

SECOND SOUTH SUMMIT OF THE GROUP OF 77 AND CHINA
Doha, 15-16 June 2005

Statement by Mr. Carlos Fortin, Officer-in-Charge of UNCTAD
16 June 2005

Your Highness Sheikh Hamad bin Khalifa Al-Thani, Emir of the State of Qatar,
Chairman of the Second South Summit,
Your Excellency, Honourable Percival James Patterson, Prime Minister of Jamaica,
Chairman of the Group of 77,
Your Excellencies, Heads of States and Government,
Excellencies,
Distinguished delegates,
Ladies and gentlemen,

1. It is a privilege for UNCTAD to participate in this key event for the future of the South and its role in international economic relations. The meeting will undoubtedly both advance the joint endeavours of developing countries and further South-South cooperation. UNCTAD and the Group of 77 were created at the same time and for the same purpose: the growth and prosperity of the developing countries. I would like to express here our deepest appreciation to the people and the government of the State of Qatar for the excellent organization of the Summit and the generous hospitality provided.

2. Today we have an important emerging phenomenon in international economic relations. We, in UNCTAD, call it a "New Geography of International Economic Relations". It essentially reflects the extent to which the developing countries have grown in importance in the world economy. The potential scope of the phenomenon is considerably wide as it covers both the trade field and areas such as the flows of investment, technology, services, commodities and finance. The phenomenon involves not only relations among developing countries, but also relations between developing and developed countries.

3. Since the concept of secular deterioration of the terms of trade for developing countries, put forward by the founder of UNCTAD, Argentine economist Raúl Prebisch, important changes have taken place in the world economy. While it is true that a majority of developing countries today are still essentially exporters of raw materials to, and importers of manufactured products from, the developed world, it is also true that we are witnessing an internationalization of production, whereby capital moves to various locations, not only in a search for raw materials or markets, but also in search of cheaper ways to produce. This is made possible by technological progress that has allowed a segmentation of the production process, and the ability of companies to locate different links in the production chain in various parts of the world. In addition, the information component of output is increasing, and this helps internationalization: it is easier and less expensive to relocate information-intensive parts of the production process. That has special implications for services trade.

4. As a result, parts of the developing world have experienced processes of growth and development that are allowing them to become dynamic actors in, and sometimes engines of, world growth. China is the clearest example, but other

countries in Asia and Latin America can also be placed in that category. Equally, the diversification of economies of some developing countries has created forms of differentiation and complementarities that foster economic exchange among developing countries.

5. The result is that the importance of developing countries in trade has increased significantly. Some of the figures are striking: in 2003, the US imported more from developing countries than from developed countries, and exports to developing countries increased to over 40% of total US exports. In the case of Japan, about half of its exports go to developing countries, and in the case of the EU - if one excludes intra-community trade - about one third of exports go to developing countries. Trade among developing countries has also grown dramatically. In other words, it would seem that this new internationalization is coexisting with the trend for developing countries to increase their importance as trading partners for developed countries and also to become significant trading partners for other developing countries.

6. Furthermore, the composition of the trade has changed. It is no longer the case that developing countries export raw materials and primary commodities, and import manufactures: developing countries are increasingly exporting manufactures. Exports of manufactures from developing countries were 20% of their total exports in 1980; they rose to 70% in 2000 - again, a dramatic increase. While developed countries still import raw materials from developing countries, they now also import intermediate inputs, parts and finished products from them. And developing countries, in turn, export both to developed countries and to other developing countries - and the exports include raw materials and inputs, parts and finished products. It is a much more complex structure of world trade, and a much more complex geography of world trade.

7. A similar process is also taking place in the case of investment. For a long time, FDI flows have been essentially among developed countries, and that remains the case today. Nevertheless, the share of developing countries both as recipients and, increasingly, as sources of FDI, is growing. It is growing, again, because of the segmentation and relocation of productive processes that allow international companies to locate different parts of the productive chain in different parts of the world. The process is less visible than in trade: we still do not have what we could call a new geography of foreign direct investment. But the trend is there, and it is particularly apparent in some regions, such as Asia. There is now also the beginning of a new geography of technology, expressed particularly in such areas as biotechnology and medical technology.

8. In the light of these major developments, the question arises have all the above changed the world economic system fundamentally? The answer is no. We are still in a situation where the main source of demand for world imports is the developed world. What we are talking about here is not about the replacement of one system of international trade with an entirely different one; it is rather about a complementary trend that allows for synergies that in turn could help create a better world for everybody. Today, the idea that developing countries could become important sources of demand and growth for the developed countries has become a reality. However, the notion of a trade and development solidarity, in which both developed countries and developing countries can take advantage of the potentialities inherent in the new

geography, including in order expand South-South relations, still need to be made fully operational.

9. It is important to clarify that this is not a call to trying to dictate to the markets. Often, the objection to international cooperation to expand South-South trade is: Why do you need to hold conferences, launch policy interventions and deploy resources to expand South-South trade? If it is a profitable proposition, it should happen by itself; and if it is not, why push it? The answer is that North-South trade flows are affected by factors outside the strict economic rationality of the exchange, which therefore distort the outcomes. In this sense, efforts at promoting South-South trade should essentially aim at removing these distortions so as to allow the full potential volume of South-South exchanges to take place. That is the idea, of course, behind the GSTP as well as behind regional trade agreements.

Mr. President,

10. For many years UNCTAD has been a strong supporter of the South-South cooperation by generating ideas, providing substantive support to specific activities and, to the extent possible, assisting in mobilizing appropriate resources. The negotiation of the Global System of Trade Preferences among Developing Countries is a case in point. This is the most comprehensive South-South trade initiative currently in existence and the launching of its third round is a major step forward. The "Positive Agenda" for South-South cooperation presented by UNCTAD at IFCC-XI in Havana contains additional ideas ranging from international trade negotiations, networking of Export-Import Banks and Development Finance institutions of developing countries, further expansion of intra South-South trade, and commodities among others.

11. In this context, allow me Mr. President, to indicate two areas where UNCTAD's expertise can further help developing countries in assuring development gains from international trade and the world economy in general.

12. The emerging new trade geography has been closely linked to the success of a number of developing countries in entering new and dynamic sectors of world trade, whereby they have captured substantial gains in terms of domestic valued added, high quality employment, improved growth, and deeper participation in global value chains. To realize the full potentials of South-South cooperation on new and dynamic sectors there is a pressing need for a focused policy approach that builds and sustains strategic linkages among developing countries involving certain key factors. They include supply capacity, productivity, technological endowment and competitiveness; investment; market access and entry; changing demand and trade preferences; and regional division of labour. In this regard, designing South-South trade cooperation through the creation of free export zones in the respective developing regions for the development and export of new and dynamic sectors can bring immense benefits to individual developing countries, and the South as a whole. South-South trade and regional economic and trade arrangements can provide a supportive environment for entering dynamic and new sectors. UNCTAD research has demonstrated that the dynamically changing regional division of labour, where less developed countries enter simpler manufacturing stages as the more advanced economies successfully shift to increasingly sophisticated manufacturing activities, remains a relevant ideal for

South-South cooperation. Such a process can also help countries avoid the low and declining value-added trap. Mapping South-South divisions of labour along value chains could help countries in their diversification strategies. South-South trade can be a useful testing ground for developing countries to build export capacities in dynamic and new sectors.

13. In the area of investment, international investment agreements are proliferating. Currently, all the models that serve as a basis for bilateral investment treaties and/or investment chapters in bilateral or regional free trade agreements are based on developed countries' experience. These models do not take into account developing countries concerns nor have a strong development dimension. A "developing country" model could meaningfully fill this gap. Furthermore, it could strive to incorporate lessons learnt from past treaty practice and the impact of treaty implementation through a more elaborated drafting of key provisions. Such a model could be used as a reference for further South-South cooperation in the investment area. Furthermore, as already indicated, outward FDI from developing economies, which is increasing in terms of global share and absolute amount, is an important vehicle to strengthen South-South cooperation. At the same time, outward FDI from developing countries constitutes another reservoir of investment that can be tapped by investment promotion agencies of other developing countries. Further efforts are required to exploit increased South-South cooperation in this context.

14. Many participants have highlighted the crucial importance of the September High-level Meeting of the General Assembly devoted to the review of the implementation of the objectives of the Millennium Declaration. UNCTAD, as the focal point within the United Nations for the integrated treatment of trade and development issues, in particular trade, investment, technology, commodities and sustainable development, considered the institution's contribution to the implementation of the MDGs as well as of the commitments arising from the major UN conferences and summits, falling within the mandate of UNCTAD. Such a review was undertaken by all relevant intergovernmental bodies of UNCTAD. The outcome of this review process will culminate with a Special Session of the UNCTAD Trade and Development Board, scheduled for mid-July. Member States of UNCTAD intend to undertake a thorough review of UNCTAD contribution to the implementation of the internationally agreed development goals, including those contained in the Millennium Declaration, in the field of trade, commodities, investment, technology, debt and systemic issues. The results of the Special Session will be transmitted by the President of the TDB to the President of the General Assembly as a contribution to the preparatory process in New York leading to the September Summit.

Mr. President,

15. UNCTAD XI considered South-South cooperation one of the major issues in the activities of the organization. This Summit has also placed emphasis on UNCTAD's role in assisting in the deepening and the implementation of specific activities that can advance economic cooperation among developing countries. As in the past, UNCTAD will bring its active contribution to this very important effort. UNCTAD is welcoming in this context the initiative of the State of Qatar to establish the Doha South Fund for Development and Humanitarian Affairs as well as its

generous financial contribution, which will significantly assist in the advancement of the South-South cooperation.

Thank you.