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WORKING DOCUMENT OF THE EUROPEAN COMMISSION

**Guidelines for the participation to
the 10th United Nations Conference on Trade and Development**

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1. The purpose of this Working Document is to help prepare the position of the European Union at the 10th United Nations Conference on Trade and Development (UNCTAD X), to be held in Bangkok, Thailand, from 12 to 19 February 2000 as well as at the Preparatory Committee for UNCTAD X, which will take place in Geneva in December 1999.
2. Taking into account articles 133, 177, 178, 179, 180 and 181 of the EC Treaty, the Commission transmits this Working Document to the Council for discussion and to prepare the way for Council conclusions in order to serve as guidelines for the participation of the Community and its Member States in UNCTAD X. According to the established practice the Commission and the Member States will further coordinate their positions in meetings on the spot at the Conference.

I. INTRODUCTION

3. UNCTAD X will be devoted to the issue of "Globalisation as an instrument for the development of all countries and all people." Globalisation indeed offers new perspectives for integrating developing countries into the world economy, including, but also going beyond those offered by trade, for which UNCTAD was established originally. By focussing its work on globalisation, UNCTAD will be able to preserve its important role in the international debate of today's most relevant trade related issues in the context of sustainable development.
4. The proceedings of the Conference have to be based on a clear and shared understanding of the relationship between sustainable development and globalisation, for which trade and investment liberalisation are fundamental instruments. In order for developing countries to reap the benefits and take up the challenges of globalisation, there is a need for them as well as for donors and the international community to rethink development strategies and policies accordingly.
5. In rethinking these strategies, the European Union will ensure, through the debate at UNCTAD X, as well as through the work of UNCTAD in the next four years, that parallel progress is made both at improving development strategies and domestic policies in the developing countries and at improving and strengthening the international environment in which development must take place.

The strategies and policies that the Union will support at national, at regional and at international level shall be consistent with the objectives of the European Union development cooperation policy. Therefore, they will have to foster the smooth and gradual integration of developing countries into the world economy. They shall aim at their economic, social and environmentally sound development and involve an integrated approach to poverty reduction.

Development strategies and policies should also take into account the impact of globalisation on the full enjoyment of human rights, as called for in the Resolution 1999/59 of the UN Commission on Human Rights.

Moreover, these strategies and policies should be formulated with a view to greater coherence between the structural, macroeconomic, trade, financial and development aspects of economic policy so as to increase the effectiveness of these policies, and help secure an open and stable economic policy framework conducive for developing countries' integration into world trade, their economic and social development and poverty reduction.

6. UNCTAD X will take place shortly after the Seattle Ministerial Conference, which is expected to launch a new round of trade negotiations in the WTO. The Commission has already forwarded to the Council and to the European Parliament a Communication on the EU approach to the WTO Millennium Round (COM (1999) 331) which includes a substantial development agenda for the New Round. UNCTAD X will also coincide with an important stage of the Post-Lomé process while other regional negotiations with the Mediterranean Countries, Mercosur, Chile and Mexico are under way. These simultaneous developments offer a possibility to achieve more comprehensive results through a global approach. This requires, however, a high degree of coherence and consistency between all initiatives taken in each of those negotiation frameworks at the regional and at the multilateral level.
7. Consistency requires a strong analytical basis. Part II contains a brief analysis of the relationship between globalisation and development as a way to enhance a global development strategy.

Coherence is a prerequisite in order to make the European Union's efforts in each of the above negotiations mutually supportive. Part III contains proposals for UNCTAD's future work programme that has to be decided at the Conference, and aims to maximise such coherence.

Lastly, the Annex contains elements of text reflecting the political approach developed in Part II. These elements of text could be used in negotiating a Conference Declaration

II. GLOBALISATION AND DEVELOPMENT

8. Since 1951, world production has more than quadrupled while global trade has grown seventeen-fold. World GDP share traded on international markets has increased from 7 % in 1950 to 17 % in 1996 and to 20 % if services are included. FDI has grown from \$ 60 billion in 1982-85 to \$ 440 billion in 1998. Intra-firm trade is estimated to 55 % of world trade. Daily foreign exchange transactions reached \$ 1.5 trillion in 1998.
9. In the meantime world population has grown from 3.4 billion to 5.8 billion. Most of the increase has taken place in the developing countries whose population has risen from 2.7 billion to 4.8 billion. Real world GDP has tripled over the period 1965-1996. Yet over the same period the ratio of developing countries' to industrialised countries' GDP per capita has remained more or less at the level of 1 to 20 in dollar terms and 1 to 7 in PPP.
10. Developing countries' performances in terms of GDP per head growth rates have considerably varied from one region to the other. While South East Asia and China have recorded an annual increase of GDP per head of more than 5 % over the

period 1965-1996, the Mediterranean region and Sub-Saharan Africa have suffered a deterioration of their living standards. Poverty in Developing countries (below 1 \$ a day) has gone down, in 1993, to 29.4 % of the population of those countries, but the absolute number of poor has increased from 1.2 billion in 1987 to 1.3 billion in 1993 and could reach 1.5 billion today¹.

11. Moreover, over the long term, world economic growth has been slowing down. Growth in developing countries, which has been subsiding over the last decade, has not offset the growth rate decrease in developed countries from an average of 4 % in the Sixties to 2 % in the Nineties.
12. Through an unprecedented wave of technology innovations and a more efficient international division of labour, globalisation has been one of the main factors contributing to world growth over the last decades. However, freer trade and increased FDI as well as short term capital flows have only had a limited impact on global development. Whereas a handful of emerging economies provided evidence that there is a way out of underdevelopment thanks to export-led and FDI-absorption strategies, most developing countries have not achieved any significant nor continuous increase of their GDP per capita over the last three decades.
13. There has been indeed no worldwide real convergence, and despite conspicuous progress in terms of food availability, literacy and life expectancy in most developing countries, poverty remains more than ever an unmet challenge. Moreover, the global and local environment is deteriorating because of unsustainable production and consumption patterns linked either to extreme poverty in developing countries or to the lack of internalising environmental costs in market prices in developed countries and emerging economies.
14. The missing link between globalisation and development is the existence of "adequate domestic policies". The lack of such policies helps explain the persistent 1 to 20 ratio of GDP/capita ratio in dollar terms between developing countries and developed countries. Development depends indeed first and foremost on domestic policies whereas these must be supported by international economic cooperation. Free trade in particular has played a positive role only for countries that have been carrying out effective development strategies; the range of such policies extends far beyond the impact of exports and imports as well as of FDI on a country's economic growth.
15. Globalisation through free trade and open investment regimes can improve the overall performance of developing countries' economies provided domestic policies are enhanced by strengthening competition on domestic markets, by opening up new market opportunities abroad for developing countries' exports and by increasing the financial resources available for investment in physical capital and intangible assets, including indispensable public goods. The promotion of multilateral rules and principles integrating sustainable development requirements is a unique way to ensure consistency of effective development strategies at home and globalisation opportunities through free trade and higher FDI flows.

¹ Recently, the situation has further deteriorated as a result of the financial crisis in East Asia. The World Bank estimates that the number of poor could double in Indonesia, and increase by 35 to 50 percent in the Philippines, Thailand and Malaysia over the period 1998-2000 whereas GDP per head has receded in Russia in North Korea, Ex-Yugoslavia and with growing unemployment, in some regions of China.

16. In order to reap those benefits, five conditions have to be met:
- A. Efficient institutions and domestic policies
 - B. Attention for the specific economic and social constraints of developing countries in the multilateral trading system
 - C. Adequate external resources
 - D. Multilateral harmonisation of rules and principles
 - E. Consistency.

A. Efficient institutions and domestic policies

17. In order to "take off", developing countries must reach a certain level of political and economic organisation with reasonably efficient markets and a well functioning State. In LDCs and in many developing countries these conditions must be drastically enhanced in order to attract FDI and to make free trade become a source of welfare gains fairly distributed across the economy.

18. **Development strategies can only succeed when implemented in a stable political environment by governments determined to make sustainable development a priority.** Without genuine will to develop, no development is possible. Accountable democratic governments and the rule of law secure more surely development through the stability of political systems and the priority for development. These appear therefore, along with the respect of Human Rights, as prerequisites for sustainable development strategies.

19. **Development requires higher savings and investments rates and better education.** High savings are directly connected to sound macro-economic policies aimed at avoiding both domestic inflation and exchange rate depreciation. Moreover, the efficiency and the solidity of the domestic financial sector are decisive for ensuring fair access to credit, higher productivity of investment and therefore higher savings through better remuneration.

20. **Free trade and environmental protection can and must be mutually supportive.** Free trade provides the framework for a more efficient use of environmental resources through the better use of natural competitive advantages and through technological innovations allowed by economies of scale and competition on world markets. At the same time, environmental requirements can provide an incentive for technological innovation and economic efficiency. However, the environmental benefits of free trade are not automatic – i.e. they will only materialise if effective environmental policies are implemented both at national and multilateral levels.

21. **Social policies** encompassing health, primary and technical education, especially for girls, as well as social safety nets, **yield a high return on public expenditures** in terms of growth. Education is one of the key public goods a State must secure for ensuring technology absorption and, thereby, along with investment in physical capital, higher productivity. The recent financial crisis in Asia has highlighted the fact that countries that have effective social safety nets in place during a financial or economic crisis are more resilient and better equipped to mitigate negative effects.

22. **Private sector** operating in efficient and competitive markets is the engine of economic growth and the main source of employment in most developing countries.

It enhances developing countries' competitiveness thus contributing to their integration into the world economy.

23. Development therefore requires above all the smooth functioning of **fair and competitive markets** for products, services and other resources including credit, land and genetic resources. In this respect, it is essential to contain arbitrary action of governments against business, to combat corruption and to prevent the collusion between public authorities and rent-seeking oligopolists or monopolists by determined competition policies.

B. Attention for the specific economic and social constraints of developing countries in the multilateral trading system

24. The **progressive integration of developing countries into the multilateral trading system** will depend not only on the success of their domestic reforms and on the competitiveness of their economies, but also on the capacity of this system to appropriately address and take into account the specific economic and social capacities and constraints of these countries and, in particular, of the least developed among them.

Multilateral rules taking into account these capacities and constraints must play a positive role in supporting governments' strategies aiming at sustainable development.

25. In this context, strengthening SDT (**special and differential treatment**) measures is important in order to facilitate the integration of developing countries, in particular the least developed among them, in the multilateral trading system, taking account of their different levels of development.
26. Developing countries should continue to receive from industrialised countries as well as from more advanced developing countries, effective **preferential treatment** related to market access. While pursuing the objective of comprehensive trade liberalisation, any unacceptable reduction in the margins of preference in key sectors for the development of developing countries should be avoided. Where necessary current GSP preferences, including those under the environmental and social incentive arrangements, should be increased. The adoption of positive incentives under GSP linked to sustainable development policies and multilateral norms should be promoted.
27. Developing countries should
- commit to **liberalisation** consistent with their development needs,
 - be ready to engage, through **regional integration schemes** among developing countries, towards establishing free trade areas fully consistent with WTO provisions, as a way to enhance competition and to reap economies of scale, preparing thereby progress towards multilateral liberalisation.
28. **North-South regional arrangements** through reciprocity in the trade relations that would take fully into account the degree of asymmetry prevailing in economic structures and competitiveness between industrialised and developing countries, according to their level of development, will consolidate regional integration and will ease the industrialisation of developing countries through new investment and trade dynamics.

C. Adequate external resources

29. **Globalisation of financial markets** has enhanced the possibilities for transfers of funds from the North to the South, through Foreign Direct Investment, as well as through portfolio investments and bank loans.
30. **Opening up the investment regime** should remain a priority for developing countries. In that respect, for the particular case of direct investment, a multilaterally agreed framework of rules negotiated in a wider forum such as the WTO would enhance stable investment flows by creating a more transparent and predictable investment climate worldwide.
31. Whereas some emerging economies have fully taken advantage of the possibility to attract foreign capital, most LDCs were unable to do so due to the instability of their macro-economic environment and to the structural weakness of their institutional and legal framework and in particular of their financial sector as well as to the risks resulting from the volatility of financial markets. **Capital flows liberalisation** in addition to the liberalisation of their investment regimes, expose emerging economies to severe blows that may degenerate into a global systemic risk, unless prudential rules and supervision consistent with agreed multilateral standards are implemented at the national level and transparency of flows is ensured at international level. Moreover, when insufficiently monitored, short-term capital liberalisation can ease money laundering, tax evasion and transfers of corruption proceeds. Therefore, progress should be made on the one hand in order to strengthen the solidity of domestic financial sectors and on the other hand in order to improve the international financial system, with regard to transparency of flows, prevention of financial crisis and fight against corruption, money laundering and tax evasion as well as to stabilise financial markets.
32. **Official Development Aid (ODA) should remain a critical resource for LDCs.** Its volume should be brought into line with the UN agreed target 0.7 % of IC's GDP. ODA should *inter alia* contribute to physical infrastructure, social policies and capacity building, including in particular trade related capacity building to enhance the ability to trade and to help those countries integrate in the world trade system, and should accompany policy reforms geared towards sustainable development. Coordination among donors and full participation by the recipient country itself is necessary conditions for effective and well-targeted assistance.

D. Multilateral harmonisation of rules and principles

33. The pressure from global financial markets on governments to ensure that their fundamentals are right and on enterprises for higher returns on investment, contributes to a "competition among rules" between tax, social, environmental and regulatory national systems, which can turn into a race to the bottom. It is therefore important that developing countries, when implementing economic reforms, increasing export competitiveness and building a favourable investment climate, are placed in a position that allows them to carry out such tax, social, environmental and regulatory policies, which are critical in terms of sustainable development.
34. Agreed efforts by developing and industrialised countries to adopt and implement such policy call for a **multilateral harmonisation of sustainable development rules and principles**, namely

in the social sector,

- the **effective implementation of ILO core conventions** (the right to organise in unions; the right to collective bargaining; ban on exploitative use of child labour; ban on forced labour; ban on discrimination in a work situation),

in the environmental sector,

- the **implementation of Multilateral Environmental Agreements** - such as the Montreal Protocol, the UN Framework Convention on Climate Change (FCCC), the UN Convention on Biological Diversity (CBD) -in a manner consistent with the principle of common but differentiated responsibilities as they are being concluded, signed and ratified, taking into account core environmental principles like the precautionary principle,

in the financial sector,

- the **promotion of prudential norms and their effective supervision as well as the promotion of norms on capital flows transparency so as to consolidate domestic financial sectors in developing countries and to prevent global systemic crises,**

- the **fight against corruption, money laundering and tax evasion,**

- the **gradual elimination of tax havens, and the multilateral negotiation of minimum rates of taxation on the returns from mobile factors** (savings and corporate profits) so as to contribute to more fiscal equity within developing countries while ensuring a sound and fair financing of the basic public goods such as the functioning of the state, infrastructure, health and education.

35. The development dimension will have also to be addressed in negotiating multilateral rules on **Foreign Direct Investment and competition** as well as on **trade facilitation**.

E. Consistency

36. Consistency between domestic strategies, trade and international investment policy, and multilateral harmonisation of tax, social and environmental rules implies more effective coordination among donor countries and countries that grant trade preferences as well as full participation and ownership by recipient countries.

III. UNCTAD CONTRIBUTION TO THE ELABORATION OF STRATEGIES FOR SUSTAINABLE DEVELOPMENT

III.1 The work programme of the Organisation for the next four years

III.1.1 Introduction

37. UNCTAD's work programme for the four years following the 10th Conference should contribute to promote development strategies along the lines set out above while respecting the specificity of other international *fora*. This would require adjusting the work programme agreed upon at the 9th Conference accordingly, based on an updated definition of UNCTAD's role and on a set of priorities reflecting present needs and circumstances.
38. In framing the work programme of the Organisation for the next four years, account will need to be taken of the role of UNCTAD, which is threefold:

- act as a **forum for intergovernmental discussions and deliberations as well as experts' debates**. These activities cover the pre- and post-negotiation phase and are aimed at consensus building;
- carry out **research, data collection and analysis** activities that provide pointers for the discussions of the experts and government representatives;
- provide, in cooperation and coordination with other organisations and donors, **technical cooperation** activities, closely connected and intertwined with the research and analysis activities.

39. As far as global rule making is concerned, UNCTAD is not the appropriate *forum* for the negotiation of multilateral rules. WTO's almost universal membership and active participation of developing countries puts indeed an end to any claims that UNCTAD could act as an alternative forum for rule making.

40. UNCTAD in its debates at intergovernmental and at expert level, in its analytical activities as well as in technical cooperation, should continue to focus on the **four fields** of activities set out in paragraphs 86 to 94 of the Midrand document: trade in goods and services and commodity issues; investment, enterprise development and technology; services infrastructure for development and trade efficiency, as well as the more general topic of globalisation and development.

41. However, like UNCTAD IX, the 10th UNCTAD Conference will have to identify **priorities** in these four fields. These priorities should reflect UNCTAD comparative advantages as well as the specificity of its general mandate lying in a combined analysis of both the trade and the development dimensions of each theme. The selection of priorities should also take account of the changes that have occurred since Midrand as well as of the international community's agenda in the months ahead.

The Union's proposals for priority topics should be consistent with its negotiating positions in other *fora*.

42. In particular, **internal institutional reforms and capacity building**, the involvement of the different actors of **civil society** in the development process and **regional integration**, owing to their growing relevance in the Union's development cooperation policy, could be suggested as priority topics in the various fields of UNCTAD activities.

43. The increasing risk of marginalisation of Least Developed Countries in the global economy argues in favour of continuing to put **LDCs' specific problems** at the centre of UNCTAD's activities and assistance programmes.

44. The themes relating to **human rights**, to the centrality of **social and human development** and to **poverty alleviation** should not be included into UNCTAD programme of work, as the Organisation has no genuine comparative advantage in these fields. These themes should however inform UNCTAD analytical work and technical cooperation activities, taking into account the work carried out by other international institutions, such as UNDP, UNESCO and the World Bank.

III.1.2 The programme of work in the four fields of activities of the Organisation

a) Globalisation and Development

45. UNCTAD should continue to focus on the implications of globalisation for sustainable development. More specifically, there should be analytical work on:

(a) the **impact of macroeconomic reforms, structural adjustment, and second generation reforms on development**, in the light of increasing global interdependence;

(b) how to offset the **negative effects of globalisation**. Given its trend to favour stronger economies and to marginalise the weaker ones, ways and means should be sought to reduce gaps by distributing the benefits more equally and by creating the conditions to reap such benefits. Activities in this respect should contribute to the definition of a global strategy for development, along the lines set out in Part II above;

(c) the importance of **institutional reforms and capacity building**, focussing in particular on issues such as good governance, including the prevention of and the fight against corruption as well as the establishment of a regulatory framework favourable to the development of a market economy;

(d) the role and responsibilities of the different actors of the **civil society** contributing to the integration of developing countries in the world economy;

(e) the role of **regional integration** processes, both between developing countries and between developing and developed countries, in ensuring increased economic stability and mitigating the impact of adverse external shocks. This should include the analysis of positive experiences of regional integration that facilitated the economic growth of member countries. In this context, UNCTAD should continue to provide and increase technical cooperation to developing countries with regard to establishing the institutional framework and implementing the policies, necessary for regional integration, and to ensuring that such schemes are in accordance with, and thereby supportive of, the multilateral trading system;

(f) the specific problems of **LDCs** in their efforts to integrate into the global economy. These have been identified, *inter alia*, in the Commission's Communication on the EU approach to the Millennium Round. In this context, the results and experiences from the implementation of the *Programme of Action for the Least Developed Countries*, as well as the *High Level Initiative in Favour of Least Developed Countries (1997)* should be taken into due consideration.

b) Investment, Enterprise Development and Technology

46. UNCTAD should continue and develop its activities of collection and analysis of data on **foreign direct investment**, in order to get a better understanding of the relations between investment, trade and development, and to study the contribution of investment flows to the development process, especially through the strengthening of local industrial clusters and the flow of information and know-how to which they give place.

In this context, UNCTAD should carry on analytical activities:

(a) on the institutional and macroeconomic framework and the different location factors able to mobilise and maintain FDI in developing countries;

(b) in support of negotiations of multilateral rules on investment, giving particular attention to the specific needs and conditions of developing countries in this context.

These analytical activities should complement the debate at intergovernmental and at expert level and should be accompanied by technical cooperation activities aiming at assisting developing countries in their efforts to attract investment.

47. UNCTAD should do analytical work and provide a *forum* for debate at intergovernmental and at expert level on the formulation of policies favourable to the **development of the private sector**. In particular, the following issues could be examined:
- (a) the complementarity and interdependence of private sector development at local, national and regional levels;
 - (b) the conditions for the promotion of local development, looking at the existing differences between the territories, the competitive factors they express and the local actors to associate in the definition of interventions;
 - (c) the interrelations between decentralisation and regional integration processes;
 - (d) new forms of partnerships and dialogue between the private and public sectors;
 - (e) mechanisms increasing the level of foreign and domestic investment in accordance with WTO rules;
 - (f) the role and specific needs of SMEs;
 - (g) the role of microfinance, as an integral part of financial institutions, in the development of private sector and its contribution to poverty alleviation.
48. UNCTAD should support, through the appropriate analytical activities, the efforts made by developing countries in order to define and implement policies and **knowledge strategies** for the participation in the **Information Society** and for the promotion of a **learning society**. It should also provide a forum for debate at intergovernmental and at expert level on these issues, without duplicating existing negotiations and debate within WTO, CSTD and ITU amongst other.
49. In this field of activities, UNCTAD should deal with issues related to **institutional reforms and capacity building** and to **the role of the different actors of civil society**. Analytical work should be carried out on:
- (a) the establishment of a legal and regulatory framework conducive to the development of the private sector and favourable to FDI;
 - (b) the development of local expertise as well as local and regional networks;
 - (c) the identification of the role and responsibilities of the **private sector** as an actor in the globalisation process;
 - (d) the increase of the capacity of the private sector to play its role in the development process.
50. Referring to **regional integration**, UNCTAD could examine:
- (a) the positive impact of regional integration in the development of competitive capacities of enterprises in member countries and in particular, in developing and strengthening competitive chains for the production of goods and services, as well as the identification and strengthening of flanking support measures to these chains;
 - (b) the impact of the regional integration processes on FDI flows;
 - (c) the role of regional integration processes in the development and the acceptance of harmonised investment rules.

c) **Trade in goods and services and Commodity issues**

51. UNCTAD should continue and enhance its activities in order to support the efforts of Developing countries to integrate into the **multilateral trading system**. In particular, UNCTAD should provide a forum for debate at intergovernmental and at expert level, in which to analyse, from the perspective of development, the subjects of the forthcoming **WTO negotiations** in order to allow developing countries to better understand the issues at stake and to enable them to participate more actively in those negotiations. Special attention should be paid to:

(a) the opportunities offered to developing countries by opening the economic environment through strengthening the discipline in the service sector and in new fields of trade-related matters such as Foreign Direct Investment and competition;

(b) the concept of Special and Differential Treatment in relation with the increasing differentiation in the levels of development and competitive capacity among developing countries;

(c) the identification of other issues on which developing countries can have special interest as well as of ways and means to overcome problems hampering developing countries integration into the multilateral trading system.

UNCTAD should as well discuss ways and means to accommodate trade policies with other policies, guiding the debate away from fears over unilateralism and protectionism.

UNCTAD should also continue technical cooperation activities supporting developing countries and in particular the LDCs, in their accession to the WTO, in the preparation of the future WTO negotiations and the implementation of the commitments deriving from present and future negotiations. Moreover, UNCTAD could offer technical cooperation to developing countries in the development of coherent negotiating strategies through the different level and context of trade negotiations.

52. UNCTAD should reactivate its initiatives in the field of **trade preferences** and related rules of origin issues. It should in particular examine how developing countries and especially LDCs can take better advantage of existing preferences and how more advanced developing countries can offer LDCs preferential access to their markets. A discussion of the Enabling Clause, taking into account the changing economic conditions and policies of developing countries, could also be useful in UNCTAD. The Organisation should also continue its technical cooperation to economic operators in the use of preferences.

53. UNCTAD should continue its analytical activities as well as favour the exchange of experiences in the field of **commodities** and particularly on:

(a) diversification, as the appropriate strategy for breaking dependence on commodities and stabilising export earnings;

(b) risk management instruments.

UNCTAD could also undertake a reflection on the purposes and functioning of present international commodity agreements.

54. UNCTAD should continue to conduct analytical activities and to provide a forum for debate at intergovernmental and at expert level on **competition policies and rules**, in order to raise developing countries' awareness and to allow them to share their experience. UNCTAD could in particular analyse the importance of State-owned and

private monopolies in emerging markets, the relations between investment and competition, the types of regulation adapted to different levels of market development. UNCTAD could also undertake analysis in support of the negotiations of multilateral rules on competition, giving particular attention to the specific needs and conditions of developing countries in this context.

UNCTAD could carry on technical cooperation activities aiming at assisting developing countries in the definition and implementation of competition rules and policies.

55. UNCTAD should continue to play an important role in addressing the **trade/environment/development** continuum within the context of sustainable development and in particular in improving policy coherence and supporting progress on the issue of trade and environment in the coming years. Particular attention should be paid to ensuring the mutual supportiveness and complementarity of work between the UNCTAD, WTO and other international organisations like UNEP, UNDP and the Bretton Woods institutions, to effectively help developing countries to address trade and environment challenges and to maximise positive synergies between trade liberalisation and environmental protection while at the same time ensuring that trade rules do not reduce the ability of countries to pursue effective environmental policies, domestically and internationally.

UNCTAD work should aim at overcoming developing countries' partly defensive position towards integrating environment considerations into any trade and development agenda as well as their concerns over unilateralism and eco-protectionism. In addition, UNCTAD should raise awareness on the reinforcement of environmental standards at the national level, which could promote economic growth and attract foreign investment in developing countries, as well as on their specific interest in enforcing environmental disciplines at the international level, *inter alia*, to protect their own environment, to avoid export of pollution and environmentally damaging products from industrialised countries and thereby prevent some trade-related environmental risks.

In particular, UNCTAD should further explore inter-linkages between the various trade liberalisation and environment issues and developing country demands for differentiated, preferential treatment. In this context, increased win-win research to the potential to yield both direct economic benefits as well as positive environmental results for developing countries would be of specific importance. It would be important to continue looking for positive mechanisms for improved market access and to facilitate trade in environmentally preferable goods and services.

UNCTAD should focus its attention on multilateral environmental agreements (MEA) as the best way of tackling international environmental problems; stressing the fact that any trade measures MEAs may contain when agreed upon in a multilateral context would be a guarantee against unilateralism and eco-protectionism and stressing the synergy between high environmental protection based upon the Rio Principles and economic performance, which will over the medium to long-term allow for sustainable development.

As Task Manager for Chapter 2 of Agenda 21 UNCTAD can also play a useful role in the discussions on trade due to take place at the 8th session of the UN Commission on Sustainable Development in April 2000 and in the subsequent preparation of

the Earth Summit 2002, which will review the implementation of Agenda 21 and the Rio Principles.

56. Referring to **institutional reforms and capacity building**, in this field of activities, UNCTAD could do analysis as well as technical cooperation on the regulatory frameworks favourable to trade development. In this field of activities, UNCTAD should also deal with the following issues related to **regional integration**:

- (a) the effects of the removal of barriers to trade between developing countries that are members of regional economic organisations;
- (b) the establishment of regional disciplines in trade related matters such as competition, IPRs, SPS and TBT;
- (c) the existing interactions between multilateral and regional trade negotiations;
- (d) the development perspective of reciprocity between regional groupings of developing countries and developed ones.

These analytical activities should feed into the debate at intergovernmental and at expert level and should be accompanied by technical cooperation aiming at helping developing countries in their regional integration processes. In particular, UNCTAD should assist Developing countries and especially LDCs in implementing regional free trade agreements. It should also continue to offer technical cooperation to regional organisations in the negotiations of free trade agreements with developed countries as well as in the WTO framework.

d) Service infrastructure for Development and Trade Efficiency

57. Based on the expertise it has developed in this field, UNCTAD should continue to assist Developing countries in building up a **service infrastructure in the areas of customs, transportation, banking and insurance, and telecommunications**. While rule making should definitely remain under the realm of WTO, UNCTAD has a comparative advantage in terms of providing technical assistance in this field.

The following areas should be at the centre of UNCTAD's work programme, both with regard to its analytical activities, as well as technical cooperation:

- (a) trade facilitation, the use of information technology in trade-related activities and, in particular, the development-related dimension of electronic commerce;
- (b) institutional reforms, capacity building and training activities supporting the build-up of an efficient services infrastructure for trade;
- (c) the possible gains in efficiency in the build-up of services infrastructure for trade at regional level.
- (d) LDCs specific problems, such as access to information technology and build-up of human resource capacity to utilise information technology and thereby participate in the information society.

III.2 Ways and means to improve the effectiveness of UNCTAD work

58. UNCTAD underwent a major overhaul during the 8th Conference, which took place in 1992 in Cartagena. What used to be portrayed as "the spirit of Cartagena" inspired, to a large extent, UNCTAD's activities between the 8th and the 9th Conference. On the other hand, UNCTAD VIII did not achieve enough in terms of streamlining those activities.

UNCTAD IX reduced the number of meetings mainly by trimming down the institutional framework to three main commissions. However, this implied that each

commission had to cover a wide number of subjects. Thus, there is a need to better focus UNCTAD's work programme.

59. UNCTAD X must therefore reiterate the need of ensuring an optimum allocation of the Organisation's resources by focusing its activities on issues in which UNCTAD has a real comparative advantage and by choosing a limited number of priorities along the lines set out above.
60. The Conference should also stress the importance of enhancing the consistency among the three aspects of UNCTAD role - debates at intergovernmental and at expert level, analytical activities and technical cooperation - which are closely intertwined and must always be mutually supportive.
61. Technical cooperation should be demand driven and based on recipient countries' needs assessments. The Conference should underline the need of enhancing internal coordination of technical cooperation activities through, *inter alia*, the submission to Member States of an annual indicative plan, drafted under the direct responsibility of the Secretary General. LDCs' priority should be ensured.

In order to increase the effectiveness of technical cooperation activities, the monitoring and evaluation of each project will have to be properly strengthened. In particular, the impact of projects on national capacities of recipient countries should be assessed.

Ways and means should be found in order to introduce and improve mechanisms for cost-recovery aiming at pursuing the financial autonomy of certain programmes.

Technical cooperation and support for capacity building should be carried out in coordination with other donors to achieve coherence and complementarity of action and to avoid overlapping of activities. In this regard, the principles governing the Integrated Framework for LDCs - i.e. coordination among donors and full participation by developing countries - could be applied to assistance to other developing countries.

62. Greater policy coherence is essential to promote an open and stable economic policy framework and to integrate developing countries in the world economy. It requires closer co-operation between international organisations in trade-related areas to enhance complementarity and mutual supportiveness of policies in support of trade liberalisation and development. The Conference should stress the need for cooperation between UNCTAD and other international bodies aiming at achieving such complementarity and synergies and at avoiding competition among the different actors and overlapping in their activities. Such cooperation should allow for better coordination in the definition as well as in the implementation of these activities.

In particular, the Conference should underline complementarity with the WTO. This complementarity is coupled with a clear distinction of the two bodies' roles (negotiation of multilateral rules and dispute settlement for the WTO, consensus building in the pre- and post-negotiations phases and analytical activity for UNCTAD, as well as the technical assistance activities that flank both Organisations' chief tasks).

63. UNCTAD X should also study ways and means to enhance the involvement of civil society and private sector of developing as well as of industrialised countries in the life of the Organisation, *inter alia* by ensuring an active participation of their representatives to the preparation and holding of intergovernmental and experts' meetings as well as by consulting them in the definition and implementation of technical cooperation projects and in the preparation of analytical documents. Relations among the UNCTAD Secretariat and the representatives of the civil society should be conducted in a transparent manner and in a framework ensuring legal security. The careful selection of these representatives according to their competence and capacities is crucial.

UNCTAD should also offer a discussion forum for civil society representatives in trade and development issues.

64. When subjects require a long-term reflection, experts meetings could be organised on a regular, albeit not periodical, basis. This would help to build up confidence and a better understanding among participants.

ANNEX

In negotiating at the 10th Conference an agreed text on Globalisation and Development, the Union, on the basis of the political approach described in Part II of the present text, can agree with the following:

The importance of effective institutions and domestic policies

1. UNCTAD X should recognise that a **political environment** guaranteeing **peace, security and stability, respect for human rights, democracy, rule of law and good governance** is a prerequisite for equitable and sustainable development.

UNCTAD X should therefore express the need for **institutional reforms and institution building** creating and consolidating such an environment, based on government accountability and transparency, and ensuring the prevention of and the fight against **corruption**.

A **legal and regulatory framework**, favourable to the functioning of a democratic society and of a market economy, is an essential component of this institutional set-up.

2. Debate at the Conference should confirm that reducing democratic deficits contributes to increasing political commitment and support from public opinion to domestic reforms. In this context, the Conference should stress the importance of the participation of **civil society** in the establishment of a democratic political framework and more generally in the development process. It should also acknowledge that the development of **social capital** through civil society institutions is beneficial to promoting equitable and sustainable economic growth.
3. UNCTAD X should stress that the integration of developing countries into the world economy will also to a large extent depend on the success of **economic and financial reforms** in establishing a stable and open macro-economic environment oriented towards stability, more equitable income distribution, employment creation and poverty alleviation, favourable to the development of the private sector and conducive to domestic and foreign private investment. It should also recognise that **structural adjustment** remains an essential stage for many developing countries.

Moreover, UNCTAD X should recommend the implementation of a **second generation of reforms**, addressing the problems of the administrative and institutional capacity and of the functioning of the **financial system**. Such a system has to be capable of dealing with internal and external financial crises. It should include strict prudential regulations, improved transparency and disclosure rules. In the short run, while supervision and regulation of the financial sector is being improved and strengthened, capital controls may be beneficial. The reform of the financial system should also encourage the development of sustainable microfinance institutions.

4. Discussions at UNCTAD X should confirm that sound **competition** policies are crucial for the development of a well-functioning market economy in developing countries and for the protection of consumers' interests. The liberalisation of their markets should therefore be accompanied by the introduction of national competition

rules adapted to the level of development of these markets. UNCTAD X should also point out the importance of multilaterally agreed rules in WTO on domestic competition law as well as on procedures for international cooperation.

5. The legal framework should ensure that consumers' interests are also safeguarded through norms on consumers' and consumers' health protection.
6. UNCTAD X should emphasise the role of the **private sector** as an engine of economic growth and should stress its potential contribution to enhancing developing countries' competitiveness and to the integration of these countries into the world economy. Moreover, private sector and in particular its informal part, is the principal source of job creation in the vast majority of developing countries.
UNCTAD X should also stress that the private sector is an important component of the civil society and that its responsibilities should be recognised and assumed. This should imply the need for a dialogue between public and private sectors aiming at identifying their respective responsibilities, at addressing the weaknesses in the business environment of firms as well as in the functioning of the market, and at defining clear conditions of governance at different levels (local, national, regional and global).

The Conference should moreover recognise that there is now a consensus on the need to promote an integrated approach (at macro, méso and micro level) identifying the main actors and providing them with the necessary institutional building support. Given the heterogeneity of the countries, among and inside them, and the on-going decentralisation process, it would be worthwhile to focus the attention on the local dimension of private sector development. Moreover, decentralisation and regional integration should be seen as mutually reinforcing to promote sustainable development in the globalisation process.

7. **Efficient public services** are essential. The role of the State in providing them should be clearly defined in the context of the dialogue with the civil society, and particularly the private sector.
8. UNCTAD X should also pay attention to the specific problems of **commodity-dependent** countries, which in most cases are LDCs. It should underline the structural difficulties related to the inelastic demand of commodities in importing countries, to the downwards long-term trends of many commodities' prices and to the volatility of those prices. The Conference should also stress the effects of those structural difficulties on export earnings of producing countries, on their economic growth and on income distribution.

UNCTAD X should therefore recognise the need for diversification policies as an effective strategy for breaking the dependency on commodities and stabilising export earnings. The Conference should also address the problems of increasing competitiveness through liberalisation and privatisation of the sectors, of institution building, of investment and training, of risk management and of more equitable income distribution in commodities sectors.

9. The Conference could also acknowledge the increasing concerns of both producers and consumers countries on the purpose and functioning of present international commodity agreements and launch a debate on the perspectives of the international cooperation in this field.

10. UNCTAD X should recognise the important role played by the **Information and Communication Technologies** in the development of international trade. The application of these new technologies throughout all sectors of economies and societies has created the so-called **Information Society**-revolution, opening new opportunities for developing countries as well as new risks of marginalisation for the information-poor people or countries.

The Conference should consequently stress the importance for developing countries to implement policies aiming at addressing their constraints in terms of infrastructure and at creating an environment able to attract sophisticated technologies in order to become part of the information society. These policies should include the setting up of a favourable regulatory framework, the liberalisation of the telecommunications markets, investment in education, training, research and technology capacities and public actions for information-poor groups.

In this context, UNCTAD X should stress the importance of “**knowledge strategies**” aiming at creating the enabling environment in order to close the technological gap and to promote a learning society and a “**knowledge driven economy**”.

11. The Conference should underline the importance of **social and human development**. It should make clear that the economic integration of developing countries into the world economy, as well as the promotion of sustainable economic growth and the rule of law, cannot be achieved without taking into account human and social factors.

UNCTAD X should stress development strategies' aim at **greater equity in the distribution of the benefits from economic growth**. These strategies should also ensure the protection of **vulnerable groups**, specifically **children**, and help the **poor, women and indigenous people** to have access to and draw advantage from the economic opportunities offered by globalisation and liberalisation. Adequate resource shall also be devoted to **education and health**, as these interventions can bring positive effects in raising living standards. Moreover, a healthy and skilled labour-force is one of many prerequisites for attracting foreign investment.

The Conference should invite governments to give explicit priority in their development policies to the **reduction of poverty** and, in the long term, to its elimination. To this end, governments should aim at achieving coherence between their social and economic policies and develop their capacities for integrating poverty reduction objectives into these policies.

In this context, UNCTAD X should underline the importance of **basic social rights** for sustainable development. Developing countries' governments should ensure that reforms promoting and supporting exports do not compromise the implementation, and monitoring of the application of legislation conforming with internationally agreed core labour rights.

Moreover, the Conference, should ask donors and the international community to ensure that poverty reduction is a central aim of their development cooperation policies and that trade and development policies mutually reinforce each other, thereby helping to combat poverty.

12. The **responsibility** for implementing political and economic reforms rests primarily with the countries concerned. However, the Conference should stress the need for **constructive support** to reforms in developing countries **by donors and, in general, by the international community**. Political dialogue, development cooperation and economic and trade relations are essential and interrelated components of such support to developing countries by the donors community. In this context, the **role of UNCTAD** in assisting developing countries in the reform process should be congratulated.
13. UNCTAD X should also recognise that domestic reforms cannot be imposed from outside. They will not be carried out unless they are adopted by the countries themselves, adapted to the specific circumstances of each country and subject to the internal consensus of the entire society, according to the principle of **ownership**. **Civil society**, as a beneficiary as well as a channel for development aid, will contribute to the process of adaptation of the content of development cooperation to local conditions and support the establishment of the internal consensus on reforms.

***Participation of developing countries in the multilateral trading system:
the Millennium Round, Trade Preferences and Regional Integration
Trade and environment issues***

14. UNCTAD X should reaffirm that the progressive integration of developing countries into the **multilateral trading system** is essential for their development.

The Conference should also stress that such integration will depend to a large extent on the success of their domestic reforms and on the improvement in the competitiveness of their economies. These reforms should enjoy the support of the international community through increased and better-focused and coordinated technical assistance, as part of an overall effort to greater policy coherence. The Conference should also emphasise the need to ensure policy coherence between development cooperation policies and trade policies, in order to increase the beneficial impact on both economic growth and poverty reduction.

At the same time, the Conference should recognise the need for the multilateral trading system to support sustainable development and to take into account appropriately the specific economic and social capacities and constraints of developing countries, in particular LDCs, while stressing firmly the common goal of trade liberalisation.

The active participation of developing countries in the **WTO**, and in particular in the **forthcoming round of negotiations** is important for the defence of their interests. The agenda for the new round should devote particular attention to the links between trade and development, in order to increase developing countries' interest in participating actively. UNCTAD will be an important *forum* for discussion and consensus building in the pre and post-negotiations phases.

While preserving the integrity of the multilateral trading system and the common goal of trade liberalisation, **Special and Differential Treatment** is a useful tool to take account of different conditions and needs of developing countries, in particular LDCs, as well as their administrative and institutional constraints, provided it encourages them to expose gradually their economies to foreign competition.

15. Developing countries, in particular the least developed among them, should continue to enjoy **preferential access** to industrialised countries' markets, as trade preferences constitute, along with other development strategies, a major factor in facilitating the integration of developing countries into the global economy. The adoption of positive incentives under GSP linked to sustainable development policies and multilateral norms should be promoted.

UNCTAD X should also reiterate the principle of tariff free treatment for essentially all products originating from LDCs, to be implemented by 2003, as is already provided by the European Union.

16. UNCTAD X should reaffirm that **regional integration among developing countries** carried out in compliance with WTO rules is an appropriate step on the way to the integration of developing countries into the multilateral trading system.

Regional integration will indeed encourage stronger growth and an increase in trade, as it enables economies of scale to be exploited, allows for diversification of the national economies, for specialisation at a regional level and for better allocation of resources, ensuring more effective competition across borders within regional markets. Regional integration thus helps developing countries to build up their international competitiveness and to adjust themselves more easily to the new international context. Moreover enlarged regional markets are more attractive for foreign investors.

The Conference should also point out that regional integration processes enhance the credibility and implementation of institutional and macroeconomic reforms. They provide an opportunity to define better uniform rules in trade-related matters such as competition, FDI or IPR, thus improving the investment climate. They facilitate the development of regional infrastructures necessary for economic development, such as transport or telecommunications networks and, depending on the nature of economic integration, enable coordination and fairly close convergence of macroeconomic policies, improving therefore regional economic stability. Moreover, trade negotiations at regional level may greatly contribute to an adequate preparation and consensus building at regional level for simultaneous or future multilateral negotiations in the WTO, facilitating therefore the effective participation of developing countries to the multilateral trading system.

Regional integration is also an effective means of ensuring the prevention of conflicts.

17. **North-South regional trading arrangements** are also a complementary step towards a full participation of developing countries in the world economy. In order to cope with the specific circumstances of the developing partners, negotiations of North-South integration agreements shall take account of the flexibility permitted, while remaining in conformity with WTO rules. These integration agreements should be accompanied by measures to support the transition towards more openness, so as to prevent an unbalanced distribution of the adjustment costs and the efficiency gains brought about by reciprocal trade liberalisation.

18. UNCTAD X should underline that the objectives of increasing liberalisation of trade and of **environmental protection** should be mutually reinforcing so as to contribute to sustainable development. Multilateral negotiations and agreements on trade and

environment should be in accordance with the principles approved at the Rio Conference.

External resources for development: Aid and Foreign Direct Investment The debt problem

19. While recognising the importance of **development aid** for developing countries and especially for LDCs, UNCTAD X could express concern for the reduction in ODA flows in recent years.

Donors could therefore be invited to continue and reinforce their efforts in terms of ODA and to aim at the fulfilment of the target of 0.7 % of GNP agreed at international level. It is crucial to ensure that development aid contributes to the improvement of domestic policies in beneficiary countries and to the strengthening of their institutions.

This can be done by systematically linking development aid to sustainable and equitable development criteria such as the DAC general indicators of sustainable development, fixing goals on economic well being, social development and environmental sustainability. The targets established by these indicators confirm that the emphasis of development cooperation must be not only on macroeconomic and structural requirements but also on reforms aiming at social and economic equity and on meeting environmental needs.

At the same time, the international community should strive to reinforce the ownership of development programs by the beneficiary countries.

20. The attraction of **foreign direct investment inflows (FDI)** has become crucial for many developing countries in their efforts to achieve sustainable development. FDI is indeed an important source not only of capital but also of managerial skills, technologies and know-how. It stimulates trade and competition and facilitates access to exports markets. FDI furthermore could represent a strategic key to help the strengthening and growth of local industrial clusters.

UNCTAD X should therefore underline the importance of foreign direct investment in the sustainable development process. Stressing the unequal distribution of FDI flows, the Conference should insist on the need for increased and better-focused development aid aiming at supporting developing countries efforts in the implementation of the appropriate policies and legislation creating the conditions to attract foreign investment.

UNCTAD X should also point out the usefulness of multilaterally agreed a multilaterally agreed framework of rules on Foreign Direct Investment, based on the WTO principles of non-discrimination, with the objective of securing a stable, transparent and predictable climate for investment flows worldwide.

21. **Debt burden**, especially for heavily indebted poor countries, can be a drag on growth as it discourages foreign investment and as its service absorbs a too important share of fiscal resources. It is too often an obstacle to investment in social and environmental sectors being therefore detrimental to sustainable long-term development. UNCTAD X could recognise the gravity of this problem and underline that initiatives for debt cancellation should always be accompanied by the

implementation of reforms ensuring that the resources thereby made available are actually used towards poverty reduction and health and education. UNCTAD X could express appreciation for the efforts made by donors within the framework of the HIPC initiative, which aims at making debt burden sustainable for countries pursuing adequate structural adjustment process. The Conference could also stress the fact that a more generous approach should ensure that any change is not made to the detriment of traditional development actions.

Strengthening the architecture of the international financial system

22. In order to minimise the risks of global integration of financial markets, UNCTAD X should stress that capital markets in developing countries ought to be liberalised in a careful and balanced way, and that particular attention has to be paid to the establishment and implementation of prudential norms, rules and regulations to help maintain stability and to avoid, as much as possible, the emergence of crises, both on the national and on the international level. Increased technical assistance is necessary to support developing and emerging economies to strengthen their financial system in order to meet international standards.
23. International financial institutions, such as the IMF, the World Bank and the BIS need to take further into account the lessons from the Asian financial crises. They need to continue to adapt their role and functions to an increasingly integrated international financial system. Priorities are to improve transparency and surveillance, to better evaluate and assess financial risks and to find ways for an appropriate involvement of the private sector in crisis prevention and resolution.

Promotion of multilateral norms for sustainable development

24. UNCTAD X should express support for the establishment of **multilateral norms** in six main areas, the first of which is **FDI**, with the purpose of securing a stable and predictable climate for long term investment worldwide. Secondly, there is a need to simplify and harmonise **trade procedures**. The third area relates to **environmental issues**, in addressing the mutual supportiveness of trade and environment and horizontal issues like the MEAs. Other two areas are **fiscal norms** and **international competition policy**, crucial in order to establish a level playing field for companies, while ensuring that fiscal competition between states, and anticompetitive practices do not interfere with the efforts to secure sustainable development. Finally, agreed **social norms** need to be made effective, in particular those relating to the recognition of a minimum set of labour rights.

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