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Background

While creating the post-World War II global economic institutions, the World Bank and the IMF (known collectively as the "Bretton Woods Institutions" after the small town in New Hampshire where the original talks took place in 1944), there was a great deal of debate over the need for an international agency responsible for trade policy as an engine of economic development.

Four years later in Havana, Cuba, a charter creating the International Trade Organization (ITO) was drafted to direct trade towards the goals of full employment and a rising standard of living for all. However, the comprehensive approach of the Havana Charter was rejected by the U.S. Senate and never saw the light of day. Only the chapter promoting commercial trade survived to become the GATT, the General Agreement on Tariffs and Trade. This institutional gap has been at the heart of conflicts over trade between the industrialized countries and the developing world ever since.

In 1962, in response to the crisis in economic development that followed the worldwide collapse of the colonial system, the developing countries of Asia, Africa and Latin America came together and issued the Cairo Declaration, which helped put in motion the creation of the United Nations Conference on Trade and Development (UNCTAD). Formalized in 1964, UNCTAD came into existence mainly because of the general acceptance of the notion that commercial trade and its prevailing rules did not always work to support development in the poor economies and that trade and development issues needed to be addressed holistically.

UNCTAD and the commodity crisis

In its first 20 years, 1964-1984, UNCTAD was at the center of debates on trade and development with a strong mandate in analytical research on commodities. UNCTAD's first Secretary General, Dr. Raul Prebisch,[1] stressed the central role of commodity prices and the need for supply management and other governmental action to support price stability. UNCTAD also became the home for a number of operating International Commodity Agreements – mechanisms based on cooperation amongst governments to balance supply with demand and thus ensure stable prices and an inflow of funds to invest in development.

For many former colonies, political independence did not end their economic dependence. They found themselves selling cheap raw materials and agricultural products to the developed world and buying back expensive industrial goods and services. These newly formed and fragile nations experienced large trade imbalances and by 1980, many were deeply in debt. During this turbulent period, UNCTAD gradually expanded its analytical capacity to address other subjects including industrialization policy; money, finance and development; the international monetary system and debt. However, this agenda faced stiff resistance from the developed countries who perceived UNCTAD's support for the developing world as problematic for their own economic goals.

[1] Dr. Prebisch was a renowned authority on development policy and one of President Kennedy's "nine wise men" who oversaw the coordination of the Alliance for Progress.

Over the past two decades, UNCTAD has seen its mandate and sphere of work more or less reduced to supporting the work of other agencies (notably, the WTO) and providing technical assistance to developing countries. This seems to be a direct result of neoliberalism and the dominant intellectual movement that came to hold trade policy as the single most important hindrance to economic development. As a result, the so-called import substitution measures came to be looked at with disfavor and the promotion of trade liberalization and export-led growth became the essence of the policy advice from the international financial institutions (notably, the Bretton Woods institutions) and bilateral donor agencies to developing countries.

The commodity problem is actually not one of market access or trade barriers. Rather, the problem of fluctuating primary prices and declining terms of trade has its roots in the way primary markets function, not in protection per se. Similarly, the declining share of primary producers in the value chain has been caused primarily by the increased concentration among firms engaged in trade and processing. The commodity issue, in short, is neither a WTO issue nor one that can be remedied simply by reviving the IMF's compensatory financing scheme, as posited in the Monterrey consensus.

UNCTAD and other economic development strategies

While trade policy and market access issues – the WTO's core areas of competency – remain critically important, there are also other areas of concern for developing countries. In addition to commodities, four such areas can be identified: international macroeconomic management; the impact of foreign direct investment; trade in invisibles; and international competition policy.

International macroeconomic management. International trade and capital movements are basically the channels through which economies are interlinked and their performance gets affected. This is particularly the case with respect to developing countries, whose capacity to grow is intimately dependent on the economic performance of the leading industrialized economies. Although the IMF has the primary responsibility for monitoring macroeconomic policies under multilateral surveillance, the actual experience has been that its influence on the leading industrial economies has been rather limited. The need for an alternative perspective has been particularly acute during the recent debt and financial crises that have afflicted the developing world. Although there are serious misgivings on the part of the industrial countries on the value of UNCTAD's annual *Trade and Development Reports*, the developing countries find them as useful counterweight to the analysis and advice from the international financial institutions.

Foreign Direct Investment. Apart from trade liberalization, it is the promotion of foreign direct investment (FDI) that has received the greatest attention in the Washington Consensus: developing countries have been urged to open up their economies and create a favorable environment for foreign investors. There is little doubt that FDI can play an important role in economic development through the transfer of capital and technology. But the actual experience has been mixed: while some countries have clearly benefited, FDI in other countries has remained by and large an enclave activity. Whether FDI is helpful for economic development is, therefore, not an ideological question but and empirical one. The only international agency that is currently engaged in thorough analysis of FDI is UNCTAD.

Trade in invisibles. The trade in invisibles (flows of services, shipping and transportation, etc.) accounts for roughly one-quarter of the world trade, and yet it remains a neglected area. The WTO does now include provisions for liberalizing financial services (of principal interest to the industrial countries) under the General Agreement on Trade in Services (GATS), but little progress has been made on the issue of movement of "natural persons." In recent months, there have been rising concerns among the working people in the industrial countries over the transfer of some service jobs to centers in developing countries (the so-called "outsourcing"). Similarly, GATS proposals to privatize public services such as the provision of drinking water and electricity have been rejected by civil society groups in many countries. At the same time, cartel-like control over shipping and insurance has a major impact on the benefits that developing countries derive from international trade. At the time of UNCTAD's creation, trade in services was a major area of analysis and policy discussion, but it has now virtually disappeared from its sphere of work.

International competition policy. The industrial countries have been pushing to bring into the WTO the issue of competition policy for a number of years. Although competition policy is generally seen as an important issue, the industrial country concerns and those of the developing countries are rather different. The industrial countries would like to ensure that their firms have access to developing countries' markets on the basis of "national treatment." For developing countries' firms, the main area of concern is the increased market concentration resulting from the recent wave of international mergers and acquisitions. The advanced industrial economies – notably, the United States and the European Union – have elaborate rules governing mergers and acquisitions, which help them to ensure that any adverse consequences of such moves for local firms and domestic competition are minimized. These remedies are generally not available to developing countries, which are likely to become even more vulnerable if they were to concede to industrial countries' demands for "national treatment" of their corporations. This is an issue that clearly touches on trade, finance, and development, but remains neglected in both the WTO discussions and the United Nations financing for development process following the Monterrey consensus. It is again something that UNCTAD was set up to address, but has not attended to.

Conclusion: UNCTAD's mandate needs to be expanded

In 1986, the U.S. withdrew its support for UNCTAD in favor of the new Uruguay Round of GATT negotiations. Under the Reagan Administration, these trade talks were led by corporate leaders from Cargill, American Express and the pharmaceutical industry. Eight contentious years later, in 1994, the Uruguay Round concluded with the creation of a host of new trade laws and an institution to enforce them: the World Trade Organization. However, ten years of experience with the WTO's agenda for corporate deregulation in the guise of "free trade" has revived public awareness of the need for managed trade and a more comprehensive set of policies to enable development.

Nor have decades of export-led growth under conditionalities imposed by the World Bank and the IMF generated resources for development. When commodity prices fall, export earnings fall, worsening these countries' balance of payments position, weakening their fiscal capacity, and contributing to their debt overhang. For economies dependent on primary commodities, structural over-supply and the cartel behavior of corporate traders are at the core of the trade-finance-development link.

Civil society groups can work with their governments and colleagues worldwide to revitalize UNCTAD's mandate on trade and development, sending these messages to the UNCTAD XI meeting in Sao Paulo this June:

1) UNCTAD has a critically important role to play in the analysis of trade and development issues and articulating developing countries' concerns in international development fora;
2) UNCTAD's work on institution-building to ensure stable and remunerative commodity prices is key to generating resources for development;

3) UNCTAD’s work on other economic development strategies – including international macroeconomic management, the impact of foreign direct investment, trade in invisibles and international competition policy – provides balance to the WTO’s narrow commercial mandate; and
4) UNCTAD must clarify the legitimate role of states in managing trade – just as they are expected to manage their budgets and their currencies – to ensure economic development.