

# UNCTAD XI and the Development Dialogue for the 21<sup>st</sup> Century

The Eleventh Session of the United Nations Conference on Trade and Development (UNCTAD XI) will take place in Sao Paulo on 13-18 June 2004. UNCTAD XI is a high-level event attended by many heads of governments and other senior leaders from 192 members of the organization. UNCTAD was set up in 1964 to assist developing countries in their economic integration with the world economy in a manner that the cause of development is not affected adversely. It is the focal point within the United Nations System for integrated treatment of trade and development, finance, technology, investment, among other issues. It is credited for a number of initiatives in the area of trade and development such as in evolving the generalized system of preferences (GSP) given by developed countries to developing countries, taming the international commodity markets, evolving the law of the sea, a set of multilaterally agreed principles for control of restrictive business practices although its attempts to bring about codes of conduct on multinational corporations did not succeed. The relevance of the organization is, if at all, more critical in the current era of globalization than in the 1960s when the organization was set up. This Policy Brief summarizes some issues that may be taken up by developing countries at the UNCTAD XI to make it serve its mandate of assisting developing countries in their integration with the world economy in a development friendly manner more effectively.

## Growing Asymmetries in the World Trading System

UNCTAD XI is taking place against the backdrop of the collapsed WTO talks, rising discontent against globalization, and creeping protectionist backlash in the developed countries that is threatening the fledgling recovery of the world economy. The collapse of the WTO talks was the result of the growing asymmetries in the world trading system since the

Uruguay Round. In the Uruguay Round (UR), developing countries undertook substantially higher commitments for trade liberalization compared to developed countries besides additional obligations in the areas of intellectual property, trade related investment measures and trade in services which reduced the development policy spaces for them. Developing countries were lured into accepting these substantially higher commitments with the promises of additional market access in agriculture, textiles and clothing and movement of natural persons. The experience of the past seven-eight years suggests that this promised market access has been a mirage. Developed countries continued to impose peak and high tariffs, specific duties and NTBs on imports from developing countries. A startling example is the fact that tariffs collected by the US on \$2 billion worth of imports from Bangladesh are higher than those imposed on imports worth \$30 billion from France. The market access commitments in textiles and clothing have been backloaded. The agriculture trade liberalization in developed countries has been undermined by dirty tariffication. The average applied tariff rates applicable to agricultural products compared to those on industrial goods have been higher by 641 per cent in Japan, by 353 per cent in the EU, and by 100 per cent in the US. Very few commitments that have been made by developed countries under Mode 4 of GATS, the mode of delivery of interest to developing countries, are almost all subject to limitations. New barriers to movement of natural persons are being evolved in different parts of the world, such as legislations outlawing business process outsourcing.

As a part of the strategic trade policy, developed countries are increasingly subsidizing industrial and innovative activity and are imposing policies akin to outlawed local content requirements. Resort to regionalism and contingent protection has also grown. These trends have adversely affected the place of developing countries in the world trade and their terms of trade. With the liberalization of trade and

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RIS as a Policy think-tank having status with UNCTAD and accredited to the UNCTAD XI has been involved in the Preparatory Process for UNCTAD XI and has made a presentation at the Hearings organized by the UNCTAD Secretary-General with the civil society. This Policy Brief is issued to assist the developing countries in their preparations for UNCTAD XI.

investment regimes, growth rates of developing countries have declined in the 1990s compared to the previous decade and inequalities have increased. These trends do not bode well for the long-term sustainability of the world trading system.<sup>1</sup>

The Doha Ministerial Conference attempted to restore the emphasis on development in the WTO. It called for positive efforts to ensure developing countries benefiting from enhanced market access and balanced rules. In substantive terms the highlights of the Doha Agenda included a commitment in the area of agriculture to substantially improve market access, progress towards phasing-out of all forms of export subsidies and substantial reduction of trade distorting domestic support. It also accepted the primacy of public health concerns and offered to provide flexibility to poorer countries from the provisions of TRIPs Agreement to import cheaper generic medicines. In the area of market access for industrial products, commitments were made to eliminate or reduce peak tariffs, high tariffs, tariff escalation and NTBs, in particular, on products of export interest to developing countries. Commitments were also made to review the S&DT provisions for developing countries to make them more precise, effective and operational.

However, the progress since the Doha Ministerial has been far from satisfactory and suggests a going back on the spirit of the Declaration. The Fifth Ministerial Conference of WTO, held in Cancun in September 2003, was to advance the Doha Agenda. However, it could not adopt a Ministerial Text and collapsed because of a sharp polarization on the North-South lines. Developed countries had shown their resistance to phase out the billions of dollars of export subsidies and domestic assistance that they give to protect their farm sector while seeking to extract new concessions from developing countries in the form of a negotiating mandate on Singapore Issues. The draft modalities for market access in agricultural as well non-agricultural goods that were proposed by developed countries at Cancun suggested that the principle of less-than-full-reciprocity as enshrined in the Doha Mandate had been undermined. Cancun Ministerial also highlighted the asymmetries in the process of preparation of the draft Ministerial Texts. It systematically attempted to take on board only the proposals and views articulated by the quad countries while neglecting the widely shared views and counter proposals of developing countries.

Therefore, a reform of the world trading system and the process of decision-making is necessary if the system is not to further perpetuate the growing asymmetries and erode its long-term sustainability itself.

## Long Pending Reform of International Financial Architecture

The economies of developing countries have become highly vulnerable to speculative capital movements in

and out of the country with the growing integration of financial markets. The recent economic crisis beginning with Mexico in 1994, East Asian crisis of 1997, the Russian crisis of 1998, the Brazilian crisis of 1999 and the Argentine crisis of 2001 have highlighted the role played by speculative capital movements in triggering off the crisis situations. The frequency of crisis has sparked of a debate on the reform of international financial architecture.

## Falling Resource Flows to Developing Countries

Major changes have taken place in the international financial system in terms of changing magnitudes and composition of external resource flows to developing countries. Net long-term resource flows to developing countries have declined steadily since 1997. The official flows in particular have gradually dried up over the 1990s despite the rhetoric for reaching the 0.7 per cent target of official aid. Private flows now account for over 80 per cent of total long-term resources. While the private capital inflows such as FDI and portfolio investments have expanded in magnitude, they are determined by the levels of development and infrastructure among other factors. Hence, low income and least developed countries are unable to increase their share in private flows despite liberalization of policies. As a result the net resource flows to low income countries have reduced to less than half between 1996-2000 period.

Furthermore, the net transfers on debt to developing countries after providing for the debt service have turned negative since 1998 pushing them into a debt trap. The progress of HIPC (highly indebted poor countries) Initiative has been slow. The Monterrey High Level Conference on Financing and Development (FfD) has not been able to resolve the issue of the immediate need for restoring positive long-term resource flows to low-income countries. But for that achievement of the Millennium Development Goals would be a mirage.<sup>2</sup>

The long pending reform of international financial architecture thus remains to be addressed. The global macro-imbalances represented by the growing twin deficits in the US are also leading to exchange rate realignments and pose the risks for the fledgling global recovery.<sup>3</sup>

## An Agenda for UNCTAD XI

Against that background, this Policy Brief lists some thoughts for the agenda for UNCTAD XI for consideration by the Member Governments.

## Revival of the Spirit of Global Interdependence and Global Consensus on Development

First of all UNCTAD XI should focus on revival of the spirit of global interdependence and the global

<sup>1</sup> See for a more detailed analysis RIS, *World Trade and Development Report 2003: Cancun and Beyond*, Chapter 2.

<sup>2</sup> See RIS, *Globalization and the Non-Aligned Movement: An Economic Agenda for Action*, New Delhi, 2003.

<sup>3</sup> See RIS Policy Brief #11: *Managing Global Macroeconomic Imbalances: The US Current Account Deficit, Exchange Rate Flexibility and Asian Reserves*, 2004.

consensus on development. The recent protectionist backlash in developed countries does not augur well for the global welfare. In a globalized economy, the fortunes of all the economies are linked. Developing countries are important markets for the goods and services of developed countries. The importance of developing countries as markets for goods of developed countries has gone up from 23 per cent in 1990 to 28 per cent in 2002. Developing countries absorb 45 per cent of US exports and 52 per cent of Japanese exports. Prosperity and growth in developing countries thus in a way increases demand for the goods and services produced by developed countries and thus contributes to their own growth and employment creation. Even the processes that are supposed to be moving jobs away from developed countries, such as business process outsourcing (bpo) actually improve their own welfare. Analysis by McKinsey Institute has shown that of the one dollar spent by a US corporation on outsourcing, as much as 78 per cent of the value is retained within the US economy with the supplier country getting only 22 per cent of the value.

### **UNCTAD as a Forum for Analytical Underpinning for Promoting Development**

As observed earlier, UNCTAD was set up as a specialized body of the United Nations to facilitate integration of developing countries with the world economy while preserving the cause of development. Indeed UNCTAD in the 1970s and 1980s came forward with proposals such as Generalized System of Preferences (GSP) involving non-reciprocal trade preferences given by developed countries to developing countries under the enabling clause. Given the high dependence of developing countries on commodity exports, UNCTAD took several steps to tame commodity markets including creation of a Commodities Fund as a part of an Integrated Programme on Commodities. In the area of foreign direct investment (FDI) and technology transfers by transnational corporations which are the other channels of global economic integration, UNCTAD attempted to evolve codes of conduct to improve the quality of these interactions. However, of late UNCTAD has tended to assume the role of another institution providing technical assistance more than one generating new ideas to facilitate the development friendly global economic integration of developing countries. It may be argued that other organizations such as UNDP, International Trade Centre may be better equipped to provide technical assistance than UNCTAD. UNCTAD should seek to reposition itself as a body responsible for taking the cause of development in all international negotiations and assisting the developing countries with analytical support rather than just another institution providing technical assistance.

### **Assuring Development Gains from the International Trading System**

#### *Development Assessment of the World Trading System*

In the context of the current impasse in the trade talks, UNCTAD XI could announce appointment of a high-level independent trade and development commission to conduct a development assessment of the world trading system and suggesting an agenda for its overhaul. In order to ensure its credibility and objectivity, the Commission could be headed by a highly respected economist such as Professor Joseph Stiglitz. The Commission could come up with specific proposals to make trading system more friendly to development.

#### *A WTO Watchdog of Developing Countries*

UNCTAD can assume responsibility of creating a WTO Watchdog of developing countries. While implementation of their WTO commitments by developing countries are carefully monitored by developed countries and complaints brought on any cases of under-implementation, they (developing countries), individually, lack the capacity – physical, analytical and financial – to identify and pursue the cases of non-implementation or unilateral policy decisions concerning trade policy on the part of developed countries and seek their redressal under the existing framework. The recent case of the trade distorting export subsidy valued at \$4 billion under Foreign Sales Corporations (FSC) by the US government which was successfully brought by the EU to the DSB is a case in point. Needless to mention that no developing country possesses the capability to do the same. UNCTAD could assist developing countries by setting up such a mechanism to monitor compliance by developed countries of their commitments in letter and spirit.

#### *Reform of the Decision-making at WTO*

The general perception is that the decision-making process in WTO is non-transparent, and non-inclusive. The will of a handful of powerful countries, viz. Quad countries, is imposed on the entire membership in the name of ‘Consensus’. In an organization whose membership comprises of countries at varying levels of development, their concerns and interests are expected to be different. Obviously these differences limit the possibilities of arriving at a consensus. UNCTAD should come up for a comprehensive reform of the WTO decision-making process to make the process more inclusive and participatory.

#### *Proposals for Effective Special and Differential Treatment (S&DT) Provisions*

The express purpose and objective of the multilateral trade negotiations (MTNs) is to liberalize trade so that

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**“Trade liberalization should be seen as a ‘means’ and not the ‘end by itself’. The ‘end’ beyond any doubt should be sustainable development in all parts of the world, with principles of efficiency and equity providing the basis.”**

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*RIS, World Trade and Development Report 2003: Cancun and Beyond.*

efficiency gains become available to the world economy at large. However, it has been recognized that there are unequal players in the game and developing countries are limited in their financial and physical capacities to undertake equal commitments. They need flexibilities to pursue their development policy objectives that have been available to developed countries in the early stages of their development. Hence, the concept of special and differential treatment (S&DT) to developing countries on a non-reciprocal basis has been an integral part of the process since the 1960s. However, in the Uruguay Round the S&DT provisions were diluted and reduced to a slightly longer transition for them. This has often reduced the space to pursue their development policy objectives. The Doha Declaration promised to review the S&DT provisions for developing countries to make them more precise, effective and operational. UNCTAD XI should take an initiative to come up with proposals for making the S&DT provisions in different WTO Agreements effective based on analytical studies on the need for policy spaces at different stages of development. In order to provide a legally binding framework to various S&DT provisions, there is need to negotiate a Framework Agreement, as demanded by developing countries at Doha. Such an Agreement would provide for the notifications requirements and inclusion of commitments in country schedules and for dispute settlement. The Framework Agreement should clearly lay out an objectively defined economic criteria for S&DT provisions rather than just longer transition periods. For instance, developing countries with more than half of their population dependent on agriculture could have greater flexibility in implementing the market access commitments under the Agreement on Agriculture.

<sup>4</sup> See for evidence, RIS Discussion Paper # 27: *Foreign Direct Investment, Externalities and Economic Growth in Developing Countries: Some Empirical Explorations*, New Delhi 2002.

<sup>5</sup> See for empirical evidence, *Globalization and the Quality of Foreign Direct Investment* by Nagesh Kumar, Oxford University Press 2002.

<sup>6</sup> See for evidence, RIS Discussion Paper #52: *Performance Requirements as Tools of Development Policy: Lessons from Experiences of Developed and Developing Countries*. New Delhi, 2003.

### *A Framework Agreement on Movement of Natural Persons*

Despite the promise of improved market access in the services of interest to developing countries, very few commitments have been made by developed countries in Mode 4. Furthermore, almost all these commitments are subject to limitations, such as economic needs test that usually render them ineffective. New barriers to movement of natural persons are being evolved in different parts of the world, such as legislations outlawing business process outsourcing. Studies have found staggering welfare losses for the world economy from the protected markets for labour. Even a limited liberalization of labour markets covering just 3 per cent of work force has the potential to generate welfare gains of US\$ 156 billion per year, according to recent studies. Given the reluctance of developed countries to make meaningful commitments on the movement of natural persons, developing countries could seek a framework agreement to provide for movement of natural persons.

## **FDI and Building Competitive Productive Capacities in Developing Countries**

There has been a lot of discussion on the role of FDI in building productive capacity in developing countries. It is argued that FDI inflows facilitate transfer of valuable technological know-how that spills over to other firms in the economy. Foreign affiliates also do a lot of R&D activity and hence help in filling up the 'innovation deficit'. Strong policy implications are drawn on the basis of these assertions. However, the empirical evidence has shown that FDI does not always lead to transfer of new technology, that technology diffusion may also not take place unless some conditions are present. In fact it has been shown that in certain conditions, as generally present in developing countries, negative productivity spillovers may take place. FDI may sometimes crowd-out domestic investments and be immiserising or reduce the host country welfare. Experiences of developing countries with FDI are found to be varied with FDI complementing domestic investment in some and substituting it in others.<sup>4</sup> The studies find the role of host government policies in determining the nature of impact FDI has on domestic investments and hence on development in host countries. In other words, the contribution of FDI to building productive capacity may not be automatic, and there is a role for host government policies in determining the quality of FDI and extracting its potential for development. The evidence is now available on the role of host country policies such as selective entry policies, performance requirements such as local content regulations, export performance requirements and joint venture requirements and incentives for generation of vertical inter-firm linkages, among others, in helping host countries exploit the potential of FDI for development of competitive production capacities and technological capability.<sup>5</sup> Studies have also documented the widespread use of performance requirements and other selective policies by developed countries in different stages of their development.<sup>6</sup> UNCTAD could assist developing countries in fine-tuning their investment policy regime to optimize the role of FDI in process of their development besides advising them in preserving the policy space in the multilateral trade negotiations that is critical for making FDI work for development. UNCTAD could also assist developing countries in making the provisions for transfer of technology in various WTO Agreement effective and binding.

## **Capital Flows and Reform of International Financial System**

UNCTAD XI should seek a consensus on the urgent need of reform of the international financial architecture and develop a development friendly agenda for it. This agenda should emphasize on the need for restoring long-term resource flows to low-income countries. The

expanding magnitudes of private capital and FDI, while a welcome development in itself, could not substitute for the falling levels of official development finance in view of the inability of poorest of developing countries to tap these resources due to their low income levels, poor infrastructure, undeveloped capital markets, among other reasons. Industrialized countries should offer assistance to developing countries with a renewed commitment to restore official development assistance in the spirit of global interdependence in the globalising world economy. In the interdependent global economy, any flow of resources to developing countries revert eventually in the form of enhanced imports by them. Implementing the UN target of ODA level at 0.7 per cent of their GDP, agreed to earlier, would lead to an additional flow of US\$ 100 billion of resources to poorer countries at the present levels of GNP of industrialized countries. A flow of that amount of additional resources, if employed properly, could lead to additional growth stimulus not only in the developing world but in the world economy at large. In order to enhance the effectiveness of aid for promoting growth and poverty removal, ODA should be untied and be available to development policy making and implementing bodies so that it effectively supplements the domestic resources.

The other issues for the agenda for reform of international financial architecture include curbing speculative capital movements by imposing a tax, transparency, monitoring and surveillance of international borrowing and lending; international resumption of credit-rating agencies, reform of IMF conditionalities, revival of SDR allocations, among other.<sup>7</sup>

## Promotion of South-South Cooperation

South-South Cooperation (SSC) received considerable attention as a philosophy for development during the 1960, 1970s and 1980s. These were the times of when developing countries, having coming out of the yoke of colonization, were struggling with the poverty and underdevelopment. Lack of financial and technological resources and the western apathy forced them to look to collective self-reliance as an engine of growth. The Non-aligned Movement (NAM) came into being. Initiatives taken by developing countries also led to creation of UNCTAD, and the Group of 77 in the 1960s. The South Commission headed by former Tanzanian President Dr Julius Nyerere and Dr Manmohan Singh as the Member-Secretary was set up in the mid-1980s. A more compact Group-15 of developing countries with annual Summits was set up in the late 1980s.

Besides these forums for dialogue, the institutional infrastructure for promoting SSC included setting up of the agreements for preferential trade regimes between developing countries including the Bangkok

Agreement and the GSTP (Global System for Trade Preferences), in addition to several institutions set up to contribute to capacity building.

In the 1990s, however, globalization took the center stage and SSC was put on a backburner. The process of globalization was promoted by the Brettonwoods institutions and the GATT and its successor, WTO. A large number of developing countries which faced financial crisis in the 1980s and 1990s against the backdrop of declining resource flows were forced to approach the Brettonwoods institutions for assistance which generally came with the conditionalities binding them firmly with the Washington Consensus. The latter required the borrowing countries to liberalize their trade and investment regimes to integrate themselves more firmly with the world economy.

Recent trends suggest that developing countries are revitalizing on SSC as a new engine of growth in the new millennium, partly as a result of their growing discontent with 'selective' globalization. Developing countries in different regions are also establishing their own schemes of regional economic integration, e.g. Mercosur, Comesa and SACU. In Asia, there is an ASEAN FTA and SAFTA and BIMSTEC FTA are taking shape. The Bangkok Agreement is being revitalized. Several alternative plans for evolving a broader pan-Asian grouping are also being discussed such as East Asian Economic Community, Asian Economic Community or JACIK<sup>8</sup> besides inter-regional initiatives such as India-Brazil-South Africa (IBSA) Commission and Team-9 (see Box 1). Developing countries coordinated their positions at the Cancun Ministerial Conference by forming Group of 20 (on Agreement on Agriculture) and Group of 16 (on Singapore Issues). These continue to stay in place and are being used by developing countries to assert their positions.

The growing SSC is a positive development as it helps developing countries to exploit their synergies for their mutual benefit. Here, we identify select major issues for promotion of South-South Cooperation.

### *Promoting South-South Trade: A New More Ambitious GSTP Round*

Promotion of South-South trade and cooperation in other areas should be attached a high priority. South-South trade has grown very fast over the past two decades and now constitutes nearly 43 per cent of total trade of developing countries. However, the bulk of this intra-South trade is intra-regional facilitated by various regional trading arrangements besides obvious gravity factors. There is need for an institutional promotion of inter-regional trade between developing countries. Although some preferential trade arrangement are taking place between developing countries in different continents, such as India-Mercosur Framework

<sup>7</sup> See for a detailed discussion RIS Policy Brief #10: *International Financial Architecture: An Agenda for Reform*, 2004.

<sup>8</sup> See for more details, RIS Policy Brief #1: *Relevance of Asian Economic Community*, 2003.

### Box 1: IBSA and TEAM-9: Case Studies in Inter-Regional South-South Cooperation

In a move to expand its economic reach towards African countries, India has launched a fresh initiative called Techno-Economic Approach for Africa – India Movement (TEAM-9), with eight energy and resource-rich but lesser known West African nations - Senegal, Mali, Guinea-Bissau, Ivory Coast, Ghana, Equatorial Guinea, Burkina Faso and Chad. The First Ministerial Meeting of TEAM-9 country was held in New Delhi on March 1, 2004, at which an Agreement was reached involving an offer of concessional credit of US\$ 500 million and technical assistance and critical technologies by India.

The Foreign Ministers of India, Brazil and South Africa met in Brasilia on June 6, 2003, and agreed to set up a Trilateral Commission of India-Brazil-South Africa (IBSA) Dialogue Forum for regular consultations. The First Ministerial Meeting of the Commission was held in New Delhi on 4-5 March 2004 at which they adopted a New Delhi Plan of Action to boost trilateral trade and promote South-South cooperation (SSC). The Ministers held a wide-ranging discussion on regional and international issues, and on promotion of trilateral cooperation in the fields of transportation, tourism, trade and investment, infrastructure, job creation and small, medium and micro-enterprises, science & technology, information society, e-governance, capacity building, local content development, e-health, information society, health, energy, defence and education. The New Delhi Plan of Action covers a common approach with regard to the World Trade Organization (WTO), strategic cooperation besides setting a target of more than doubling the mutual trade to US\$ 10 billion by 2007. IBSA countries have also set up a Trust Fund within the UNDP for Alleviation of Poverty and Hunger as their support towards SSC. India has also signed a Framework Agreement for Preferential Trade with Mercosur, a customs union of which Brazil is a key member.

*Source:* RIS based on Ministerial Meeting of TEAM-9 Countries, 1 March 2004, Joint Statement, Ministry of External Affairs, New Delhi; and India-Brazil-South Africa (IBSA) Dialogue Forum Trilateral Commission Meeting, New Delhi Agenda for Cooperation and Plan of Action, 5 March 2004, Joint Statement, Ministry of External Affairs, New Delhi, available at <http://meaindia.nic.in/jshome.htm>

Agreement signed in 2003, there is need for a broader arrangement.

One may argue that multilateral trade negotiations in the framework of WTO take care of promotion of South-South trade between the regions. However, it has been contended in RIS studies that promotion of South-South trade through mutual trade preferences rather than multilateral approaches would be more beneficial and would assist them in building their supply capabilities and help them attract investment from developed countries. RIS studies have shown substantial complementarities characterizing their trade structures and hence the potential of expanding mutual trade. In this context, the Global System of Trade Preferences (GSTP), a scheme of trade preferences among developing countries signed in the 1980s could be reinvigorated. Two Rounds of GSTP have been completed in the past. A third and more ambitious round of GSTP could be launched to bring down tariffs on intra-South trade by 50 per cent with eventual elimination subject to appropriate rules of origin. Furthermore, in place of the positive list approach adopted by the previous GSTP Rounds, the third round could be built on sector-by-sector approach on negative list basis. Preliminary exercises conducted at RIS in the framework of a CGE Model suggest that trade liberalization within GSTP framework has considerable potential of increasing South-South trade and generating welfare gains.

#### *Facilitation of South-South Trade*

While a preferential trade arrangement like reinvigorated GSTP is desirable, it would hardly be

able to promote mutual trade in the absence of trade facilitation and without addressing various non-tariff barriers. First of all there is need for improving flows of trade and business information between developing countries. UNCTAD and ITC could help set up a web-based information clearing-house exclusively for developing countries based exporters and importers. Secondly, there is need for strengthening commercial banking links for facilitating the intra-South trade. Commercial banks of South or their consortia could strengthen their presence in other developing countries. Thirdly, export-import banks or export financing agencies of developing countries could get together and develop reciprocal links for export financing. Cooperation between clearing and payment agencies of developing countries may also be fruitful in evolving framework for conducting mutual trade in local currencies. UNCTAD could facilitate South-South cooperation in these areas.

#### *Cooperation in the WTO Issues*

Cooperation in the sphere of WTO could cover two aspects: coordination of positions in the multilateral trade negotiations for building a development friendly world trading system and cooperation in implementation of their commitments. At Cancun Ministerial developing countries were able to cooperate effectively by building issue-based coalitions, viz. Group of 20 on agriculture and Group of 16 on Singapore Issues. These coalitions are continuing in the post-Cancun era. Longer-term sustainability of these coalitions, however, will need some constructive proactive agenda. This agenda might cover seeking a

reform of the process of decision-making in the multilateral trade negotiations to make it more inclusive, transparent and equitable; setting up a watchdog on the implementation of WTO commitments by developed countries in collaboration with UNCTAD, as observed earlier, strengthening the provisions of technical assistance for developing countries, strengthening the provisions for special and differential treatment with the help of a framework agreement, seeking a framework agreement on movement of natural persons, and a framework agreement on transfer of technology, among others. The other aspect of South-South Cooperation could cover mutual cooperation in implementation of commitments, technical assistance for compliance of emerging standards, etc. UNCTAD could assist developing countries in these areas of cooperation.

### *South-South FDI and Technology Transfers*

Thanks to development of technological capability and entrepreneurship in a number of developing countries, intra-South flows of FDI and technology have grown over the past decades. The recent studies suggest that over a quarter of all inflows of FDI received by developing countries originated in other developing countries by the mid-1990s and this proportion has gone up to one third by the turn of the century.<sup>9</sup> Their importance as sources of FDI inflows is strikingly high for some Asian and Latin American countries. The emergence of developing country enterprises as important outward investors is an important

development of the past one and a half decade. It widens the options of developing countries looking for FDI inflows and technology at least in standardised and matured industries. Emerging MNEs have often provided to their lesser developed host countries access to intermediate and generally more appropriate and cheaper technologies and skills. These intermediate range of technologies could be valuable in development of wage goods sectors in dual economies. Developing countries are becoming sources for not only domestic market oriented FDI but also for export-oriented ventures. The least developed countries may find it easier to attract FDI originating in developing countries than from industrialized countries. Yet there appears to be a scope of institutional intermediation at the national, regional or international level for directing these flows to the poorer countries given the constraints of information and financing. On the part of receiving countries, a specific targeting of developing country FDI may be desirable. Some countries have already begun to successfully target them. The efforts at regional economic co-operation among developing countries could also facilitate inter-developing country FDI flows and technology transfers. UNCTAD XI could come up with some approaches for promotion of intra-South FDI flows.

### *South-South Cooperation in Addressing the Digital Divide: The e-South Framework*

Information and communication technologies or ICT, has emerged as a key engine of growth in the 1990s.

## **Box 2: ICT Innovations addressing Issues Specific to Developing Countries**

Apart from manpower bottleneck, IT infrastructure and appropriate policy environment, ICT diffusion in developing countries is constrained by affordability and last mile connectivity. For most of the less developed countries, while the landline and cellular telecom systems work well in metropolitan areas and smaller cities, where subscribers are located in dense clusters that justify the high cost of installation. This result in intra-national digital divide that is more acute than international digital divide. This issue could be addressed to a great extent by CorDECT (Wireless in Local Loop Technology) developed in India by the Indian Institute of Technology, Chennai.

The issue of affordability arises mainly on account of the high price of hardware and software in relation to average income level of people in the developing world. Today the computer hardware and software are priced mainly by taking into account the developed-world market conditions. Hence the existing business models of software vendors and hardware manufacturers are not designed for widespread use in less developed countries where annual per capita income is only a fraction of their developed country counterparts. The developments in the Free/ Open Source Software (FOSS), though in its early stages of development, are likely to provide an alternative for the developing world. Several Indian groups are actively at work localizing FOSS to Indian languages, and these include groups like Malayalam Linux, Tamil Linux, and others. Even in least developed countries like Lao PDR, attempts are being made to localizing the Linux-based graphical desktop and office tools to the Lao language at the instance of Jhai Foundation.

In the sphere of hardware innovations like simputer developed by the Indian Institute of Science, Bangalore is considered highly relevant in addressing the issues of affordability and illiteracy being faced by developing countries. These innovations highlight the technological capability present in the developing world to address the issues specific to them like of last mile connectivity, affordability and illiteracy. However, the cost of these technologies could be brought down significantly with increased scale and capabilities enhanced by further investment in R&D which in turn calls for cooperation among countries in the South.

Source: RIS

<sup>9</sup> See for these estimates, *Globalization, Foreign Direct Investment and Technology Transfers: Impacts on and Prospects for Developing Countries*, by Nagesh Kumar *et al.* (1998), London and New York, ch. 7; Akyut, Dilek and Dilip Ratha (2004) 'South-South FDI Flows: How big are they' *Transnational Corporations*, 13(1): 149-176.

ICT industry is estimated to have contributed 35 per cent of the US economic growth over 1995-2000. The recognition of the role of ICT as an engine of growth has attracted attention to the digital divide between nations that may constrain poorer countries from exploiting the developmental potential of these technologies. It has been demonstrated that these technologies can prove to be valuable tools for fighting poverty and promoting rural development. The evolution of ICT is also fashioning an international division of labour in software development services and some developing countries endowed with abundant trained manpower, like India, the Philippines, China are emerging as bases for offshore software development.

South-South cooperation could be valuable for the development of human resources, regional information infrastructure, customized application software for domestic applications and joint development of low cost hardware and software, among other areas, for addressing the digital divide and for harnessing the fruits of these technologies (See Box 2). While the need for South-South cooperation is too obvious, what is missing at present is an institutional arrangement for promoting the same. In this context, UNCTAD could set the beginning by bringing together the countries in the South under the umbrella of an **e-South Agreement** aimed at bridging the digital divide through an integrated development of ICT Sector in

the developing countries. Towards achieving this objective, the Agreement, in tune with the Information Technology Agreement of WTO, should facilitate free trade in ICT goods and services among the developing countries. At the same time, drawing from the e-ASEAN Framework Agreement, the e-South Agreement should be instrumental in building capacity both for production and use. This calls for measures to promote investment in the ICT sector such that new income, employment and export earning opportunities are generated. Given the paramount importance of human capital in developing ICT production and promoting ICT use, special focus may be given to developing IT manpower base wherein there is the need for relaxing the restrictions on the mobility of skilled manpower across the developing world. In general the Agreement should facilitate an integrated development of the ICT sector wherein both production and use are promoted instead of the ongoing lop-sided approach towards making many a developing countries passive adopters of technology.

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These are some of the issues, developing countries could take up at UNCTAD XI. One hopes that the eleventh session of UNCTAD will succeed in taking decisions to move forward on some of these issues and will thus contribute to development-friendly integration of developing countries with the world economy.

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## RIS

RIS is an autonomous policy think-tank, based in New Delhi, specialized in trade and development issues. Its work programme focuses on multilateral trade negotiations, regional economic integration in Asia, new technologies and development, among other issues. The work of RIS is published in the form of research Reports, books, discussion papers and journals. For more information about RIS and its work programme, please visit its website: [www.ris.org.in](http://www.ris.org.in).

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