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**Contributions to Review session on Chapter III of the Monterrey Consensus**  
**"International trade as an engine for development"**

**19-20 May 2008, New York, USA**

H.E Ambassador Abdel Aziz and H.E. Ambassador Lovald,  
Excellencies,  
Distinguished Delegates and Participants,

It gives me great pleasure to participate in this session on "international Trade as an engine for development" which pertains to Chapter III of the Monterrey Consensus on Financing for development (FfD). UNCTAD is an institutional stakeholder in the Monterrey Consensus and can and we are pleased to contribute on the review by member States of this important chapter and other chapters of the Monterrey Consensus. The Secretary-General of UNCTAD attaches high importance to UNCTAD's contribution to your deliberations and helping to shape the draft outcome document from the Doha Review of the implementation of the Monterrey Consensus on FfD.

This session is timely and opportune and perhaps meant to be so since we have just had another global UN conference namely the UNCTAD XII, held in Accra, Ghana from 20-25 April 2008 on trade and development in all its aspects including how trade can and should be an engine of economic growth and how it can and should generate financing for development. Coming fresh from the UNCTAD XII, this is an opportune moment with new ideas to contribute on trade and development based on the international development consensus enshrined with the Accra Accord - the outcome of UNCTAD XII. At UNCTAD XII, the Ministerial Roundtables and the Summit level sessions validated and further evolved the key trade and development policies and premises of the Monterrey Consensus as well as the conceptual underpinnings thereof in promoting inclusive development, especially in the most poorest and vulnerable countries and communities.

The Accra Conference highlighted what has been achieved fully in the field of international trade and partially but also the gaps and shortfalls based on trade and development experiences, practices and policies of the past four years. I would like to draw your attention to a number of issues regarding the implementation of the Monterrey Consensus that have relevance for our work.

- Firstly, there are new challenges and emerging issues upon which to build on and go beyond the Monterrey Consensus. These include new realities of globalization, new geography of trade, new sources and claimants for the dynamics of the financing for development and the emerging trade nexus. These are some of the key points in the changing development and financing paradigm worth reflecting in the review of the Monterrey Consensus six years later.
- Secondly, several key trade and development concepts and strategic policy orientations contained in Chapter 3 of the Monterrey Consensus have been further validated and enhanced in the current global arena.
- Thirdly, an assessment is needed of systemic issues and performance and the enabling environment at national, regional and international levels that is required for trade to act as an effective engine of development.

- Fourthly, there is need to highlight what has been achieved and implemented from the Monterrey Consensus, as well as also refer to what the gaps and shortfalls are. Such review needs to be based on trade and development experiences, practices, policies and impact especially of the last 4 years.
- Fifthly, areas for updating the Monterrey Consensus in terms of its policy analysis and policy response matrix is timely in view of the new realities in the trade and development financing landscape, and in the context of a second wave of globalization.
- Sixthly, following the diagnosis, there is need to more on and suggest ways forward on key trade and development policies and measures by all actors - governments, corporate sector, NGOs and other stakeholders, and at all levels - to realize the noble objectives of development and poverty eradication contained in the Monterrey Consensus.
- Lastly, the enhanced catalytic as well as strategic role of the UN's development pillar must be emphasized. In the area of international trade, the contribution of UNCTAD is particularly important in more forcefully promoting development so that the MDGs can be achieved timely.

### *Conceptual issues*

The Monterrey Consensus reaffirmed the commitment of the international community to trade liberalization and to ensure that trade plays its full part in promoting economic growth, employment and development for all and trade is recognized in many cases as the single most important external source of development finance, dwarfing aid and private financial flows including foreign direct investment (FDI). So based on the Monterrey Consensus premise, one of the foremost question we need to address is has trade lived up to its promise of playing its full part in promoting economic growth, employment and development?

To a large extent and for many countries this has materialized. Trade is the single most important source of development finance. Between 1995 and 2006 world exports of goods and services doubled to stand at over USD 14 trillion in 2006. For developing countries too in the period between 1995 and 2005, their share in world trade saw a three-fold increase, reaching an impressive US\$3.7 trillion and accounting for 36 per cent of total merchandise exports – an all-time record.

Trade can play a role in promoting economic growth, employment for all. During the last two decades, the shares of the dynamically growing economies in international merchandise and services trade have grown considerably. Seven countries in particular have contributed immensely to this trend: Brazil, India, China, Mexico, the Russian Federation, South Africa, and South Korea. The total merchandise export of the 7 countries stood at US\$1.76 trillion, while their aggregate exports in services reached US\$232 billion respectively in 2005.<sup>1</sup>

Trade liberalization has been undertaken and for many countries including developing ones it has led to rapid economic growth, employment creation and development as the data shows. Trade share in GDP of most developing countries range

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<sup>1</sup> Apart from the 7 countries, several other countries also demonstrated high GDP (6% and above) and trade growth rates: these include, among developing countries, Argentina, Egypt, Indonesia, Malaysia, the Philippines, Peru, Thailand, Venezuela and Vietnam, and, among countries with economies in transition, Azerbaijan, Belarus, Croatia, Kazakhstan and Ukraine

between 30-70%. As exports and income growth have grown the positive impact on poverty reduction is also evident, especially in Asia and Latin America.

However trade growth is not a sufficient indicator of welfare gains, so we need to consider whether the gains from trade expansion and economic growth are being distributed fairly. Not all countries and not all people even within those countries of the South that are "emerging" have benefited. For many especially in LDCs and Africa, as well as small economies, marginalization from the benefits of trade and investment have persisted. Further one needs to look beyond mere economic and trade growth to consider other factors in a holistic manner.

UNCTAD's Trade and Development Index is one indicator in this direction. In its ranking of 110 countries on the basis of how well they manage the complex interplay of factors that determine both trade progress and human development, it comes up with some interesting results. Only three developing countries (Singapore, Korea and Malaysia) are in the top 30 performers, signifying the extent to which developing countries need to catch up. Despite years of economic and trade growth China and India are not among the top 50 performers, India, in fact, ranks 90th. At the other extreme all the bottom 20, excepting Pakistan and Papua New Guinea, are either LDCs or African countries, or both.

In addition while trade liberalization is expected in the long run to generate trade and welfare gains, at least in the absence of externalities, there are often short- to medium-term adjustment implications of trade reforms, the most obvious one being job loss. While developed countries are financially capable and have in fact instituted measures to cope with arising job loss,<sup>2</sup> developing countries which face an equivalent if not greater level of adjustment costs are unable to do so.

The Accra Accord recognizes the efficiency and productivity and income gains arising from reducing trade barriers but points out that more open markets usually entail adjustment costs that are of particular concern in developing countries. These must be effectively addressed to ensure that liberalization promotes fully inclusive growth, development and poverty reduction. Maximizing the benefits and minimizing the costs of international trade liberalization calls for mutually supportive and coherent policies and governance at all levels.

The key challenge for trade in enhancing the Monterrey Consensus is the need to spread the benefits of trade more inclusively across and within developing countries, while sustaining the trade and development and accelerating the growth momentum.

### ***Trade liberalization and its role***

Historic trade liberalization has taken place including in the last 6 years, especially in developing countries. While autonomous liberalization has been significant, trade liberalization has also occurred at the bilateral, regional, multilateral, South-South and North-South context. The Accra Accord recognizing that this has promoted more efficient production and higher productivity including through market access to goods and services. However, it underlines the problem of adjustment costs for developing countries. These must be effectively addressed to ensure that trade liberalization promotes fully inclusive growth, development and poverty reduction.

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<sup>2</sup> Countries as advanced as the United States recognize that, unlike job losses that are the consequence of technological change or competition, any form of trade liberalization that affects domestic industries and employment.

Maximizing the benefits and minimizing the costs of international trade liberalization calls for mutually supportive and coherent policies and governance at the national, regional and international levels. It is clear that there exists a virtuous circle between productive capacity, infrastructures, competitiveness and market access and this need to be taken cognisance of.

Some key prerequisites and conceptual deliverables that are worth taking on board for the FfD review for implementation in the future includes the following:

- Reliance on market forces and liberalization is not sufficient, so proactive policies are required at the national and international levels.
- There is a need to enhance productivity, industrialization and capital accumulation, and thus getting development right
- Pursuing development strategies within the framework of an enabling State, compatible with their specific conditions
- The enabling State will need to deploy political and administrative means for the task of economic development, efficiently focussing human and financial resources, and interacting positively at the international levels.
- Diversity of policies and policy space given that there is no precise or single model to development
- National and regional efforts, and the enabling environment policies and measures at the international level aimed at expanding development opportunities for developing countries
- The importance of national ownership , strategies and sovereignty, especially guided by national development strategies including the mainstreaming of trade policy

### *Addressing systemic issues*

On systemic issues, several aspects need to be considered under the Monterrey Consensus Review and addressed.

In the first place, in order to complement national development efforts there is urgent need to enhance coherence, governance and consistency of the international monetary, financial and trading systems and improve global economic governance including at the macroeconomic level. This is critical to developing countries ability to use trade as an engine of development. UNCTAD has been pointing as to how this is critical to developing countries' ability to use trade as an engine for economic growth and development. More recently they have called for the unwinding of global imbalances in an orderly manner, since financial stability is critical for developing countries trade and sustainable growth. Equally better multilateral surveillance and management of exchange rates and the monetary system is called for if the volatility of exchange rates is not to wipe out the hard earned competitiveness of developing country exporters and neutralize benefits from reduced tariffs in their markets.

Turning to the trading system itself, it was recognized at UNCTAD XII that in order to make globalization a positive force for all with its benefits shared equitably, then ensuring the effective qualitative and beneficial participation in particular of developing countries in the international trading system is a critical challenge and opportunity. For this a coherent set of development policies and initiatives is required.

There is recognition that the goal set in the Millennium Declaration and in the Monterrey Consensus to establish a universal, rules based, open, equitable, predictable and non-discriminatory multilateral trading system (MTS) which can substantially stimulate, through trade, development worldwide and benefit countries at all stages of development have not yet fully materialized. Critical in this regard is for all WTO members to uphold and reiterate their commitment to the MDG commitments as well as to a well functioning MTS that promotes development.

The ongoing Doha Round of multilateral trade negotiations is seen as the main "*delivery vehicle*" for achieving the systemic ideal and for responding to key concerns outlined in paragraph 28 of the Monterrey Consensus. Hence member States must demonstrate their shared interest in and the political will to achieve the successful completion of the Round. Full realization of its core agenda in line with its overall development dimension is seen as the development litmus test. In particular there is insistence that the Doha round should facilitate the beneficial integration of developing countries including LDCs into the MTS and its final results should ensure fair, balanced, and equitable market opening commitments among all members.

The Accra Accord recognizes that universality of the WTO needs to be furthered through removal of impediments and facilitation of the accession process, and that accession by countries should "be on terms that reflect their individual trade, financial and development needs and circumstances". The process of WTO accession continues to represent important challenges for 29 developing countries and countries with economies in transition in the accession process. Experience has shown that acceding developing countries continue to be subjected to requests for relatively deep liberalization and stringent reform commitments. These include WTO-plus commitments which could go beyond the level of concessions and commitments undertaken by existing WTO Members of a similar level of development; or WTO-minus rights whereby concessions enjoyed by WTO members are not granted to the acceding country. For example, access to SDT provisions is not automatic – it is often subjected to negotiations on a case-by-case basis.

In the context of the systemic ideals sought it is important to analyse the "issues of particular concern to developing countries and countries with economies in transition in international trade to enhance their capacity to finance their development" as enumerated in Paragraph 28 of the Monterrey Consensus. It will be important to track progress as to whether or not these concerns have been adequately addressed in the last six years including in the context of the Doha negotiations and whether or not the needs and interests of developing countries have indeed been placed at the heart of the Doha work program and its implementation.

With regard to openness of the trading system the Monterrey Consensus had highlighted *trade barriers* generally, particularly in sectors of specific export interest to developing countries in Agriculture, the abuse of anti-dumping measures, technical barriers and sanitary and phyto-sanitary measures. It had referred to trade liberalization in labour intensive manufactures, agricultural products and services in this context. Tariff peaks, high tariffs and tariff escalation were highlighted.

In terms of *tariffs* there has been notable progress. Developed country average tariffs on imports of key products from developing countries which were 4.9% in 2001 and fell to 2.4% in 2006. However tariffs remain high on some labour intensive sectors of export interest to developing countries like textiles and clothing and for agricultural

products. The incidence of tariff peaks and tariff escalation in regard to both commodity and value added exports continue. Preliminary indications of developing countries' tariff on other developing countries as the weighted average tariff on all products indicate a much larger fall from 7.1% in 2002 to 4.2% in 2006<sup>3</sup>. Developing country tariffs have been declining particularly in applied rates. It is expected that the NAMA and agriculture negotiations in the Doha round would result in further reduction of tariffs.

In addition to tariffs, as recognized in the Accra Accord, "meaningful trade liberalization will also require addressing non-tariff barriers where they may act as unnecessary trade barriers". There has been a proliferation of non-tariff measures in the major markets of developing countries including in the form of standards and technical regulations thereby constituting front stage market entry and market access barriers. During 1994-2004, besides traditionally applied NTBs such as anti-dumping and countervailing measures, government mandated technical measures (such as testing and certification requirements) increased seven times worldwide. These affect not only the openness of the trading system but also its rules based, predictable and non discriminatory character. Hence the Accra Accord makes a call for "international efforts to address non-tariff measure and reduction and elimination of arbitrary or unjustified non-tariff barriers". In addition on standards and technical regulations, countries are asked to develop them transparently and apply them non-discriminately without posing unnecessary obstacles to trade.

Developing countries have asked to be provided capacity building support to meet standards effectively and to facilitate full and meaningful participation in international standard setting processes so that they are not just standard takers but also standard makers. Special attention needs to be paid to improving the physical and quality assurance infrastructure of developing countries and enhancing the participation of their small and medium sized enterprises in global supply chains. The rules related negotiations in the WTO must also address satisfactorily the issue of abuse of anti-dumping measures.

With regard to *trade distorting subsidies and other trade distorting measures* including with regard to the agricultural sector and fisheries, ongoing Doha negotiations are expected to make progress on the reduction and elimination of trade distorting export subsidies and domestic support by developed countries. The recent increase in demand and therefore in agricultural commodity prices including food prices in world markets coupled with the urgency of stimulating agricultural productive capacities in developing countries through the removal of market disincentives, to meet their food security needs, calls for an early agreement on this issue.

The *services economy* is the new frontier for the expansion of trade, productivity and competitiveness, and for the provision of universal access to essential services. Services exports represent a growing and important source of development finance for many developing countries particularly in labour and skills intensive modes (especially modes 1 and 4) and sectors such as caring services, tourism construction, professional and business services) in which they have extant and potential comparative advantage. In recent years, some developing countries have performed well in trade in services. Between 1980 and 2006, developing countries share of services in GDP grew from 41% to 51%. More interesting is the average annual rate of growth of exports of services for

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<sup>3</sup> UNCTAD TRAINS database

developing countries which stand at 8% for developing countries, indicating further potential for growth.

It is important to note in this context that in the area of movement of natural persons (Mode 4) highlighted in paragraph 28 of the Monterrey Consensus, enhanced market access commitments and liberalization and facilitation at the multilateral (Doha), regional and bilateral levels in favour of developing country services providers would unlock huge benefits. Gains of USD 150-300 billion could be obtained if OECD nations allowed up to 3% of their labour force needs to be supplied by developing countries.

In this regard in terms of updating the Monterrey Consensus, the Accra Accord encourages countries to take into account the development dimension of migration in the areas of global, regional and inter-regional co-operation with a view to facilitating dialogue and exchange of information and experience and most of all to strengthening partnership among countries of origin, transit and destination in order to take full advantage of the benefits and opportunities that migration brings to the global community. The trade, investment and development linkages between countries of origin and their expatriate communities and the remittances by migrant workers are identified as important sources of development finance and enabling trade to act as an engine of economic growth. Recorded remittance flows have doubled over the past five years, standing at \$249 billion in 2005; the developing countries' share was \$180 billion. These figures could easily be twice as much if unrecorded flows were also captured.

Positively integrating developing countries, especially LDCs, into the global services economy and increasing their participation in services trade, remains a major development challenge. Newer developments which have to be considered in the context of their potential development impacts is the trend towards the inclusion of services trade in RTAs and FDI in services.

### ***Special and Differential Treatment (SDT)***

The Monterrey Consensus presses for effective operationalization of SDT. The development dimension signifies an adequate and sufficient degree of policy autonomy which allows countries to effectively manage and regulate their domestic economic policy in the light of national development and public policy objectives, within the multilateral framework of rights and obligations under the WTO.

SDT within the multilateral trading system includes the elements of policy flexibility for developing countries, longer implementation periods as well as preferential treatment in market access. While progress on this is slow, some achievements can be seen in the Doha package, which included 88 SDT proposals. Some of these proposals included (i) moving from effective best endeavour SDT to mandatory requirements, (ii) incorporation of SDT in market access and rules packages being negotiated, (iii) SDT concessions for LDCs, on which there was some progress at the WTO's Hong Kong ministerial conference, (iv) correcting imbalances through SDT, and (v) setting up a monitoring platform on SDT.

This translates into such measures as SDT and less than full reciprocity; the preservation of tariff revenue; the promotion of domestic nascent industries as well as pre-empting de-industrialization; the preservation of long standing trade preferences; safeguarding food security, livelihood security, and rural development; providing for the use of policies and measures to foster commodity production, diversification and

competitiveness; universal access to essential and infrastructure services; as well as access to essential drugs.

Now that the *TRIPS agreement* has been amended, the flexibilities recognized under the TRIPS Agreement should be operationalized and implemented by both developing and developed countries including through compulsory licensing and parallel importation, dialogue and partnership with the private sector both Northern and Southern in order to meet the access to essential medicines needs of their populations. The benefits of generic medicines for providing greater access should be optimized.

The demand of developing countries for recognition of intellectual property rights for the protection of *traditional knowledge*, genetic resources and folklore has not yet been met despite efforts in the context of the Doha negotiations and WIPO's Development Agenda. UNCTAD studies including in response to the request of the Convention on Bio-Diversity have helped elaborate on possible international protection regimes providing inter alia for disclosure, prior informed consent and benefit sharing. The Accra Accord reiterates that National and international efforts are needed to reserve, protect and promote the sustainable use of traditional knowledge and genetic resources and to ensure the fair and equitable sharing of their benefits.

Given the importance of access to *knowledge and technology* for building productive capacities particularly in LDCs and enhancing their export competitiveness and revenues, the objectives and principles of the TRIPS Agreement regarding the transfer and dissemination of technology needs to be systematically operationalized, particularly Article 66.2 of the TRIPS Agreement. There is a need to go beyond the WTO Trade Policy Review Mechanism style reporting mechanism and best endeavour approaches of providing incentives to IPR holders. This issue has assumed importance not only in the context of health, but also in the context of access to food and in the context of climate change related mitigation and adaptation measures that developing countries will need to urgently address. Market based mechanisms like FDI, joint ventures, licensing and trade should be combined with strategic inter-governmental agreements and support arrangements. Promoting brain gain and brain circulation through circular migration of scientific personnel is one such way of promoting transfer of technology and skills development.

The marginalization of *the Least Developed Countries* in international trade continues. The share of 50 LDCs in world trade rose marginally to 0.8% in 2006 mostly due to an improvement in commodity prices. However many LDCs have a single product or commodity dependency which they need to move away from. The recent encouraging economic growth in LDCs, driven by unusually high demand for commodities, needs to be translated into productive employment creation and poverty reduction. While LDCs need to look to diversify in both upstream and downstream activities within the commodity sector, they simultaneously need to move beyond to other sectors including in manufacturing and services. Apart from FDI another source of finance for many LDCs is remittances sent home by LDC nationals working overseas which in most cases exceeds foreign investment or official development assistance.

The international community has sought to address the specific problems of LDCs in a number of ways including through the Brussels Programme of Action and UNCTAD's specific LDC programme. In elaboration of this, UNCTAD had proposed a Trade Marshall Plan in 2004 for LDCs which included a comprehensive package of measures, relating to a binding duty-free, quota-free treatment in the WTO on all their

products; a targeted package in services including preferential treatment on Mode 4, a strengthened special and differential treatment package and Aid for Trade. A heartening development in the multilateral forum has been the agreement at the Sixth WTO Ministerial Conference to take on board some of these suggestions including providing duty-free and quota-free treatment for all LDCs products on a lasting basis as well as the launching of the Aid for Trade initiative. These should be fully implemented and operationalized as has been indicated in the Accra Accord.

The Monterrey Consensus recognized the emerging role of *regional and free trade areas* and the need for them to be consistent with the multilateral trading system. The Accra Accord in fact points to the new reality that such agreements between North-South and South-South are proliferating and almost 50% of global trade is covered by RTAs and is not subject to Most Favoured Nation treatment if the MTS. While recognizing the benefits of regional integration on a South-South basis, the Accra Accord suggests that RTAs should be transparent and consistent and conducive to sustainable development. Challenges arise for developing countries to design policies and approaches that would maximize gains from both multilateral and regional integration processes. North-South RTAs represent a particularly significant systemic challenge to the MTS. They also pose important adjustment challenges for developing countries as these agreements tend to impose deeper trade integration and liberalization between major trading nations and weaker trading nations. North-South RTAs should strengthen rather than weaken South-South integration.

Paragraph 36 of the Monterrey Consensus emphasizes the role of development finance in building capacity to trade in developing countries. Increased resources from multilateral and bilateral financial and development institutions to expand and coordinate their efforts, with increased resources, for gradually removing supply-side constraints; improve trade infrastructure; diversify export capacity and support an increase in the technological content of exports; strengthen institutional development and enhance overall productivity and competitiveness.

This is a fundamental recognition that market access alone will not suffice in promoting exports. As UNCTAD XI's outcome in the Sao Paulo Consensus and the Accra Accord emphasized, for trade to play a role as an engine for development, there is need for productive capacity, competitiveness and trade infrastructure to be in place. Since then not only has the international community recognized that *Aid for development* helps and is necessary and that technical assistance is necessary, but there is also a need for *targeted Aid for Trade*.

However the gaps between existing needs and quantity of aid, between pledges of resources in development and trade assistance and the actual delivery and implementation of funds on the ground leaves many deficits in the trade capacity building. This can be rectified and the Aid for Trade initiative is an essential complement element as well as a complement to trade liberalization in the trading system. It can play an important role – along with improved market access, balanced rules of trade liberalization, and sound domestic policies – in helping developing countries realize the potential gains from trade and mitigate its potential costs. The Accra Accord recognizes that "Additional, predictable, sustainable and effective financing is fundamental to fulfilling the Aid for Trade mandate."

### *Rise of the South and South-South trade*

A new aspect that needs to be factored in is the large regional and global dynamos of trade and investment from the South. They constitute a global public good and have the capacity to pull up global demand and production, especially when older engines of trade are slowing. Their growth has both a development transmitting and development replicating impact on the rest of the South. South-South trade is 50% of world trade, and as a source for development finance acts as a complement and not a substitute to the North-South development finance and trade relationship. South-South trade goes beyond buyer-seller relationships. The South has also emerged as provider of development finance including through savings, and sovereign wealth funds etc. The Doha Review Conference should reflect this paradigm shift-- including the up scaling, diversification, moving up from natural resource and labour advantage among others.

In respect of paragraph 35 of the Monterrey Consensus on reducing *South-South* trade barriers, considerable progress has been made. With growing complementarities amongst Southern countries with the emergence of dynamically trading and investing countries in the South with global enterprises there has been a major up scaling, diversification in terms of both products and markets of South-South trade and investment links and transfer of technologies. South-South merchandise trade has expanded dynamically, increasing from US\$577 billion in 1995 to US\$1.7 trillion in 2005 – a threefold increase in 10 years. The recent period of 2000-2006 witnessed a surge of merchandise trade between developing countries and countries with economies in transition. This is both market driven in terms of complementarities, integration of value chains and regional production networks and policy driven, including through regional trade agreements. There are some inter-regional agreements and initiatives such as IBSA, MERCOSUR-SACU, India-SACU, India-MERCOSUR agreements.

The 3<sup>rd</sup> round of GSTP negotiations constitute a major effort by developing countries to undertake inter-regional liberalization. However major challenges in promoting and facilitating South-South trade include barriers arising from lack of connectivity and infrastructure, air, shipping and road links and trade facilitation.

The South has emerged not just as demandeurs and users of development finance but also as providers of development finance through accumulation of reserves, sovereign funds as sources of funds. This aspect needs to explore to see how it can fit in to financing for development objective.

*Commodity dependence* continues as more than 91 developing countries depend on less than three commodities. A majority of developing countries are dependent on the commodity sector (food and non-food, fisheries and forestry products, oil and gas, metals and minerals) as their largest source of revenue and employment, and a major source of external finance (foreign exchange) for development. Some 83 developing and least-developed countries derive more than 30 per cent of their export earnings from the export of primary commodities. Due to enhanced and likely sustained demand for commodities, most have not diversified. What has changed is that developing countries are not only producers of commodities but are increasingly becoming major consumers. This in turn has changed the market dynamics of supply-demand and hence in prices and export revenues for commodity producing countries.

One of the biggest developments since the time of the Monterrey Consensus is the "commodity boom" since 2002, resulting in the betterment of the prospects for commodities. International commodity prices showed a strong upward trend after their sharp fall in 1995-1997 to 2002. UNCTAD's commodity price index (including fuels)

in current US dollar terms has risen 96 per cent since 2002.<sup>4</sup> While this boom can result in higher revenues, it is important to consider that the international market for a wide range of commodities tend to be characterized by alternating short periods (a few years) of higher prices – like the current period since 2002 – and longer periods of lower prices, with high volatility within these cycles.

Besides the problem of prices, the marketing and processing of these commodities (i.e. value addition) is largely skewed against the developing countries that produce them. Both sets of problems (commodity prices and value addition) are related to the workings of the international trading system. Persistent supply/demand imbalances on world commodity markets have been mainly due to (in varying degrees across commodities) trade-distorting domestic support and export subsidies in certain industrialized countries.

Further we are seeing a crisis arising out of this new commodity scenario in food and energy and most developing countries are net food and energy importers. From this crisis which has trade and development implications for the achievement of key MDGs in terms of energy and hunger poverty. It can be surmised that ways will have to be found to enhance and target development aid towards helping developing countries meet the food and energy needs. At the same time exporting countries need to be enabled to increase their productivity, value addition, and diversification and channel windfall revenues into sustainable avenues.

*I would at this point like to draw your attention to three new realities that were widely discussed and in fact emphasized in the Accra Accord. These relate to the current food crisis, the energy crisis and climate change*

#### ***Food security***

The recent trend of unprecedented increases in the price of food and overall import bills for the poorest countries, coupled with diminishing food stocks, has created a host of humanitarian, socio-economic, developmental, political and security-related challenges and most notably immediate hunger needs in over 30 developing countries. Food security was an issue raised by heads of state at UNCTAD XII, and the U.N. Secretary-General Ban Ki-moon who has set up a high-Level Task Force to mobilize the United Nations to deal with the global food crisis. The global food crisis is the result of a combination of forces including drought, higher energy and fertilizer costs, and increasing demand, exacerbated by other factors.

In the Accra Accord of UNCTAD XII, UNCTAD member States took cognisance of the global food crises and requested UNCTAD to contribute within its areas of work on commodities, trade and investment. They highlighted the need to address the implications of volatile energy and food prices, and ensure a proper balance between food security and energy concerns. Concerns were expressed by some developing countries relating to market failures, the efficient functioning of markets and the need to improve dialogue between the food-importing and food-exporting countries to reduce and stabilize world food prices.

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<sup>4</sup> The rise in prices has been driven by the boom in the prices of metals and minerals which have increased by 191 per cent, and those of crude oil which have risen by 140 per cent. Price increases for agricultural raw materials and tropical beverages taken as groups averaged between 58 per cent and 45 per cent, respectively.

While there is a need to address this issue not just from the short term but medium and long term perspective as well. UNCTAD has offered to contribute through a series of advisory, technical co-operation and inter-governmental initiatives targeted primarily to net food importing countries. Areas covered will include technological development in support of agriculture development, policy advice relating to financial support for food and agriculture sector development, trade rules, south-south co-operation, investment in agriculture production, biofuels and food security among.

### ***Energy crisis***

The current energy crisis calls upon us to look at ways in which energy, poverty is dealt with so that energy security is ensured for sustained economic development of developing countries particularly energy importers. The past few years have witnessed wide fluctuations in oil prices, which reached record levels in the summer of 2006 and continue to rise. Higher oil prices affect the economies of developing countries at both the macro- and micro-levels. An important part of the effects are transmitted through changes in the terms of trade. According to UNCTAD estimates, the terms of trade of countries in whose exports fuel products play a substantial role increased by 30 per cent during 2002-2004.

A rise in oil prices has similar implications at the micro-level in both oil-importing and oil-exporting countries. Rising prices reduce the real disposable income of households outside the oil sector, particularly of urban households. Moreover, oil accounts for virtually all the fuel used in the transportation sector in the developing countries of Africa and other LDCs. Oil-exporting countries are experiencing different problems. Oil revenue has risen to unprecedented levels, generating massive windfall gains. In 2004 and 2005, the windfall gains that accrued to the Governments of nine oil-exporting countries in Africa exceeded US\$15 billion. In the oil-exporting countries of Africa and LDCs, the revenue flow resulting from high oil prices has caused real exchange rates to appreciate. This may weaken the competitiveness of a country's other exports and cause its traditional export sector to shrink. The issue of how to invest the surplus is also receiving growing attention.

### ***Environment sustainability in the context of climate change***

I would like to emphasize that the environment qualifies as an important global public good. The interface between the environment, on the one hand, and trade and development, on the other hand, is a central component of the globalization process. Climate change in particular is a crucial factor of globalization that currently poses one of the greatest risks to environmental, social and economic development in both the developed and developing countries. The impacts and costs of climate change are inequitable, with poor countries being the hardest and earliest hit, and the poorest within these countries who make a livelihood in sectors such as agriculture, fisheries, industry, energy and transport see the worst. Further if climate change predictions are true than there is also likely to be a higher incidence of migrants seeking better economic conditions or simply looking for survival.

Important elements of the FfD update and consideration of financing for development and trade nexus is the climate change response measures from emerging carbon market, the Kyoto Protocol and Bali process and the liberalization of environmental goods and services. The introduction of climate response measures through the emerging carbon market and the Kyoto Protocol has trade and development implications, as it affects economic sectors such as transportation, energy use, electricity

generation, agriculture and forestry. Similarly, you are aware that climate change in itself will have significant development implications, and that the measures identified to address climate change, such as the CDM or liberalization of trade in environmental goods and services, will have a significant trade and development impact. Hence the synergistic impacts of the global trade and production system and of climate change vis-à-vis the development prospects of developing countries must be looked at. Further there is the possibility that solutions particularly in terms of financing can be found in this process, much like the development of the carbon emissions market.

### ***Conclusion***

Much has been achieved but equally much remains to be implemented under Chapter III of the Monterrey Consensus. The Doha Review will have to take on board and adapt the Monterrey consensus to the new challenges and opportunities posed by the new wave of globalization, the emergence of a global South, the new commodities paradigm including food and energy security, the climate change response and migration, in terms of their trade, development and financing aspects. These new realities could on one hand provide a new dynamism to trade as an engine for development, but they could also pose a chain of related issues and challenges.

On LDCs' trade and development UNCTAD is the epicentre for a coordinated response. In the trade sphere, there is currently a focus on financing including Aid for Trade and Aid for development, which can stimulate a self sustaining virtuous cycle of productive capacity, competitiveness and enhanced market access opportunities being provided and utilized. The Aid for Trade update should be based on Accra Accord. The gaps in additional, predictable, sustainable and effective financing are fundamental. Trade related infrastructure and adjustment cost also need to be incorporated.

Further policy directions for the future and the distilled wisdom of development experiences and concepts that have evolved have to be taken into consideration. It is important to remain engaged, in addressing issues through global alliances, institutional co-operation, coherence, governance, solidarity and partnerships including and especially through the UN.

In conclusion there are two key messages. First there is a need to emphasize global solidarity for development in aid, trade, investment and technology, especially in the review of the Monterrey Consensus so that financing for development can be enhanced. The pro-development impact of globalization is not a given. Harnessing the positive forces of globalization requires national and regional policies and complementary actions aimed at expanding the development opportunities for developing countries. These need to focus on creating an enabling environment for trade, investment, private sector development, innovation and technological upgrading.

Second, globalization that can support inclusive and equitable development that must lead to poverty eradication, full and productive employment and access to essential services. This entails focus on maximizing the benefits of globalization and minimizing the costs, including through effective implementation of the consensus embed in the Monterrey Consensus. It entails a focus on the effective, qualitative and beneficial participation of developing countries into the international trading system.