weakening of local linkages. There has been increasing specialization in natural-resource-

based and labour-intensive (maquila) activities with low knowledge content. With this change in production structure, balance-of-payments equilibrium can only be maintained with lower growth rates than those achieved in the pre-reform period. Inequalities have generally remained unchanged.

17. The limits of the generally applied approach are particularly apparent in the countries at the bottom of the development ladder, where per capita incomes remain at the levels they were 30 years ago. Many of the LDCs, particularly those that have not diversified their export structures into manufactures and services, are in this situation. Amongst (non-oil) commodity-exporting LDCs, average per capita income in 1999 was lower than it was in 1970. Trends in $1-a-day poverty in these countries are related to this long-term growth failure.

18. For countries at the bottom of the ladder, persistent economic stagnation is best understood as being due to a combination of national and international factors that together constitute a poverty trap. Where the majority of the population earn less than $1 or $2 a day, a major part of GDP must be devoted to the procurement of the necessities of life. There are few domestic resources available for investment and funding vital public services, including education, health, administration and law and order. Low income leads to low savings; low savings led to low investment; low investment leads to low productivity and low incomes. The spread of the HIV/AIDS epidemic is part of this vicious circle. Pervasive poverty also leads to environmental degradation as people have to eat into the environmental capital stock simply to survive, but this in turn undermines the productivity of key assets on which livelihood depends. Governance capacities and domestic corporate capacities are also necessarily weak where extreme poverty is all-pervasive, and there is a clear relationship between low per capita income and the probability of destabilizing conflict.

19. These domestic vicious circles have been reinforced by international trade and financial relationships, particularly in poor commodity-dependent countries. Countries caught in this poverty trap are being bypassed by potentially beneficial aspects of globalization of production systems, finance and markets, whilst being exposed to certain negative aspects. With falling world commodity prices, large increases in export volumes are not translating into large increases in export revenue and the capacity to buy imports. Associated with slow export growth, and also with large external shocks due to commodity price instability, there has been a build-up of unsustainable external debt. Finally, as debts – which are mainly owed to official creditors – built up, an aid/debt service system developed in which aid disbursements were increasingly dictated by the need to ensure debt service payments. The developmental impact of aid was inevitably undermined The slow progress which most of the more advanced developing countries are making in moving up the ladder of development is also contributing to the saturation of commodity markets and increasing the vulnerability of those countries that have sought to escape the poverty trap by diversification out of commodities.

20. Development experience suggests that market forces alone cannot be relied upon to bring about the transformations in economic structure that have invariably occurred in the most successful cases of sustained development. Equally, market forces alone cannot break the cycle of economic stagnation and persistent extreme poverty in which the poorest countries are trapped.

B. Policy options and responses

1. National policies

21. The experiences of the few developing countries that have been able to launch and sustain a process of economic convergence with the rich countries should not be taken as a detailed blueprint for policymakers elsewhere. However, they do offer some general strategic lessons.

22. Firstly, the starting point for an appropriate development strategy is a stable macroeconomic and financial environment to support capital formation. Fiscal and monetary discipline is essential. But macroeconomic policies must also be sensitive to the need to expand productive capacity and productivity. They must also manage the inevitable cyclical ups-and-downs of the accumulation process.

23. Secondly, responsible macroeconomic management in and of itself is insufficient to break out of the poverty trap within which the poorest countries are caught. Nor is it sufficient to create the dynamic process of accumulation, structural change and technological upgrading that underpins sustained growth in a successful development strategy. Macroeconomic policies need to be complemented with the strategic use of an array of policies that can address structural deficiencies and develop productive capacities. Elements of such structural and productive development policies include: trade policy, industrial policy, financial policy, human resource development, technology policy, physical infrastructure development, and trade facilitation policy.

24. Thirdly, structural and productive development policies should encompass both economy-wide “functional” measures (such as SME development and clustering) and sectorally focused and enterprise-level measures. These measures should address specific market failures that impede the achievement of national development objectives, including: missing markets and the lack of an entrepreneurial base; imperfections in technology and capital markets; risks of starting up new activities and exporting; and linkages and externalities that make investment highly complementary among sectors. The measures should be market-creating and market-stimulating rather than market-replacing, the aim being to catalyse, stimulate and guide private enterprise in support of national development.

25. Fourthly, policies to promote accumulation, structural change and technological upgrading need to be linked up with policies that manage integration with the global economy. Just how deeply and quickly any economy can open up to international economic forces and at the same time sustain development depends to a large extent on the resulting productivity performance of its industry and the speed with which it upgrades its technological and skills base. Domestic producers cannot be “shocked” into better productivity performance through premature exposure to the full force of international competition. Rather, there should be a more gradual and sequenced approach that is consistent with domestic conditions and the learning capacities of firms, employees and policymakers. This calls for a phased approach to trade liberalization, which is linked to policies to improve competitiveness, and also a proactive approach to FDI.

26. Managing integration means that development strategy has to be continuously and vigilantly outward-looking, in the sense of paying constant attention to economic developments and market trends throughout the world. A central concern must be the

development of the competitiveness of domestic enterprises. Policy actions towards competitiveness should focus not simply on building firm-level capabilities but also on the complementarities among firms which render competitiveness systemic. They should aim at:

- Improving the ability of firms and productive chains to innovate and incorporate technology in a way that facilitates changes in the country's trade specialization towards value-added goods and services;
- Building strong and dense fabrics of firms, mainly SMEs, effectively linked to the major enterprises and corporations connected to international trade, in order to enhance on a sustainable basis the capacity for creating better jobs and amplifying the positive impacts of trade in the internal economy;
- Contributing to the social effectiveness of economic policy in general by means of positive actions in favour of urban informal sectors and low-productivity rural production, and where appropriate adjustment policies facilitating mobility out of these sectors;
- Mainstreaming environmental criteria as cross-cutting issues in all policies (horizontal and selective) to ensure sustainability in terms of the intervention of natural resources, and to enhance the opportunities for developing countries to successfully compete in world markets that increasingly demand environmental performance;
- Strengthening the capacities of institutions in charge of productive development and trade policies by improving their capabilities for policy design and implementation, as well as for related trade rules negotiations at the international level.

27. Although a successful development strategy must be firmly based on the establishment of strong local firms linked to a dynamic accumulation process, FDI holds the promise of access to a bundle of more sophisticated technological and organization skills and assets. Foreign firms are likely to play a useful role at all stages in the development process. In the primary sector, exporting will involve close contractual relations with the large TNCs that tend to dominate the markets for these products. Major new industries producing manufactures for export cannot be easily established without some form of assistance – technological or otherwise – from companies in more advanced countries. However, there are different ways in which such help can be extended, and more strategic policies will be needed to complement efforts to build domestic capacity. A variety of measures can be used to maximize the advantages of interacting with foreign firms, including licensing and the hosting of foreign affiliates. In most cases, a combination of them is likely to be desirable, tailored to specific circumstances.

28. Fifthly, where domestic firms still have weak technological and productive capacities and the global economic context is characterized by systemic biases and asymmetries, regional arrangements can provide a supportive environment in which to pursue national development strategies. The dynamically changing regional division of labour, known as the "flying geese" model, in which opportunities for less developed countries to enter simpler manufacturing stages in a regional division of labour are created as the more advanced economies successfully shift from resource-based and labour-intensive industries to increasingly sophisticated manufacturing activities, remains relevant in this regard. National policies can facilitate the regional trade and investment flows that underpin this process, helping to create markets and transfer skills and technology to neighbouring countries.

29. Sixthly, structural and productive development policies, as well as integration with the global economy, need to be elaborated through a strong government-business network. It is essential in this regard to promote an independent and highly competent economic bureaucracy which, through various formal and informal ties with business, develops a common vision of development objectives and targets and a common understanding of how these can be best achieved.

30. Seventhly, development strategies need to treat poverty, human development, distributional and environmental concerns as integral aspects of structural and productive development policies. Social and environmental goals should not be seen as a secondary or supplementary issue but should be achieved through the productive process. Development cannot be sustained if it is not inclusive. At the same time, inclusivity enhances the effectiveness of a development strategy. This occurs through such channels as increased human productivity, larger national markets and greater social cooperation.

31. This seventh lesson is particularly relevant in the context of the Millennium Declaration, which has strengthened the policy focus on reducing poverty, ensuring gender equity and promoting human development. The introduction of specific and quantifiable targets in the form of the Millennium Development Goals involves a switch from economic growth targets (which were the development goals of the First and Second UN Development Decades) to targets that more directly constitute human well-being. Although welcome in terms of ultimate objectives, there is a potential danger in this switch. Policymakers may focus too closely on poverty, levels of human development and social expenditures and lose sight of the fundamental importance of economic growth, enhanced productive capacities and increased remunerative employment to the achievement of the commonly shared goals. This danger is particularly apparent in the first generation of poverty reduction strategies within LDCs, which generally included neither a growth strategy nor a trade strategy.

32. The choice should not be to either develop productive capacities or promote poverty reduction. Rather the question is how to reduce poverty by building productive capacities. The commonly agreed goals of the Millennium Declaration will not be achieved unless the shift from growth to human well-being is linked to the insights on economic growth and productive development based on an impartial analysis of the record of the last 40 years. Poverty reduction and human development goals can only be achieved through development.

2. The need for diversity in development strategies

33. The seven lessons listed above need to be applied in a pragmatic way that evolves through learning on the basis of concrete experience of what works and what does not in each country. An important feature of the last 40 years is increasing differentiation amongst developing countries in terms of economic structure as well as level of development. This diversity renders a one-size-fits-all approach irrelevant. It is clear that policy options and responses must change in an evolutionary way as an economy develops. Policies also need to be tailored to different initial conditions in terms of size, resource endowment and location. Countries can be further distinguished according to their level of productive development, their form of integration into the global economy, and the extent of poverty, inequality and human development. An important distinction must be made between commodity-dependent economies and those economies that have achieved some measure of industrialization or service development, and amongst these groups further sub-types can be identified in terms

of the level of productive development and extent of poverty, inequality and human development.

34. Any such typology of developing countries should be used flexibly to illuminate specific development policy problems and not become a straitjacket. The diversity should not obscure the fact that they all face common challenges. Nor should it act as a constraint on increased South-South cooperation, as the increasing differences amongst developing countries imply that there can be potentially strong regional economic complementarities.

3. Global policies

(i) Meeting the triple challenge

35. The triple challenge of national development strategy now is:

- To create and sustain a dynamic process of accumulation, structural change and technological upgrading;
- To manage integration with the global economy, building competitive domestic enterprises;
- To ensure inclusive development, achieving as a minimum the standards of human well-being expressed in the Millennium Declaration.

This triple challenge is extremely difficult, and particularly so if rich countries pursue national policies that constrain rather than enable development in less developed countries and if the international environment is not supportive. Developing countries have made substantial efforts to integrate more closely with the global economy in recent years, and as they have done so policy autonomy has been reduced and external factors have become increasingly important in influencing development outcomes. Coherence between national and global policies is essential if the triple challenge is not to be an impossible dream. Coherence is a sine qua non of "Developing a Global Partnership for Development".

36. Policy actions are needed to ensure a stable and growing world economy. Paramount here is the need for policy coherence and coordination among the major economies of the industrialized world in order to ensure rapid and steady expansion of global income and trade. Equally, the commitment in the Millennium Declaration to "an open, equitable, rule-based, predictable and non-discriminatory trading and financial system" should be fulfilled. Reforms to the existing system must provide for greater collective influence for developing countries and embody a genuine spirit of cooperation among all countries.

37. It is necessary to continue to address serious shortcomings regarding the size, stability and sustainability of private capital flows to developing countries. It is essential that the autonomy of developing countries in managing capital flows and choosing their capital account regime is not constrained excessively by international agreements on capital-account convertibility, trade in financial services or multilateral investment agreements. Equally, options should not be narrowed with regard to appropriate exchange-rate regimes.

38. For poor countries, official financing and debt relief remain an indispensable prerequisite of successful development strategies. There is ample evidence that the external debt position of many developing countries is currently having a severe adverse impact on investment and on indispensable categories of government expenditure, as well as on FDI. A

comprehensive assessment of the sustainability of debt throughout the developing world is urgently required, particularly in relation to the achievement of internationally agreed goals. Such an undertaking should not be limited to heavily indebted poor countries (HIPCs) but should incorporate a broader spectrum of countries, including the so-called middle-income debtors, who are in need of special measures to overcome their debt overhang.

39. Diminishing aid flows in the 1990s adversely affected many African and least developed countries. Efforts should be made to speed up the implementation of the agreements at the Monterrey Conference with a view to reversing the trend. But this also needs to be linked to efforts to improve the quality of aid, including through better coordination, closer integration with national development strategies, higher predictability and stability, less onerous conditionality and genuine national ownership. Institutions for monitoring donor performance at the recipient country level offer a way to benchmark progress in these critical areas. Increased financial and technical assistance for trade capacity building is also vital.

40. Whilst building competitive industries is the key to overcoming external constraints, the scope for pursuing late-industrialization strategies and promoting exports through government action was reduced after the Uruguay Round. Some policy options, however, are still available, although many developing countries are still not using all the options open to them. So are to a very large extent the institutions and informal networks required to support such policies. Moreover, the scope for export promotion, though reduced, still allows for various forms of direct and indirect support, particularly in the poorest countries, and various forms of protection and other support, especially temporary, are still allowed for infant industries.

41. In some areas of trade policy, where review processes are under way or new agreements are being considered, the full impact on the policy options and development of developing countries needs to be considered, in particular with respect to subsidies, intellectual property rights, competition and FDI. Greater flexibility in these areas is not compatible with artificial and arbitrary time frames that are unrelated to needs or performance. Instead, special and differential treatment should be linked to broad development objectives as part of the contractual obligations of the rules-based system.

42. There also remains an urgent need to address some of the systemic biases in the trading system. Tariff levels and the frequency of tariff peaks in advanced industrial countries remain high in many areas of export interest to developing countries, and new forms of protectionism are being introduced. This is particularly the case in agriculture – where massive subsidies further restrict entry for developing-country producers – and in many labour-intensive manufacturing sectors, such as clothing and footwear. These are the areas where developing countries have the potential to build dynamic investment-export linkages.

43. Further policy suggestions in connection with international commodity issues will be advanced in the chapter on international trade below. However, as a stop-gap solution for the most urgent problems in the worst affected countries, it would seem that renewed attention needs to be paid to international compensatory finance.

44. In the end, more supportive global policies in the field of trade and finance are likely to follow a better understanding of the mutual win-win results that will come to rich

countries from sustained long-term increase in productive capacities and living standards in less developed countries. There has been a tendency to overestimate the costs that may arise with the maturation of competitors and to underestimate long-term benefits to both rich countries and developing countries that will follow sustained development in the latter. The negotiation of "burden-sharing" has dominated multilateralism in the field of development, and forms of development that offer short-term gains to rich-country corporations by emphasizing FDI-led development and market opening have been most strongly advocated.

(ii) Global ethical imperative

45. More work on, and greater appreciation of, the mutuality of North-South interests in development is required. Strengthened North-South collaboration is also in the long-term interest of the developed countries. Collectively, the developing countries constitute a vast reservoir of untapped demand, which, if realized, could provide substantial and sustained impetus to the growth of international trade and expansion of the world economy, with beneficial effects on the welfare of developed country consumers and businesses. At the same time, the success of their development strategies, poverty reduction programmes, and integration into the world economy is increasingly dependent on external factors, international processes and regimes. Given their much greater weight and influence in the world economy and global policymaking, the developed countries have a key role to play in fostering economic and social progress in the developing countries. They need to support accelerated economic growth and development in developing countries by adopting favourable macroeconomic, monetary, financial, investment, trade, migration, and aid policies and a development-led approach in the shaping of the relevant international governance frameworks. It is also important for them to ensure coherence between their development cooperation agendas and their macroeconomic and trade policies in a manner supportive of development. All these are core components of development solidarity based on positive interdependence and all the essence of globalization with a human face. The motivation for strengthening the global partnership and solidarity for development must be based not only on mutual interests but also on ethical imperatives.

46. The commonly agreed goals of the Millennium Declaration are highly significant in this regard. They entail an ethical view in which the justice of global arrangements depends not simply on the nature of the rules regulating relationships between countries (the international trade and financial "architecture") but also on the outcomes of these rules, measured in terms of human well-being. Furthermore, the implication of giving the primary responsibility for achieving the commonly agreed goals to countries is that the basic building block for global justice is the nation-state. Within this frame of reference, national development has become a global ethical imperative.

C. UNCTAD's contribution

47. UNCTAD's work on globalization and development strategies should focus on interdependence and coherence:

- Achieving coherence in global economic policymaking from the point of view of its effect on development, taking into account interdependence among the various areas of the international economy, notably, trade, investment, money and finance, technology and services;

- The design of development strategies to ensure stability, rapid and sustained growth and development;
- Achieving coherence between international economic rules, practices and processes on the one hand and national development strategies, on the other.

48. The aim of the work should be to identify policies at the international and national level that are conducive to development. Specifically, it should explore how national development strategies can be shaped in an increasingly globalizing world, and how the management of the world economy can be improved in support of development. This should include attention to the need to ensure inclusive development at the national and international level, achieving as a minimum the standards of human well-being expressed in the Millennium Declaration. The work should also support greater understanding of the mutuality of North-South interests in sustained development, as well as of the implications of diversity in development experiences.

49. At the international level, UNCTAD's work should aim at making a contribution to increasing coherence in the management of the global economy, particularly in terms of the interdependence and consistency of international trade, investment and financial policies and arrangements, with the goal of promoting development. It should address the question of international financial instability, the role of private and official flows in financing development, the question of debt sustainability, the impact of macroeconomic policies in the advanced industrial countries on development prospects of poorer economies; the role of regional integration in development, and the impact of regional integration and arrangements on development prospects of member and non-member countries. It should also aim at contributing to the implementation of the internationally agreed development goals and of the outcomes of major conference.

50. At the national level, areas to which UNCTAD should give special attention in terms of their impact on development and the eradication of poverty include macroeconomic and financial policies, and effective economic management; policies to enhance the productive capacity of developing countries and improve their ability to compete in the global economy, based on productivity growth with rising living standards; improved debt management; and policies which create a positive relationship between productive development, integration into the global economy, and the achievement of poverty reduction, human development and environmental goals, including the incorporation of gender issues in development strategies and the way in which the trade-poverty relationship is mediated by the development process.

51. UNCTAD's work on development strategies in a globalizing world economy should pay special attention to the problems of countries facing special circumstances, notably the development problems of the African continent, in close cooperation with NEPAD, and the special problems of LDCs, landlocked developing countries and small island developing States, as well as structurally weak, vulnerable, and small economies. It should also explore the problems of countries with economies in transition in their efforts to integrate into the world economy.

II. BUILDING PRODUCTIVE CAPACITY AND INTERNATIONAL COMPETITIVENESS

52. For developing countries to integrate into the world economy on terms and conditions favourable to their development, their firms and economic sectors must be competitive. Integration itself will help competitiveness, but only if it goes together with domestic policies to build the productive capacity of the enterprise sector, promote technology transfer, adaptation and generation, encourage enterprise networking and clustering, and increase productivity. Investment plays a central role in this effort; it provides a crucial link between trade and development. Thus the challenge for policymakers in developing countries is to put in place macro- and micro-economic policies that help maintain a high level of investment, generate technological development and sustain the level of enterprise competitiveness needed to benefit from the opportunities created by globalization, including those emerging from the multilateral trading system[12]. Meeting this challenge requires a collective and coherent effort, primarily by the developing countries concerned, but also by development partners and the international community as a whole.

53. At the national level, it requires active policies to stimulate the process of capital accumulation through both domestic and foreign investment; an efficient infrastructure for international trade in goods and services; technology transfer and diffusion, including the adoption of new information and communication technologies (ICT), and inter-firm cooperation and linkages with global value chains, all with a view towards creating dynamic and sustainable economic growth. But such active policies must be complemented by recognition – at the multilateral level – of the need for developing countries to safeguard sufficient policy space to pursue their development strategies. There should be coherence between international processes and negotiations and domestic development policies, as well as coherence between policies in all relevant sectors of the global economy, notably trade, investment, finance and technology. There is also a need to support active participation of developing countries in the various international fora in which international rules and standards are determined.

A. Issues and challenges

54. To benefit more from an increasingly globalized and interdependent world economy, developing countries and economies in transition need to build stronger supply capabilities. Becoming part of global value chains of internationally traded goods and services represents the key channel to access markets, capital and technology. However, not all kinds of linkages to the global economy are equally positive for development, nor will integration through trade liberalization alone necessarily ensure the attainment of development objectives of developing countries in the economic, social and environmental spheres.

55. An essential lesson from the experiences of developing countries that have successfully used trade to promote growth and development underscores the importance of *active* policies directed at promoting productive investment, developing human resources, building technological capability, promoting ICT usage, and supporting local enterprises.

[12] For a discussion of the multilateral trading system, see chapter III.

Such policies have focused on building the competitiveness of enterprises, progressively shifting trade specialization towards higher value-added goods and services, and creating domestic linkages making it possible to sustain export-led growth and translate it into more and better jobs and income gains domestically.

56. At the national level, the process of improving the competitiveness of enterprises and sectors requires an increased focus on the strengthening of production structures, notably networks of enterprises, clusters, industrial districts and linkages between small and large firms. It also involves enhancing the institutional capabilities of a country. These are instruments for fostering learning, technology transfer and diffusion processes, and thus effective mechanisms not only for enhancing international competitiveness of firms but also for helping transform the economy towards higher value-added activities and long-term, stable economic growth.

57. Enhancing the export competitiveness of developing countries' firms is particularly important as it allows countries to earn more foreign exchange and so to import the products, services and technologies they need to raise living standards and productivity and sustain rising wages. The concept of improving export competitiveness of firms involves not only attaining higher export volumes, but also diversifying the export basket, sustaining higher rates of export growth over time, upgrading the technological and skill content of export activity, and expanding the base of domestic firms able to compete internationally. It also requires developing links with global production and distribution networks. A key factor for enhancing such networks is access to reliable and efficient logistics services, including the application of information and communications technologies (ICTs), supported by well-maintained transport and communication infrastructure.

58. Thanks to advances in the area of ICT, export-oriented production of both goods and services can take place through integrated multiple locations. How trade is conducted is also being changed in major ways by the Internet.[13] The Internet can potentially empower weak players in the global economy – such as SMEs in developing countries – by making available information, communication and knowledge they could not access easily before. ICT-related exports have been shown to benefit developing countries, which are gaining world market share in the export of computer-related services, communication services and financial services. This has created new employment opportunities for women in the ICT-enabled services industry. The effects of ICT, and particularly of the Internet, on the development prospects of developing countries, however, are not limited to the enhancement of their export competitiveness. The adoption of ICT by enterprises and public sector organisations, by increasing the efficiency with which they perform a wide range of activities, can generate improvements in productivity and hence raise living standards. By making possible the production of entirely new kinds of products and services in many of which (such as teleservices) developing countries can enjoy a comparative advantage, ICTs are creating new opportunities for economic diversification. However, access to such technologies remains a major challenge for many enterprises in developing countries. Furthermore, access to ICT, while a necessary condition is not a sufficient one. For the potential of ICT to be fulfilled, an enabling environment (including the legal and regulatory framework, but also managerial and organizational changes at the level of the enterprise) must be put in place.

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[13] According to the latest figures available (ECDR, 2003), the number of Internet users continues to grow, reaching 591.5 million at the end of 2002, a 19 per cent increase over the figure for 2001; the World Wide Web grew by 17 per cent in 2002 in terms of active web sites; and e-commerce is expected to reach the US$ 10 trillion threshold sometime between 2005 and 2007.

59. With the spread of global value chains, the role of TNCs is growing in importance. While FDI is only a complement to domestic investment, it is increasingly viewed as providing strategic inputs within total investment.[14] It offers the potential to transfer knowledge and technology, upgrade human resources, boost entrepreneurship, and bring new management, production and marketing techniques – the diffusion of which can be enhanced through linkages between foreign affiliates and local firms and improve access to international markets.[15] In recent years, a number of developing countries and economies in transition have managed to expand their exports significantly as a result of export-oriented inward FDI. However, the extent to which export expansion has been accompanied with increased value added of exports – a measure of the development impact of FDI – has varied greatly. This confirms the more general point that neither FDI inflows nor the expected associated benefits from inward FDI are automatic.

- The challenge is to create the necessary domestic conditions, especially in terms of technological capability but also in terms of upgrading skills and enterprise development, to attract FDI and benefit from such investment though linkages and an enhanced competitive environment.
- There is also a need to address the potential risks associated with inflows of FDI. There are concerns that FDI could lead to the crowding out of local companies. Other concerns relate to the risks associated with anticompetitive practices, tax avoidance, abusive transfer pricing, the transfer of polluting activities or technologies and excessive competition for FDI leading to a “race to the bottom”.
- All these concerns and challenges have to be addressed in the context of an international regulatory setting that preserves the policy space of Governments to formulate investment strategies that contribute to their development objectives.

B. Policy responses

60. A successful effort at building productive capacity and enhancing international competitiveness requires a multi-pronged approach, reflecting the challenges mentioned above. The Millennium Declaration and the outcomes of the recent global development conferences, especially the Third United Nations Conference on Least Developed Countries, Monterrey and Johannesburg, serve as starting points.

1. National policies

61. Improving competitiveness requires deliberate policies to foster a systematic upgrading of domestic productive capabilities. Such policies cover a range of areas, including investment, enterprise development, technology, skill formation and infrastructure development, and promotion of the adoption of ICTs. The approach must be integrated and include the development of high-quality infrastructure, such as EPZs, science parks, logistics and ICT.

[14] On a worldwide basis, FDI grew from about $40 billion at the beginning of the 1980s to over $1 trillion in the peak year 2000, with a decline since then to some $650 billion. Developed countries now attract about $160 billion. Even if the distribution of FDI is still uneven among developing countries, the role of this source of capital has become more prominent even in the LDCs.

[15] For an in-depth discussion on the broader links between TNCs and competitiveness, see *WIR95*, and specifically on the link between TNCs and export competitiveness, see *WIR02.*

62. The effort is particularly important in connection with small and medium-sized enterprises (SMEs). Market failures sometimes prevent these enterprises from accessing finance, information, technology and markets, which are all essential elements in becoming competitive. This requires establishing specific policies and programmes and appropriate institutional frameworks to support the enterprise sector, including through the provision of business development services in the form of training, consulting, technical and managerial assistance, facilitating access to inputs and services, and ensuring bank credit to finance innovation and restructuring processes. Support services need to give special attention to the conditions facing women entrepreneurs. They should also be aimed at enhancing the competitiveness of SMEs through cluster promotion and improvements in productivity and testing services, as well as the introduction of ISO 9000 quality management in SMEs.

63. For inflows of export-oriented investments to translate into dynamic learning processes, the promotion of linkages between foreign affiliates and local suppliers is important. The linkages involve not only supplying local subsidiaries, but, as production systems are becoming increasingly global, local suppliers are often required to supply their outputs at the regional or even global levels. The scope for such linkages is often limited by local companies' lack of quality control and their inability to deliver on time and in accordance with internationally agreed standards and price levels. Thus, the promotion of linkages typically involves targeted efforts at upgrading domestic suppliers' technological and productive capabilities, provision of training, and various schemes to enhance domestic suppliers' access to finance. When successful, linkage creation policies can help strengthen supply chains and industrial clusters, thereby fostering learning, technology transfer and diffusion processes, which are essential to reaping dynamic and sustainable economic gains.

64. The role of national policies aimed at strengthening local technological capability is critical in this process. They must be aimed at fostering the acquisition of knowledge through learning processes in the economy, promoting the generation and diffusion of know-how, supporting the production and adaptation of technology embedded in equipment, and promoting and facilitating technology transfer. Many hurdles still remain for developing countries to transfer, absorb and develop technology and knowledge. In the area of technology transfer policies, Governments have moved from direct controls and restrictions to market-friendly approaches – improving the business environment and investment climate, strengthening legal and other institutions, enhancing skills and raising the capabilities of local enterprises. The policy emphasis and approaches are themselves shifting, from focusing on transfer of technology per se to technology adaptation and creating an enabling environment for stronger pro-innovation regimes, underlining the importance of innovation systems more broadly, while at the same time continuing to encourage the transfer of more advanced technologies. The provision of incentives for research and development, establishing an adequate framework for intellectual property rights which is consistent with the country's level of technological development, and measures to develop the human resources base are important ingredients in a policy package. The same applies to institution-building efforts. Institutions engaged in metrology, standards, testing and quality assurance provide the infrastructure of modern industrial activity. Their importance to competitiveness is growing as a result of increasingly stringent quality, precision, tolerance and other standards in international markets characterized by fast changing technology. Studies on the sustainability of export growth in a number of science-based as well as traditional industries show that exports can fall rapidly even after decades of good sales, due to quality barriers suddenly imposed by international standards.

65. Support in the field of ICT is particularly relevant for enhancing enterprise competitiveness, given both the growing importance of information and technology for communications and trade and the fact that the gap between developed and developing countries' use of ICT continues to widen. The underlying causes for the low levels of penetration of the new technologies in developing countries include a lack of awareness of what ICT can offer; insufficient telecommunications infrastructure and Internet connectivity; expensive Internet access; absence of adequate legal and regulatory frameworks; shortage of requisite human capacity; failure to use local language and content; and a lack of entrepreneurship and business culture open to change, transparency, and social equality. A major challenge for policymakers at the national and international level therefore lies in addressing the issue of digital divides: between rich and poor countries, rural and urban areas, men and women, skilled and unskilled citizens, and large and small enterprises.

66. The formulation and implementation of national ICT strategies that deal effectively with the preceding challenges must be particularly sensitive to three elements: firstly, the need for mechanisms to monitor and measure ICT readiness, usage and impact; secondly, the need to incorporate a gender perspective at all levels of policy action; and thirdly the need to link ICT policies to other development policies, such as education, trade, investment and especially national science and technology policy, to allow for benefits from synergies between different elements and a more broad-based diffusion of ICT.

67. The issue of technological learning is also directly relevant in the development and efficiency of transport, communications and logistics services, which are strategic factors in building and maintaining enterprise competitiveness. For this, developing countries need to improve their physical, institutional and legal infrastructure. In particular, infrastructure, superstructure and equipment for the movement of containerized goods door-to-door, including sea, road, rail and air connections, must be available. Furthermore, it is necessary to adapt the existing legal infrastructures in many developing countries to the requirements of electronic transactions in view of the growing use of ICT-applications in the logistics area.

68. However, even if the physical and legal infrastructure is in place, the effectiveness of logistical services offered can be hampered by administrative and operational delays. Coordinated trade facilitation measures have become an important tool for developing countries to reduce transaction costs, and their implementation requires assistance in terms of expertise and funding. This is especially important in the light of security considerations, which have become a priority issue in the conduct of international trade. Complying with new security regulations by putting in place the necessary procedures and equipment can be a major challenge for developing countries. In general, particular attention is needed to mitigate locational handicaps of least developed, landlocked or island developing countries.

2. Global policies

69. National policies aimed at promoting internationally competitive productive capacity are increasingly being complemented by rule-making at the international level. For developing countries, the most important challenge in this context is to preserve the "national policy space" and the flexibility needed to pursue development-oriented policies. An international legal obligation generally prevails over domestic rules, and this often creates tension between the will to cooperate at the international level through binding rules and the need for Governments to discharge their domestic regulatory functions in pursuit of

development objectives. A balance must be struck between the potential development contribution of international rules and the preservation of the right of developing countries to regulate in the public interest and in pursuit of development goals.

70. The interaction of national and international rulemaking is particularly visible in the investment area. The proliferation of investment agreements at the bilateral, subregional, regional and plurilateral levels requires policymakers and negotiators from developing countries, as well as other stakeholders, to be as familiar with and as well informed as possible about the development implications of such agreements. The complexity of the issues at stake, as well as the sheer volume of matters that need to be considered, often strains the available resources in developing countries, both from a policy development as well as from an implementation and negotiation perspective. The challenge for the international community is to help build national capacity in developing countries, through policy analysis and human and institutional development, with a view to assisting these countries in participating as effectively as possible in international discussions and evaluating the implications of closer cooperation for their development policies and objectives.

71. The international dimension of investment flows should not be seen in terms of rule-making and international agreements only but also in terms of the policies and actions that the home countries of TNCs and TNCs themselves can introduce to encourage investment flows and stimulate economic growth and development. Often, the focus is on host country policies – and these are certainly central for building productive capacity and international competitiveness – but the potential for supportive efforts by home countries should also be recognized.

72. Home countries can take an active part in the collection and dissemination of information related to investment opportunities in developing countries, including through technical assistance, the organization of investment missions and seminars, and the like. Home countries can encourage technology transfer by providing assistance with a view to strengthening a host country’s technological base, its capacity to act as a host to FDI and technology-intensive industries, and its capacity in relation to specific technology-intensive goals. Various forms of financial and fiscal incentives can be provided to outward investors or to support feasibility studies and environmental assessments. Home countries can also help mitigate risk, for example by providing investment insurance against risks that may not normally be covered through the private insurance market.

73. Further analysis is needed to assess the effectiveness of various measures and to explore how the development impact of HCMs could be maximized. Such measures would not only help developing countries but also create new opportunities for investment and trade for home countries and their business community.

74. More international attention should also be given to the corporate social responsibility of TNCs. The notion that corporations have responsibilities that go beyond their shareholders and extend to the societies in which they operate is widely accepted and was also recognized at the Johannesburg Summit. This poses the question whether foreign investors themselves could complement the efforts of host (and home) countries and help developing countries to benefit more from FDI. There has been an increasing number of international instruments in this area, but most of them are voluntary in nature. Furthermore, most instruments deal with social and environmental issues, leaving economic development issues out of their scope.

There are rising expectations that TNCs can contribute directly to the advancement of development goals as one aspect of good corporate citizenship.

75. The need for increased and diverse international assistance has also become critical in the transfer, diffusion and application of new technologies in developing countries. With regard to the role of ICT in realizing the goals of the Millennium Declaration in the areas of poverty alleviation and gender equality, for example, the UN ICT Task Force has identified the urgent need to increase assistance to developing countries in formulating ICT strategies as one of its priority areas of work. The World Summit on the Information Society (WSIS) draft plan of action considers the implementation of national e-strategies as one of the key areas for policy action to advance information society in developing countries. It also calls for action to promote development-oriented ICT applications for all, in particular the use of ICT by SMEs to foster innovation, realize gains in productivity, reduce transaction costs and fight poverty.

76. In the area of transport and logistics services, there is a need to develop an adequate international legal framework that reflects recent developments in the way global logistics are organized. The Johannesburg Summit specifically called for urgent action at all levels for transportation and communication infrastructure development and for an integrated approach to policy making at the national and regional level for transport services and systems. In spite of previous attempts, no international legal regime is in force to govern liability arising from multimodal transportation. The lack of a uniform regime has obliged Governments, including those of developing countries, to resort to solutions at the national, regional and/or subregional level, creating further fragmentation at the international level. With regard to trade facilitation, Governments would need to take steps to implement measures on the basis of internationally agreed rules, standards and recommendations. Clearly maritime and container security issues will continue to be a priority subject for the international community in the years to come. The programme of Transport Security Action agreed by the G8 at its summit in Canada in 2002, the United States’ security legislation, followed by the work within IMO and the EU, demonstrate the importance the subject will have in the future. It is essential that a coordinated global approach be adopted to avoid the proliferation of diverse unilateral and regional standards and approaches and the resulting negative consequences. In this context, the review of the United Nations Convention on Conditions for Registration of Ships 1986 may be considered.

C. UNCTAD’s contribution

77. The objective of UNCTAD’s work in this area should be to assist developing countries, in particular LDCs, to design and implement active policies for building productive capacity and competitiveness, with a view to sustaining a high level of growth and promoting sustainable development. These policies should be based on an integrated treatment of investment, technology transfer and innovation, enterprise development and business facilitation (including transportation and the promotion of ICT). They should be supported by policy measures at the international level, including policies which, in the process of international rule-setting, secure flexibility and policy space for developing countries to pursue their industrialization strategies and sustainable human development in a globalizing world economy.

1. Integrated treatment of investment, technology and enterprise development through research and policy analysis

78. UNCTAD should assist developing countries in designing policies to enhance their productive capacity and international competitiveness, build domestic productive capacity, develop technological capability, and increase the contribution of FDI to development.

(a) Improving the understanding of issues related to investment, as well as technology and the development and competitiveness of enterprises, through research and policy analysis

79. UNCTAD should continue its lead role in policy analysis of the impact of FDI on development and especially ways and means to maximize its benefits and minimize its costs through appropriate host and home country policies. It should collect and analyse data and conduct policy-oriented research on investment issues related to development, including on the interaction of FDI and domestic investment; the impact of FDI on industrialization and local entrepreneurship; the role of FDI in infrastructure development and export capacity building; and human resource development and linkages between foreign and domestic firms. It should also assist developing countries to ensure that their international commitments do not jeopardize their ability to use national policies to build productive capacity and international competitiveness.

80. UNCTAD's analytical work should draw lessons from successful experiences with the transfer and diffusion of technology through FDI and other channels with a view to supporting efforts by developing countries, in particular LDCs, to respond to technological changes and develop policy instruments that facilitate technology transfer and build domestic-innovative capacity. To that end, UNCTAD should examine the special problems that LDCs and African countries face in building productive capacities, especially how the risks associated with investing in these countries can be reduced.

(b) Strengthening developing countries' ability to formulate and implement national policies to attract and benefit from FDI, and fostering technological capacities and the competitiveness of domestic enterprises

81. UNCTAD should support efforts of developing countries to attract and benefit more from FDI, including by helping them to formulate and implement investment policies in line with their development strategies. Investment policy reviews and their follow-up, as well as assistance to national investment promotion agencies, can play a special role in this connection.

82. UNCTAD should formulate special programmes to assist African countries and LDCs in attracting and benefiting more from FDI, including through advisory services in partnership with private sector.

83. UNCTAD should disseminate best practices in linkages between SMEs and TNCs, with a view to increasing the benefit of FDI and enhancing the international competitiveness of developing countries enterprises.

84. UNCTAD should assist developing countries, especially LDCs, in formulating and implementing policies to encourage the transfer of technology and the creation of domestic innovative capacity.

(c) Promoting the development dimension in international policy-making and building human and institutional capacity of developing countries in negotiating international agreements

85. UNCTAD should examine the impact of international investment arrangements, at the bilateral, regional and multilateral levels, on development and how such arrangements should be designed in order to maximize their contribution to development. UNCTAD should provide a forum for exchange of experiences on the formulation of international arrangements, with a view to promoting the development dimension in those arrangements.

86. UNCTAD should build on the outcomes of international conferences to strengthen its assistance to developing countries, particularly LDCs, in human capacity building and institutional building in the area of investment and technology transfer, so as to ensure their effective participation in international rule-setting at all levels and ensure that development concerns are taken into account. In particular UNCTAD should identify ways and means to operationalize technology transfer clauses in existing international agreements, and assist developing countries in maximizing the potential benefits of those agreements.

2. Improving transport and trade facilitation and promoting the use of ICT in developing countries

87. UNCTAD should assist Governments in establishing appropriate frameworks for policy action in the area of transport and ICT aimed at achieving their development objectives.

(a) Strengthening transport in developing countries

88. UNCTAD should continue to undertake research and analysis in areas of trade facilitation, transport and related services of interest to developing countries. It should also serve as a forum for an exchange of views and experiences on issues such as trade facilitation, transport security, registration of ships and multimodal transport in order that development objectives be given proper consideration when deciding on new frameworks. The work should proceed through close cooperation with other intergovernmental and United Nations organizations involved in the preparation of global legal instruments affecting international trade and transport. UNCTAD should, through its programme of technical cooperation and training, assist developing countries in their efforts to build their transport capacities and thus enhance the competitiveness of their national enterprises.

(b) Building information and communication technology capabilities for developing countries

89. UNCTAD should monitor and analyse developments in ICT in terms of their implications for productivity, business organization, export competitiveness, key sectors with e-business potential, and the gender dimension, with a view to providing policymakers in developing countries with an analytical and empirical basis for taking the appropriate decisions in the field of ICT and e-commerce.

90. UNCTAD should assist developing countries in formulating and implementing national ICT policies and strategies, including developing mechanisms for monitoring and measuring digital economy developments and ICT usage in their countries, as well as providing a forum for developing countries to discuss ICT-related policy issues, exchange of experience and best practices.

91. UNCTAD should support the efforts of developing countries in developing e-business in sectors of economic importance and export capacity, through a mix of sector-specific policies, training programmes and deployment of ICT tools, taking into account the need for different policy mixes to respect local and national specificities.

92. UNCTAD should assist developing countries to participate actively in international discussions that are likely to have an influence on the development of ICT and the knowledge economy. In implementing this work, UNCTAD should work in close collaboration with the relevant international organizations.

III. ASSURING DEVELOPMENT GAINS FROM THE INTERNATIONAL TRADING SYSTEM AND TRADE NEGOTIATIONS

A. Trade and development: recent trends

93. A central mission of UNCTAD is to help developing countries to increase development gains from international trade and trade negotiations. UNCTAD has long recognized the interdependence of interrelated policy issues in expanding and diversifying trade in developing countries and global processes. Through a balanced treatment of issues in its policy analysis, consensus building, and technical assistance and capacity building, UNCTAD has sought to harness this interdependence with a view to maximizing development gains from trade.

94. UNCTAD was instrumental in articulating the principle that developing countries, owing to their structural and inherent disadvantages, have special trade, development and financial needs and concerns. These ideas led to, *inter alia*, the introduction of the principles of non-reciprocity and special and differential treatment for developing countries in the GATT system.[16] UNCTAD's work on commodities, which gave rise to the Integrated Programme on Commodities, continues to be a singular effort within the United Nations to keep this issue at the forefront of international attention.

1. Trends in international trade and developing countries' performance

95. The growth in trade in the last 50 years has typically exceeded growth in output. This reflects a move towards more open economies, as well as the international specialization of production. Developing countries increased their share in international trade throughout the 1970s to reach 27 per cent of world trade in 1981. In the 1980s, often called the lost decade for development as a result of the debt crisis, the developing countries' share in trade fell, but subsequently recovered to 31 per cent in 2001. Today, manufactures represent over one-half of developing countries' exports of goods, fuel slightly over one-quarter, and commodities one-fifth. The share of economies in transition in world exports has grown to reach its current level of 5 per cent.

96. The recovery of the share of developing countries in world trade masks important variations in country performance. On the positive side, a few developing countries, including some East Asian NIEs, have been able to achieve sharp increases in their shares in world manufacturing value-added, which have matched or exceeded increases in their shares in world manufacturing trade. The exports concerned are often at the higher end of the value chain and many are also globally dynamic goods and services and, together with niche products and services based on natural and cultural endowments, represent new opportunity

[16] For example, the Tokyo Round Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries (also known as the Enabling Clause) of 1979 legitimized the GSP, which was adopted at UNCTAD II, and provided legal cover for regional agreements among developing countries and special treatment for LDCs, It also provided that obligations assumed by developing countries "be designed and, if necessary, modified to respond positively to the development, financial and trade needs of developing countries."

frontiers for developing countries. Conversely, the share of LDCs in particular has witnessed a secular decline from 1.46 per cent in 1970 to 0.25 per cent in 2001. One reason is the continued fall in the importance of commodities trade: while total world exports grew at an average annual rate of 6.1 per cent between 1990 and 2000, commodity exports grew by only 3.1 per cent. As many as 38 developing countries are dependent on a single commodity for more than half of their exports and 48 on two such items.

97. At the same time, the services sector, with important linkages to all economic activities, has been gaining importance in all countries over the last two decades. Twenty years ago, services accounted for 41 per cent of GDP in developing countries and by 2000 had reached 52 per cent, while for developed countries services' share in GDP grew from 57 to 68 per cent. The share of developing countries in total world exports of services increased from 19 per cent in 1991 to 23 per cent in 2001, while their share in world imports grew from 22 to 25 per cent over the same period. Workers' remittances to developing countries in 2001 amounted to $72.3 billion, larger than development assistance; this indicates substantial scope for supply of services by developing countries and the potentially important contribution of the temporary movement of labour (GATS Mode 4) to their export earnings. At the same time, freight payments for transport services of imported goods of developing countries rose to $143 billion. A number of developing countries, including LDCs, view tourism as the main area of their comparative advantage in trade in services.

98. Two other important trends in international trade became visible during the 1990s, with important policy implications. First, there has been a rapid growth of regional trading agreements (RTAs), particularly following the establishment of WTO in 1995. Today more than half of total world trade takes place with these RTAs. Second, there has been continued growth in the share of South-South trade in total trade of developing countries, rising from 34 per cent in 1990 to around 40 per cent toward the end of the decade.

2. Major global developments in trade since UNCTAD X

99. The Fourth WTO Ministerial Conference held in November 2001 in Doha, Qatar, set up a broad-based work programme that provides a platform for efforts to make the trading system more development-friendly and to increase the capacity of developing countries to participate in the system more effectively and beneficially. All countries have a shared interest in the success of this work programme. A successful outcome would augur well for the global economy, provide renewed impetus to international economic and development cooperation, spur substantial increases in trade and investment flows, and offer the poor in developing countries, including poor women, new opportunities.

B. Assuring development gains from international trade: policy approaches

100. Ensuring that developing countries, especially the least developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development should continue to receive high priority in the international trade agenda. This would also serve the interests of all, as developing countries can also become important markets for trading partners in the developed and developing world.

101. Achieving these goals requires actions to improve trading conditions for developing countries, including through rules and their application. The multilateral trading system must be supportive of development, allowing developing countries the needed space to apply

policy instruments that will accelerate sustainable growth and development, expand employment opportunities, including those for women, and reduce poverty. Efforts are also required to lift the supply capacities of the developing countries to take advantage of trade opportunities. Developed country partners should give special consideration to the concerns and interests of developing countries in their trade and trade-related policies and measures.

102. The experience of the East Asian NIEs suggests that liberalization will realize its full development potential if accompanied by active policies of investment, industrialization, technology and human resource *and social* development. By contrast, in several other countries, including many LDCs and African countries in particular, there have been negative effects of across-the-board liberalization on industrial output, employment, income distribution and the livelihood of the poor. To realize the benefits of liberalization, greater efforts need to be directed to the design and sequencing of policies to promote growth while minimizing any negative effects. This calls for developing countries to retain the ability to formulate, calibrate and apply policy instruments to augment growth, promote diversification, enhance value-added and improve the participation of the poor and women in sharing the benefits from trade. More emphasis is needed on social policy and safety nets to ensure equitable sharing of benefits of economic expansion and growth in trade.

103. Agriculture, textiles and clothing and services export sectors in developing countries are among the principal employers of the poor, including poor women and other disadvantaged groups. Trade and trade-related policies and developments at national and international levels that affect these sectors also have far-reaching poverty reduction and gender implications.

1. Special and differential treatment

104. Special and differential treatment (S&DT) can play a valuable role in addressing the economic, structural and institutional imbalances between developing and developed countries. Up to the Uruguay Round, S&DT served as an instrument for the developing countries to gain enhanced market access as well as to retain policy discretion in terms of providing protection and support to domestic industry. However, under the WTO, S&DT was increasingly seen as a transitional device towards the implementation of a single set of rules and obligations by all WTO Members. An important exception was the GATS, which provides developing countries with the required flexibility to take into account their development concerns and interests.

105. In recognition of growing concerns of developing countries about the operation of S&DT provisions in addressing specific constraints faced by developed countries, particularly the LDCs, WTO Members decided, in the Doha Declaration, that “all special and differential treatment provisions shall be reviewed with a view to strengthening them and making them more precise, effective and operational.” This decision is welcome, and stronger efforts are needed for its full and timely realization. A modernized, strengthened and development-oriented set of S&DT aiming to integrate the core development interests of developing countries into the multilateral trading system should be based on the following principles: strengthening MFN and non-discrimination, while maintaining development flexibility by upholding the principles of non-reciprocity in Part IV of the GATT and non-full-reciprocity as called for in the Doha Declaration; equitable treatment of developing countries through calibration of disciplines in a manner commensurate with their trade, financial and developmental needs and capacities; adequate flexibility and policy space for

developing countries in regard to inside-border issues and trade-related agreements with significant implications for resources and domestic policy space; greater stability, security and predictability of S&DT; preferential market access; special consideration by developed countries so as to avoid the use of trade defence measures against developing countries; full consideration of development dimensions in new and emerging issues.

106. It is important to identify in the course of multilateral trade negotiations the cost of adjustment and compliance for developing countries arising from multilateral trade agreements, as well as to make provision for additional resources for that purpose an integral part of such agreements, to ensure that developing countries benefit from the opportunities offered by these agreements. There should also be closer collaboration between the WTO, World Bank and IMF processes and policies to ensure that special and differential treatment for developing countries under the WTO Agreements are not negated by donor conditionalities.

2. Trade preferences

107. The GSP and other unilateral trade preferences have continued to play a significant role in providing better and enhanced market access to developing countries in products and markets where MFN tariffs remain an obstacle. UNCTAD estimates the total value of trade under GSP schemes at $71.4 billion in 2001, compared with total product coverage of $183 billion. This indicates substantial scope to enhance their utilization through improvements in product coverage, administrative procedures and rules of origin, while preserving the original non-discrimination and non-reciprocity objectives of the GSP. WTO negotiations on market access may lead to a further erosion of preferential margins, but preferences will remain as a viable and tangible instrument of support as long as MFN tariffs are an obstacle to developing countries' exports.

3. South-South trade, regional integration and the GSTP

108. South-South economic cooperation and regional integration are important elements of development strategies for developing countries and for their integration into the global economy. Developing countries members of the Group of 77, with UNCTAD's assistance, launched the GSTP initiative to establish a framework for the exchange of trade preferences among themselves with a view to promoting mutual trade. The GSTP agreement represents a political and economic milestone in South-South cooperation, and deserves to be implemented expeditiously and more comprehensively.

109. Deepening integration among developing countries can provide further opportunities for enhanced South-South trade. Increased attention should be given to the liberalization of services, investment and labour markets and to simplified and harmonized trade remedy policies and technical rules and standards. Building required trade and financial institutions and strengthening technological and scientific cooperation should also be given high priority.

110. Care should be taken to ensure that developing countries participating in North-South regional trading arrangements are not subjected to WTO-plus obligations, are provided with S&DT, and are provided with adequate financial and technical support to undertake necessary adjustments.

4. Market access

111. There are serious biases against the exports of developing countries, inhibiting their integration into the world economy and their attempts to lift their economic and social development through trade. Market access difficulties are compounded by market structure issues, as well as by trade defence measures by developed countries such as anti-dumping measures, technical standards, sanitary and phytosanitary measures, rules of origin, and subsidies. Almost 90 per cent of internationally traded goods are subject to measures taken by Governments on the grounds of the protection of human health and the environment. These – and growing private sector measures and requirements – make international markets less open, secure, and transparent. The linkages between market access and market entry barriers should be fully taken into account and systematically addressed in order to enable developing countries to reap the benefits of trade liberalization effectively.

Agriculture

112. The agricultural sector is the mainstay of many developing countries, including most LDCs and other low-income developing countries, where the sector's share of GDP amounts to 32 per cent and 24 per cent respectively. Agricultural exports still account for over 30 per cent of their total merchandise exports, compared to the world average of 9 per cent. However, they face tariffs of 25-30 per cent and their domestic production and export prospects are negatively affected by massive domestic support and export subsidies by developed countries.

113. Improving market access and substantially reducing domestic support and export subsidies by developed countries with a view to their phasing out is the immediate objective of the WTO negotiations on agriculture. Economic gains from broad-based liberalization, similar to that in the Uruguay Round, are estimated at as much as $400 billion a year and could also contribute to improved food security, poverty alleviation, and rural development in all countries. Trade in agriculture is also closely linked to the improvement of gender equality, as the majority of female workers (up to 90 per cent or more) in many developing countries are engaged in the agricultural sector. Enhanced S&DT for developing countries, including a special safeguard mechanism, strategic products, and compensation for erosion of preferences, as well as measures to address the concerns of net food-importing developing countries and LDCs, are important ways of providing necessary development space for their agricultural production and for the development and sustainability of their export competitiveness.

Non-agricultural market access

114. Developing countries would stand to benefit from reductions in tariffs, especially tariff peaks and escalation, which affect their key exports. It is estimated that overall gains for developing countries in this area are as much in absolute terms as in agriculture. However, the distribution of benefits is more concentrated, and much depends on completing the integration of the textiles and clothing sector into GATT 1994. At the same time, trade remedy measures against textile products from developing countries, which have proliferated in recent years, should be avoided in order not to undermine the benefits of ATC liberalization, and rules of origin should be relaxed to permit movement of semi-finished articles at intra- and inter-regional levels.

115. While developing countries can also make long-term gains from their own liberalization, there may be some potentially painful short-term effects, with production losses in some sectors/regions of as much as 60 per cent under current proposals in the WTO. For this reason a development-oriented approach, coupled with S&DT (less than full reciprocity, as provided in the Doha Declaration) and international support, is likely to be needed to help developing countries cope with the negative effects. For developing countries that have benefited from textile quotas, adjustment support is needed to enhance competitiveness and diversification.

Services

116. Developing countries face numerous problems emanating from lack of competitive supply capacity in services and the complex systems of domestic regulations governing services trade in developed countries, and therefore these need to be adequately addressed. The need to strengthen SMEs in developing countries should remain a priority in all the services sectors. The potentially important contribution of temporary movement of natural persons (mode 4) services to the generation of income and development resources has already been noted. There is a strong political and economic case in favour of more comprehensive and meaningful market access in mode 4 in respect of all skill levels. Liberalization of market access for mode 4 needs to address issues such as economic needs tests and labour market tests, visas and work permits, lack of recognition of equivalency of qualifications, social security issues, and lack of transparency in regulatory regimes.

117. Access to technology, financial services, information networks and marketing channels are key to securing increasing participation of developing countries in international trade in services. The opening up of their own services sectors for private participation, particularly in the areas of health, education, energy, transport and telecommunication, needs to be carefully assessed and complemented by appropriate regulatory frameworks that ensure availability of such services to the population at large on an affordable basis. Developing countries should strengthen their regulatory frameworks to respond better to changing market realities, progressive liberalization, privatization and technological change. The new possibilities for exports of services from developing countries through the Internet and other electronic networks add even more importance to these matters. Regional cooperation provides an important avenue for building niches of specialization in services.

5. Commodities

118. Many developing countries, including LDCs, continue to depend heavily on a few commodities that are subject to large fluctuations in demand and supply and consequently in prices, as well as long-term secular price declines. The difficult task of managing large fluctuations in commodity prices is complicated by the emergence of increasingly concentrated market structures at the international level and stringent standards and requirements in developed country markets. The current trade negotiations could help improve prospects for commodity prices and the diversification of developing countries' exports through a substantial improvement in market access for developing country exporters, including through the elimination of tariff escalation, and a significant reduction in developed country agricultural subsidies. Nevertheless, greater attention should be given to mitigating the consequences of earnings shortfalls, including through IMF facilities and similar donor support, modern risk management and financial instruments and diversification

programmes. Support should also be given to enhance participation of developing countries in global supply chains and to meet quality and other requirements emanating from international agreements and market exigencies.

6. New and dynamic opportunities

119. The dynamic sectors in world trade represent new and emerging opportunities for developing countries to reduce their dependence on commodities and labour- and resource-intensive exports, diversify their economic and technological base, and close the income gap with industrial countries. Experience in the more successful developing countries suggests the need to give increasing attention to rapid upgrading of skills and strengthening of required institutional infrastructures, coupled with well-targeted assistance and R&D investment programmes. International policies and measures in this regard should aim at dismantling barriers that inhibit the entry of developing countries in these sectors.

Creative industries

120. Besides providing an avenue for diversification and income and employment generation, creative industries, particularly the cultural ones, can foster positive externalities by helping preserve and promoting cultural heritage and diversity and deepening understanding within and among nations and civilizations. National and international actions in this regard include appropriate policy, institutional, legal and regulatory frameworks at the domestic level; the availability of a critical mass of quality products, as well as of qualified professionals all along production and distribution chains; improved access to distribution networks in external markets; international cooperation to combat anti-competitive practices in major markets; and capacity building support to developing countries.

7. Trade and environment

121. Rising environmental concerns, enshrined at the international level in multilateral environmental agreements and at the national and local level in environmental regulations and standards, as well as consumer preferences for “greener” products, are increasingly influencing trade patterns. However, in recent years, the debate has moved from a situation of inherent conflict between these two areas to greater political preparedness to identify and seize synergies and to make trade an engine of sustainable development.

122. All countries should pursue a development-oriented proactive approach in international discussions and negotiations focusing on: ensuring that export gains of developing countries are not eroded by growing environmental/health requirements in developed countries; strengthening export competitiveness of developing countries; improving coherence between national environmental and development imperatives and international trade policies and negotiations; removing trade-distorting environmental subsidies in developed countries; protecting, preserving and promoting traditional knowledge, innovation and practices, and biological resources of developing countries; and providing support to developing countries in devising and implementing proactive policies that improve access to developed country markets and facilitate market penetration/entry.

8. Trade and competition policy and law

123. Competition is critical for the success of economic reform, involving well-designed and sequenced price liberalization, deregulation, privatization, and trade and FDI openness, and a development-oriented competition policy has a significant role to play in supporting this objective. Developing countries need to calibrate competition policy to help build supply capacity, promote competitiveness and ensure efficiency and welfare gains.

124. The challenge is that national competition laws of developing countries by themselves would not be adequate to deal with cross-border monopolization and cartels. Developing countries therefore need to be allowed sufficient policy flexibility in establishing competition laws and frameworks best suited to their needs and stage of development, complemented by technical and financial assistance for capacity building. At the international level, home countries and their TNCs should take expeditious and effective measures to dismantle anti-competitive structures and practices, and intensify collaboration with developing countries to help their producers and enterprises take advantage of these measures, as well as to promote corporate social responsibilities.

9. Least developed countries

125. The participation of LDCs in the trading system is a matter of continued concern. EBA (Everything But Arms), AGOA and similar initiatives have improved market access for LDCs. Other developed countries, as well as other countries in a position to do so, are invited to launch similar initiatives. Actions are needed to ensure fuller use of such schemes through improvements in product coverage, depth of trade preferences and efforts to make them more contractual and predictable.

126. Parallel measures should be taken to address market-entry obstacles, thereby rendering the trade preferences meaningful and effective for LDCs. There should be substantial improvements in market access in terms of services exports of LDCs, particularly in respect of temporary movement of persons supplying services and facilitating recognition of qualifications. Accession guidelines for simplified and streamlined procedures adopted by the WTO General Council should be applied in full.

10. Transport and trade facilitation

127. Access to efficient transport services is a key determinant for the competitiveness of individual firms and countries. Developing countries need to improve physical, institutional and legal infrastructure to create an environment for transport services that will facilitate both trade and investment. For developing countries to enjoy effective gains from negotiations aimed at formulating international rules and norms relating to trade facilitation, their concerns and interests should be fully reflected in the outcomes of such negotiations. Furthermore, trade facilitation based on internationally agreed rules and standards needs to be implemented through cooperative mechanisms at the regional level involving all stakeholders.

128. Policy responses need to focus on the creation and long-term sustainability of supply capacities in the field of transport in developing countries. This implies that policy measures should go beyond those of “market access” and provide for a coherent package including fleet development policies, consumer policies, etc. Much work remains to be done at the international level in the area of maritime and multimodal transport, and consideration of a possible new instrument on transport law has recently commenced under the auspices of

UNCITRAL. The active involvement of developing countries in relevant negotiations remains critical.

11. Capacity building in trade

129. Trade and trade-related capacity building programmes for developing countries, including LDCs, as well as for countries with economies in transition, should be provided with an adequate, secure and predictable financial basis. UNCTAD has been developing and implementing trade-related technical assistance and capacity building activities, including in collaboration with other relevant organizations, on trade negotiations (commercial diplomacy, JITAP, IF, energy services), WTO accession, commodities, environment, competition law and policy, analytical tools and software (WITS-TRAINS, ATPSM), and transport and trade facilitation. Further efforts by donors are needed to make sufficient financial resources available for trade-related capacity building.

130. UNCTAD and other relevant stakeholders, particularly WTO, ITC, UNDP, the World Bank, IMF and the regional commissions, should continue and strengthen their cooperation and collaboration, as appropriate, in undertaking substantive work in trade and trade-related areas and in providing coordinated support to developing countries and countries with economies in transition.

C. UNCTAD’s contribution

131. UNCTAD serves as a forum for policy discussion and consensus building on trade and trade-related issues through its intergovernmental machinery. The overall objective of its work in the area of trade will be to contribute to enhancing coherence between national development strategies and regional and global economic processes with a view to assuring development gains from international trade and trade negotiations. Assisting developing countries in effectively responding to challenges and deriving benefits from opportunities arising from international trade will be key to pursuing this objective. UNCTAD’s role will continue to build on its mandate expressed in the Bangkok Plan of Action, the relevant provisions of the UN Millennium Declaration, the Monterrey Consensus, the World Summit on Sustainable Development, and the outcomes of major intergovernmental processes and relevant General Assembly resolutions.

132. UNCTAD will continue to analyse main trends and developments relating to issues of concern to developing countries, monitor and assess the evolution of the international trading system, and help develop capacities to formulate trade and trade-related policies and options. It will also continue to carry out a broad programme of trade-related technical assistance for capacity building. Special attention will be paid to concerns of LDCs and African countries and to poverty reduction, gender and public interest issues. UNCTAD’s engagement will emphasize:

(a) Monitoring, analysing and assessing national and international trade policies, processes and regulatory developments and their impact on developing countries; strengthening capacities of developing countries and countries with economies in transition to formulate, articulate and implement appropriate policies and strategies to participate effectively in, and derive maximum benefit from, the international trading system and trade negotiations, including in the areas of market access in agriculture, manufacturing and services, rules, trade remedies, dispute settlement, implementation of trade agreements, S&DT, new and emerging issues, WTO accession, regional and bilateral arrangements, preferential schemes, and electronic commerce;

(b) Research and analysis on the development implications of trade and trade-related policies and issues in the international trading system, as well as on the scope for new and dynamic trading opportunities; the development and dissemination of trade policy tools and software (e.g. WITS-TRAINS, ATPSM); developing mechanisms for sectoral review of trade policy and enterprise-level issues affecting export competitiveness and market access, especially in new opportunity frontiers; the follow-up of the relevant provisions of the Millennium Declaration, Monterrey Consensus and outcomes of other intergovernmental processes, and the trade and development interface in areas where poverty, gender and public policy concerns dominate;

(c) Assisting developing countries and countries with economies in transition: to articulate and adopt competition law and policies through analytical work and capacity building activities, as well as through expanding substantive work under the Intergovernmental Group of Experts on Competition Law and Policy; to deal with restrictive business practices, including through the UN principles and rules for the control of RBPs; to better evaluate, in pursuance of the Doha work programme in the area of trade and competition policy, the implications of closer multilateral cooperation for their development policies and objectives and human and institutional development;

(d) Providing insights into the interface between trade, environment and development; advocating enabling policies to promote mutual supportiveness of trade and environment for sustainable development, including in the context of multilateral trade negotiations; promoting a broad programme of capacity building, e.g. through the UNEP-UNCTAD Capacity Building Task Force on Trade, Environment and Development; forging consensus on incentives to achieve the objectives of global environmental agreements in a development friendly manner, such as BIOTRADE, climate change, and traditional knowledge; continued work on practical initiatives such as the Consultative Task Force on Environmental Requirements and International Trade and the International Task Force on Harmonization and Equivalence in Organic Agriculture;

(e) Promoting international cooperation and strengthening the capacity of developing countries to enhance the contribution of commodity production and trade through analyses of factors affecting the competitiveness of developing countries' commodity exports, as well as of policy issues influencing the commodity sector's contribution to poverty reduction, food security, and overall economic and social development; ensuring a more equitable distribution of revenues from commodity exports along the supply chain; applying modern commodity price risk management and financial instruments; and monitoring developments in commodity markets and providing information on commodity markets, industries and prices;

(f) Addressing, in its intergovernmental machinery, policy proposals and regulatory regimes relating to transport and trade facilitation, thereby assisting Governments in formulating the necessary policy measures to build transport supply capacities in developing countries and assist traders to effectively take advantage of transport opportunities; acting as the forum for developing countries to discuss their positions and the implications of the possible results of multilateral consideration of transport and trade facilitation issues and providing advice and assistance to developing countries in this regard;

(g) Developing and implementing trade-related technical assistance and capacity building activities for international trade and trade negotiations. This includes collaborating with other organizations (national, regional, international) in capacity building programmes, and building partnerships and networks with the private sector, civil society and academia.

(h) Contributing to strengthened collaboration and coordination among UN system organizations in trade and trade-related areas. Within the UN Secretariat, UNCTAD acts as the coordinator of the Working Group on Trade of the Executive Committee on Economic and Social Affairs, which brings together the work of UNCTAD and the UN regional commissions on trade issues. UNCTAD also coordinates with the WTO, the World Bank, IMF, UNDP, DESA, UNEP and the UN regional commissions in following up on the implementation of the trade aspects of the Millennium Declaration, the Monterrey Consensus and the World Summit on Sustainable Development;

(i) Supporting developing countries, through analytical work and capacity building activities, in improving their participation in international trade in services; and enhancing the capacity of developing countries in the area of building an efficient trade-supporting services infrastructure, including through the use of information and communication technologies.

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IV. PARTNERSHIP FOR DEVELOPMENT

A. UNCTAD and civil society

133. Achieving the agreed development goals for the Millennium will require a global partnership for development, involving Governments, international institutions, the private sector and civil society. By requiring the involvement of all those that can make development gains a reality, it calls for convergent approaches and modalities.

134. The intergovernmental process continues to be the determining factor of partnership for development. It encompasses both the North-South and the South-South dimensions of the development dialogue. However, as demonstrated in the recent years, non-governmental actors can play a significant role.

135. In this context, the subtheme of partnership for development cuts across the entire agenda of the Conference and serves to enable the contribution of the various components of civil society to support the objectives and policies defined at the intergovernmental level. Such a contribution is not a substitute for the intergovernmental process but a serious complement, in particular when translated into concrete actions.

136. The value added by the NGO community, academic circles, parliamentarians and the private sector to the work of the United Nations in general and that of UNCTAD in particular is significant. The complexities underlying globalization require a multidisciplinary approach, new models and new ways to address pressing issues. Civil society actors have shown that they can bring new energies and a strong capacity for innovation, as well as valuable practical contributions, to the work of the organization.

B. UNCTAD's experience in cooperating with the civil society

137. Over the years, with the concurrence of member States, UNCTAD has developed a wide range of cooperation with civil society in its various areas of work. Concrete examples have included the United Nations International Symposium on Trade Efficiency, the Lyon Summit on Partners for Development, and the annual UNCTAD/NGO and UNCTAD/trade union consultations, as well as ongoing collaboration between UNCTAD and a variety of non-state actors and civil society organisations (CSOs) in analytical work and particularly in operational activities

138. UNCTAD X took additional steps in encouraging UNCTAD's cooperation with civil society actors. The Bangkok Declaration highlighted the involvement of various partners in the development process, including the private sector, NGOs, academia and parliamentarians, in a systematic debate on development-related issues.

139. The Third United Nations Conference on the Least Developed Countries (Brussels, May 2001) involved the participation of non-governmental organizations as major stakeholders in both the preparatory process and in the proceedings of the Conference itself. Civil society preparatory regional meetings were organized to discuss and address the agenda of the Conference. An NGO Forum was held in parallel with the Conference to assess the

content of the Programme of Action and formulate guidelines for NGOs' follow-up activities.

140. NGOs have participated in UNCTAD's work as accredited observers at its official meetings, including the Trade and Development Board, Commission sessions and expert meetings. The cooperation and participation of civil society organizations in the activities of UNCTAD are governed by rule 77 of the Rules of Procedure of the Trade and Development Board (rule 81 of the Conference) and Board decision 43 (VII).

141. NGOs also cooperate with the UNCTAD secretariat.[17] The objective of such cooperation is to promote the aims and the activities of UNCTAD, in particular in the main areas of work of the organization: research and analysis, deliberation and decision-making, and technical cooperation, which includes capacity building.

142. Action-oriented cooperation activities have recently been established with a range of non-state actors. Concrete examples include: UNCTAD's cooperation with the World Association of Investment Promotion Agencies (WAIPA); the transfer of UNCTAD's Trade Point Programme to the World Trade Point Federation (WTPF); and the conclusion by UNCTAD, during the World Summit on Sustainable Development, of three new partnerships aimed at boosting trade and investment in biodiversity and assisting developing countries in this area.

143. Thus, UNCTAD has pursued an active and constant policy of cooperation with civil society actors by setting up formal and informal mechanisms for the participation of civil society organizations in the activities of UNCTAD. The interaction with civil society actors has enabled the organization to acquire civil society insights and to exchange views on issues of common interest. In addition to substantive contributions made by civil society organizations, their monitoring and advocacy activities have made the work of the United Nations and UNCTAD more transparent and accountable to a wider public.

Recent developments in the United Nations

144. The recent International Conference on Financing for Development and World Summit on Sustainable Development developed a more structured involvement of civil society and the private sector in their proceedings and called for a strengthening of international cooperation for development through partnerships. Civil society actors and the business community were formally integrated into both the preparatory processes and the summits themselves. Provision was made for civil society representatives and the private sector to be further involved in the follow-up and implementation of the outcomes of these conferences.

145. In light of the evolution of the United Nations' engagement with civil society organizations, the Secretary-General of the United Nations, in the context of his Programme for UN reform,[18] established a Panel of Eminent Persons on United Nations-Civil Society Relations to look into the modes of participation of civil society in UN processes and to identify best practices to be used as a basis for recommendations. The Panel was also

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[17] In 2001, the Secretary-General of UNCTAD issued provisional guidelines for cooperation with the private entities.

[18] "Strengthening of the United Nations: an agenda for further change", Report of the Secretary-General (A/57/387), September 2002.

requested to find ways to make it easier for civil society actors from the developing countries to play a full role in UN activities.[19]

C. UNCTAD partnerships for development

146. As indicated above, UNCTAD has played a pioneering role in developing partnerships with various components of civil society. However, since UNCTAD X, the concept of partnerships has evolved significantly, in particular from its conceptual development towards actual implementation.[20, 21]

147. On the basis of existing experience within the United Nations, in particular the WSSD process, the secretariat will draw on the following criteria and principles to guide the process of developing partnerships in the context of UNCTAD XI:

- Partnerships are specific commitments by various partners intended to contribute to and reinforce – and not substitute for – the implementation of the outcomes of the intergovernmental negotiations of UNCTAD XI. They will also help achieve related internationally agreed objectives and commitments, including the Millennium Development Goals**.** It is desirable that partnerships have a sectoral and geographical balance.

- Partnerships require continuing and long-term collaboration involving several stakeholders. Ongoing activities can be transformed into a partnership with significant added value (e.g. more partners taken on board, replicating an initiative or extending it to another geographical region, increasing financial resources, etc.).

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[19] The report of the Panel, chaired by the former President of Brazil Fernando Henrique Cardoso, is expected by March 2004.

[20] The General Assembly, as well as recent United Nations summits and major conferences, has provided policy and political guidance in this respect. The Millennium Declaration, adopted by Heads of State and Government right after UNCTAD X, stressed *inter alia* the determination of member States "to develop strong partnerships with the private sector and with civil society organizations in pursuit of development and poverty eradication". The General Assembly, in its resolution 56/76, "Towards a global partnership", stressed that the efforts to meet the challenges of globalization could benefit from enhanced cooperation between the United Nations and all relevant partners, in particular the private sector, in order to ensure that globalization becomes a positive force for all. Examples of such multi-stakeholder initiatives have included the Global Compact Initiative of the Secretary-General, the Global Alliance for Vaccines and Immunization, the multi-stakeholder dialogue process of the Commission on Sustainable Development, and the Information and Communication Technologies Task Force.

[21] The concept of partnership has further evolved from an enhanced and stronger relationship and interaction between the United Nations and civil society towards better conceived and structured projects, with precise definition of activities and identification of the means of implementation. Such a process took place in particular in the context of the preparations for the World Summit on Sustainable Development and is reflected in the results of the Johannesburg Conference. The WSSD process made from the beginning the distinction between "type 1" outcomes, essentially the result of the intergovernmental negotiating process, and "type 2" initiatives and partnerships consisting of a series of commitments and action-oriented coalitions focusing on deliverables, which would support the implementation of the political commitments arising from the Summit. The bases for developing "type 2" initiatives were General Assembly resolution 56/226 and decision 2001/PC/3 adopted by the organizational session of the Commission on Sustainable Development (CSD) acting as the preparatory committee for the World Summit on Sustainable Development.

- Each partnership should define its intended outcome and benefits. Partnerships should have clear objectives and set specific measurable targets and timeframes for their achievement. All partners should explicitly commit to their role in achieving the aims and objectives of the partnerships.

- Partnerships should have a voluntary, multi-stakeholder approach and preferably involve a range of significant actors in a given area of work. They can be arranged among any combination of partners, including Governments, regional groups, local authorities, non-governmental actors, international institutions and private sector partners. As partnerships evolve, there should be an opportunity for additional partners to join on an equal basis.

- Available and/or expected sources of funding should be clearly identified.[22] Partnerships should therefore be based on predictable and sustained resources for their implementation, include mobilizing new resources and, where relevant, result in transfer of technology to, and capacity development in, developing countries.

- While the active involvement of local communities in the design and implementation of partnerships is strongly encouraged (bottom-up approach), partnerships should be international in their impact, which means their impact should extend beyond the national level (global, regional and/or subregional).

- Partnerships should be developed and implemented in an open and transparent manner and in good faith, so that ownership of the partnership process and its outcomes is shared among all partners, and all partners are equally accountable. They should specify arrangements to monitor and review their performance against the objectives and targets they set and prepare reports preferably on a biennial basis. Reporting by partnerships should focus mainly on their contribution to the implementation of the outcome(s) of UNCTAD XI.

- The Trade and Development Board should be informed about activities and progress in implementing the partnerships.

- In summary, partnerships are based on mutual respect and shared responsibility of the partners involved, taking into account the values expressed in the Millennium Declaration, as well those referred to in operative paragraph 2 of General Assembly resolution 56/76: Towards global partnerships[23]. Partnerships should be consistent with national laws, national strategies and the priorities of countries where their implementation takes place.

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[22] At least the initial funding should be assured at the time of UNCTAD XI, if the partnership is to be part of the final outcome(s).

[23] "common purpose, transparency, bestowing no unfair advantages upon any partner of the United Nations, mutual benefit and mutual respect, accountability, respect for modalities of the United Nations, striving for balanced representation of relevant partners from developed and developing countries and countries with economies in transition, and not compromising the independence and neutrality of the United Nations system".

D. Recommendations

148. UNCTAD has a long-standing and positive experience of interaction and association with various components of civil society. UNCTAD should continue its good work with non-state actors and also build on its extensive experience to further enhance its interaction and cooperation with all components of civil society and the business sector.

149. The United Nations as a whole has made significant inroads in terms of cooperation with civil society and its various components. Based on positive gains from recent experiences, UNCTAD should make its relationship with civil society more systematic and better integrated with intergovernmental processes so as to maximize the benefit derived from cooperation with all components of civil society, and in particular to enhance the value added and the result-orientation of this cooperation for the benefit of UNCTAD's work and that of member States. The pragmatic and practical dimension of the relation with civil society and the business sector should receive priority attention.

150. With this perspective in mind, the following recommendations are therefore made.

Systematic relationship with the civil society

151. UNCTAD should in this regard draw upon the positive experience of the organization with various components of civil society, as well as on the experience gained by the United Nations, in particular in the preparation for and follow-up to Monterrey and Johannesburg.

152. In order to allow for continuing collaboration with non-state actors, the Conference[24] should invite the Trade and Development Board to arrange for half-day informal hearings with civil society actors to allow them to express their views on the issues before the Board. The procedure defined by the General Assembly for the High-level Dialogue on Financing for Development could be used as a model.[25] The outcome of the informal hearings would be summarized by the secretariat for submission as an input into the discussions of the Board.

153. The involvement of civil society in the work of the Commissions and expert meetings should continue, including through joint meetings and the organization of discussion forums on issues relevant to multi-stakeholder dialogue.

Enhancing the results-oriented approach in relation with the civil society

154. Johannesburg provided a good example of how to combine intergovernmental negotiated outcomes with the development of voluntary partnerships in support of the implementation of the final results of the Summit. UNCTAD XI could build on this positive experience, as well as on the refinements brought to the criteria for such partnerships by CSD-11.

155. In this respect, for UNCTAD XI, the following could be envisaged:

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[24] Arrangements for collaboration with civil society organisations between now and the Conference, as well as at the Conference itself, are set in the annex to this document.
[25] General Assembly resolution 57/250.

- Development of specific partnerships, for official launching at the Conference, in particular in areas covered by subthemes 2 and 3, in which partnerships are easier to develop, taking into account the more operational nature of the substantive content of these themes. The secretariat and/or interested stakeholders may take the initiative. Taking into account the need to respond to the criteria indicated above, in particular the need to identify predictable and stable financial resources, the focus should be on a selected number of such partnerships.

- The Conference would request the Trade and Development Board to review the implementation of partnerships, on the basis of a report by the secretariat, including sharing lessons learnt, progress made and best practices, and assess their contribution to the implementation of the outcome of UNCTAD XI.

Annex

Arrangements for collaboration between UNCTAD and civil society organizations prior to the Conference and at the Conference itself.

1. Work on building multi-stakeholder initiatives should take place in parallel with the work of the Preparatory Committee, which should be kept informed of developments. The Preparatory Committee may make comments on the compatibility of such partnerships with the criteria indicated above, it being understood that, taking into account their voluntary nature, the Preparatory Committee will not negotiate such initiatives.

2. In the preparatory process for UNCTAD XI, it could be envisaged that the Preparatory Committee organize a series of hearings with civil society organizations and the business community. The hearings would provide an opportunity for dialogue among delegations and civil society representatives on both the overall theme of the Conference and its subthemes. The members of the Bureau of the Preparatory Committee would chair the hearings. Such hearings, of one day's duration, could be organized prior to the second session of the Preparatory Committee.

3. The outcome of such hearings would be transmitted to the Preparatory Committee of UNCTAD XI for appropriate consideration. Participation from civil society would follow the same procedure as at UNCTAD **X** and Monterrey, i.e. those having observer status with UNCTAD and those accredited to the Conference (consideration and approval of applications for accreditation could be taken up either by the Preparatory Committee or at executive sessions of the Board). At UNCTAD X in Bangkok, in addition to exchanging information on pressing issues of the international economic system, NGOs adopted a joint statement that was delivered to an executive session of the Trade and Development Board on 17 December 1999.

4. At the Conference itself, a Civil Society Forum will be organized as part of the official programme of the Conference and will be devoted to examination of the issues before UNCTAD XI. Civil society representatives would address the Committee of the Whole at the beginning of its work and would present civil society's consolidated views at the beginning of each interactive thematic session. The final statement of the Forum would be delivered to UNCTAD XI. In Bangkok, a two-day Plenary Caucus was held as part of the official Conference programme. The meeting adopted a joint statement that was delivered to UNCTAD X and was distributed as an official Conference document "UNCTAD and civil society: Towards our common goals" (TD/382). Civil society would also participate in specific parallel events (investment, enterprise, culture, parliamentarians, mayors etc).