

Informal Review Session on Financing for Development on chapter III of the Monterrey Consensus

The European Union preliminary views

on "International trade as an engine for development"

New York, 19 May 2008

- The underlying analysis and essential conclusions of the Monterrey Consensus remain valid.
- International trade is a strong engine for development, economic growth and poverty reduction, as demonstrated by many countries where increasing participation in trade and integration into global markets is associated with significant achievements in these respects. The number of people in DCs living on less than 1 dollar a day fell from 1.25 billion in 1990 to 980 million in 2004. This progress is closely associated with successful economic growth in Eastern, South-Eastern and South Asia. But trade does not guarantee development: that depends also on national and international policy choices and frameworks.
- At the same time, trade growth is unevenly shared across developing countries. In particular, the relative share of Sub-Saharan Africa in world trade fell from 2.9% to 2.7% between 1990 and 2006, since its participation in world trade expanded more slowly than that of other regions. This is a matter for concern, especially in the efforts to reach the MDGs.
- Recent economic turbulence has been centred on developed countries. DCs' economic performance has stood up well and their continued growth has to an extent cushioned a slow-down in developed countries. Since 2000 annual GDP growth in low-income economies has averaged 6.5 percent, compared with 5.6 percent in middle income economies and 2.3 percent in high-income economies. Moreover, in the last decade 20, mostly small, economies graduated from the World Bank's low- and middle-income economies classification¹.
- Trade is an essential part of this growth and thus has an important impact in the economic activity of developing countries, but at the same time it is not a 100% guarantee of particular results. From

¹ Source: World Bank – World Bank Development Indicators.

2000-2006 in relation to 147 economies with data, 65 experienced a loss in income due to terms of trade effects, 68 economies gained and in 14 economies there were had no appreciable terms of trade effects on GDP². Consequently it is very difficult to generalise as each country is unique and applies trade policy tools in different ways.

- In order for trade to contribute to a maximum to the potential benefits for developing countries of integration into the world economy, trade reforms must be also part of a wider sustainable development strategy that includes the right combination of sound macroeconomic and structural policies, improved delivery of education and health services, appropriate social safety nets, high standards of economic and social governance, improved infrastructure and market access, creation of enabling environments for investment, including FDI, innovation and technology transfer, etc.
- All developed countries have an important responsibility to support the developmental aspirations of DCs and have committed in the DDA to ensure that their trade policies sustain development objectives and contribute to enhance developing countries opportunities to use trade in support of their own individual development priorities.
- At the same time, as stated at Monterrey, individual developing countries remain responsible for their own development: without well-designed and coherent national development strategies of their own, the full potential of trade – both imports and exports- to stimulate growth and development will not be achieved.
- In 2006, Developing Countries accounted for 36% of merchandise trade and 26% of services trade worldwide. The further increase of developing countries merchandise export in 2007 by 17% (compared to the global average of 14%) shows that developing countries are progressively integrated in the world's economy³. Those developing countries which over time have been relatively more open to trade and investment, often undertaking unilateral liberalisation reform initiatives in parallel to WTO negotiations, have tended to present the most impressive results in terms of both trade and development indicators, as shown *inter alia* by monitoring of progress towards the MDGs.
- The most impressive examples of trade-led growth can be found in Asia. Since 1990, Chinese exports and imports have increased by

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³ IMF/WB Global monitoring report 2008

around 20% annually, while corresponding figure for India is about 17%. Similar trends can be seen in smaller Asian countries. Bangladesh has increased its trade by about 14% annually since the mid 1990s and Vietnam by about 10% annually since the early 2000s. Other regions of the world have also seen success stories. For example, the Dominican Republic has increased its trade by about 10% annually since the mid-1990s. The performance of many African economies in 1995–2005 in fact reverses the collapses in 1975–85 and the stagnations in 1985–95. For the first time in three decades, they are growing in tandem with the rest of the world. Average growth in the Sub-Saharan economies was 5.4 percent in 2005 and 2006, and the consensus projections are that growth will remain strong.

- The open, rules-based multilateral trading system founded on WTO together with meaningful, progressive and well-designed trade liberalisation provide an ongoing opportunity for all developing countries to maximise the potential contribution of trade to generate resources to support their own sustainable development. It is also important to continue to work to ensure that international structures and initiatives, including the multilateral trading system, are designed with this objective in mind.

As regards some future policy challenges in respect of issues addressed in the Monterrey Consensus:

WTO DDA negotiations

- The DDA needs to be brought to a successful conclusion with an ambitious, comprehensive and balanced outcome as soon as possible. The results presently in prospect would provide significant pro-development results, including for LDCs and other weaker DCs, through a combination of improved market access possibilities in goods and services, stronger disciplines and rules, including in Agriculture, and expanded and better targeted Aid for Trade.
- However, this will also depend on establishing the appropriate balance between the commitments of developed countries and those of the more advanced DCs. Without meaningful market opening commitments by emerging economies, the full developmental potential of the DDA will not be achieved. This is particularly important in view of the importance of barriers applied to South-South trade.
- Moreover, the narrowing of the DDA negotiating agenda – with the suspension in 2004 of negotiations on investment, competition and

transparency in government procurement - effectively removed three important areas where negotiations had the potential to shape the evolution of multilateral rules in a development-supportive manner.

- The EU is fully engaged and pushing for a final result in the DDA, providing it is balanced. The package for developing countries is now very attractive, in particular for LDCs. It includes:
 1. Consolidation of Duty Free Quota Free treatment for LDCs by developed countries and DCs in a position to contribute as well.
 2. Clear disciplines for Agriculture subsidies, including cotton, and binding of deep reductions in trade distorting farm support
 3. Phasing out of agricultural export subsidies
 4. Boost to the aid for trade package
 5. Far reaching agreement on trade facilitation, essential for developing countries, in particular the landlocked.
 6. As well as other market opening and tariff binding commitments in agriculture and non-agricultural goods and services, clearer rules on anti-dumping and subsidies, including for fisheries, etc.

Regional integration

- Regional integration initiatives among developing countries can help overcome the limitations of small economic size, enable economies of scale and increased value added chains, lock in domestic reform, enhance efficiency and increase attractiveness for investment while at the same time promoting peace and stability. The benefits can be particularly important when regional integration extends beyond tariff reduction.
- Regional integration initiatives, including trade agreements, between developing and developed countries must also be designed in a way to promote and support regional integration among DCs, taking into account the differences of economic development and providing accompanying measures. This is the case for the EC in its bilateral and regional initiatives (e.g. Mediterranean, ACP, Latin America, ASEAN).
- Multilateral liberalization is generally preferable to bilateral agreements. However, as with well designed agreements among DCs, bilateral and regional agreements between developed and developing countries can also stimulate trade and foster economic growth. The EU will ensure that all EU agreements signed with developing countries are in full conformity with WTO rules, promote

and support regional integration among DCs and, include areas such as competition and investment given their importance to development.

Market access – DFQF- Autonomous regimes

- Improved preferential market access provides significant trading opportunities to developing countries. In this regard, it will be important that not only developed countries but also developing countries, especially emerging economies, in a position to do so take concrete steps to grant full DFQF market access to all LDCs, as agreed at the Sixth WTO Ministerial Conference in Hong Kong.
- The EU welcomes that an increasing number of developing countries currently demonstrate their willingness to grant DFQF market access to LDCs in accordance with the ambitions pronounced at the Hong Kong Ministerial. The EU encourages those developing countries which are not granting DFQF to LDCs yet to do so.

Aid for Trade

- Nevertheless, market access alone is not a guarantee that all DCs will be able to become competitive exporters. Aid for Trade is also a vital component to increase their trading capacity, address the constraints on their trade potential such as physical infrastructures for trade (communication, transport, power facilities and markets) so enabling them to cope with obligations arising from the multilateral trading system, to address constraints on their trade potential and to compete in local, regional and global markets. For weaker and less competitive developing countries, Aid for Trade is particularly important if they are to harness trade benefits to drive economic growth, sustainable development and poverty reduction.
- However, Aid for Trade will only happen on the ground if all parties involved play their part. Without full DCs input and participation in needs assessment, prioritisation and planning of trade-related activities into their national development strategies, the full potential of AfT will not materialise. This is a real challenge for all the international community.
- The EU, the largest provider of trade-related assistance and Aid for Trade worldwide (including productive capacity building, trade-related infrastructures and trade related adjustment), has taken a very active role in work aimed at developing a global vision on Aid for Trade. Following the endorsement of the concept of Aid for Trade in WTO in mid-2006, the EU has made significant efforts to operationalise it. The EU Joint Aid for Trade Strategy adopted on 15

October 2007 provides details on the implementation of the EU's specific pledge on Trade-related assistance made in Hong Kong in December 2005 and on how to improve both the quality and quantity of Aid for Trade provided by the EC and EU Member States more generally.

- The EU will implement the EU Strategy adopted last October in its own right, independently of the outcome of the DDA or any other trade negotiations. AfT would be key to the successful implementation of a positive result in the DDA.
- Other donors also need to make reinforced efforts to provide Aid for Trade to support Developing Countries, especially LDCs and other weaker economies, in building an effective supply-side capacity to compete better in global markets, to address the constraints affecting their trade potential and development prospects, and to cope with any adjustment challenges.
- In the context of its AfT, the EU has continued to support the process to put in place an "Enhanced Integrated Framework" (EIF) for the LDCs. The EIF is likely to be operational as from summer 2008.

Conclusion

- Trade can play an important role assisting developing countries in reducing poverty. Many DCs have caught up with the average income levels of developed countries or are on the path to do so.
- The challenge for the international community is to work to ensure that other DCs and LDCs are also enabled to use the potential of international trade to support their own development.