

NGO Statement
Informal Review Session on Chapter III of the Monterrey Consensus
"International Trade as an Engine for Development" (May 19-20)

The Monterrey Consensus, with its pursuit of a holistic approach, recognized that trade measures alone cannot ensure that trade plays its full part in promoting growth, employment and development for all. Monetary and financial policies, at regional and global levels, are necessary complements. So are monetary and financial policies at the national level, and the policy space for their undertaking, hence, needs to be preserved.

After more than six years, the Doha Round of trade talks remains deadlocked, although recent signs point to renewed momentum towards a possible conclusion of the Round. It is, however, time to take a step back and recognize that crucial conditions for a successful engagement of developing countries in the world trading system lie outside the realm of what can be negotiated in a body concerned with market access negotiations such as the WTO. This is regardless of how many times the word “development” is mentioned in those negotiations. **The FFD Review Conference, building on the overarching agenda of Monterrey, should call for an integrated assessment and negotiations, in the context of its follow-up process, to address the trade, financial and monetary pre-conditions for developing countries to utilize trade as a tool for development, the promotion of gender equity and full employment. It should, furthermore, recognize that such conditions are not present in the multilateral system today.** Some of the elements of this “new trade deal” that should be listed for examination and discussion are:

The accumulation of domestic capital through trade

The experience of developing countries that succeeded in developing through trade, shows that trade can only be an instrument to raise financing for development in the presence of a number of complementary policies that target:

- Value-addition, skills and technology content and development,
- The creation of backward and forward linkages in the domestic economy,
- Accompanying welfare-enhancing policies, including productive employment and decent work,
- Adequate implementation of performance requirements,
- Restrictions on profit remittances,
- The exaction of trade-related tariff revenue,
- Balanced rules on investment, with rights and obligations for investors.

Many of these policies are, unfortunately, restricted by WTO and other trade agreements that call for “progressive liberalisation” in trade in goods and services and investment. Others, while not restricted, are discouraged by the logic created by such rules, as evidenced in negotiations on Non-Agricultural Market Access (NAMA) and the Economic Partnership Agreements (EPAs), where low tariff levels have the potential to jeopardise industrial development, diversification of industries, and the creation of decent and productive employment.

Fiscal policy plays a key role in ensuring the mobilization of revenue from trade. In this regard, it is worth highlighting that foreign investment tends to support export production especially of multinational corporations, which currently account for around two-thirds of world trade. So, while FDI has the potential for expanding exports, its impacts on growth and domestic capital accumulation are questionable. For example, the bulk of the windfall gains from higher commodity prices is being drained by increased profit remittances, rather than going to use by the commodity-producing countries. Transfer pricing and other revenue-eroding measures are made easier in the absence of controls on foreign investment and capital flows. Moreover, FDI agreements rarely

target social development outcomes such as the creation of productive employment and guarantees of workers' rights in such employment. Multinational corporations, operating oftentimes in Export Processing Zones, are the main beneficiaries of these agreements.

There is no straightforward connection between increased access to other markets and growth. While the Monterrey Consensus pays attention to the obstacles developing countries face when trying to access developed country markets, it does not acknowledge the broader challenge of developing countries' dependence on raw commodity exports with limited value added. For one, developing countries continue to face declining terms of trade for their main export products (i.e. primary commodities as well as low-skill, labour-intensive manufactured products). In many cases, including where preferential schemes exist, developing countries are unable to take advantage of available market access provisions. This is because they lack the corresponding supply-side capacity. Strategic use of tariffs, support and access to technology are key to move into medium and high tech production and higher value added.

The FFD Review Conference should call for the accumulation of domestic capital for development to be placed at the center of agricultural, industrial goods and services trade, as well as investment policies.

Exchange rate and financial stability and trade performance:

Growing levels of financial and exchange rate volatility have asymmetric impacts on the trade performance of developing countries, as compared to developed ones, through channels such as the levels of domestic investment, the variations of relative prices of export products (which, in turn, affect competitiveness of the economies) and the price of access to finance for production.

A major concern is the lack of institutions to coordinate exchange rates among countries that control the major trading currencies. **The FFD Review Conference should explore the institutionalization of credible mechanisms to provide for orderly coordination among hard currency issuers. Such mechanisms should ensure the exchange rate stability needed by countries proportionately most affected by such fluctuations. The asymmetric impact created by these exchange rate fluctuations in developing country economies should be acknowledged in trade and investment negotiations and agreements.**

In turn, while global institutions to manage exchange rates of trend-makers are missing, it is all the more necessary that trend-takers (mostly poor and undiversified economies) can enjoy the necessary space to manage their exchange rates. **The FFD Review Conference should recognize the need for developing countries to manage their exchange rate policy as required by their trade and development needs in response to the global context, even when this calls for the use of interest rate policies that target exchange rates rather than inflation. There is also a need to curb speculative flows that generate or exacerbate the fluctuations of export-related incomes in developing countries.**

The role of regional and sub-regional monetary arrangements is key in order to lower dependence on a few key currencies, **so the FFD Review should encourage the adoption of coordination mechanisms and the South-South exchange of experiences and expertise on the design and work of such arrangements.**

Aid for Trade and the Multilateral Trading System

Aid for Trade can play an important role in helping developing countries that choose to develop through trade overcome some of the obstacles to do so. But Aid for Trade cannot be approached as a mere add-on to a flawed trading system in the hope it will fix its imbalances. On the contrary, Aid for Trade can only play a positive role if

taken as a complement to a reformed trading system that refocuses its objectives on achieving full employment and sustainable development. Thus, **the FFD Review should call for a realistic and joint assessment of what aid and trade both can achieve, as the necessary underpinning of any policies with regards to both aid and trade.**

Aid for Trade could be used by donor countries to pressure developing countries to make concessions in trade negotiations. Moreover, trade-related technical assistance and capacity building tend to come after an agreement has taken place and focus on very narrow policy agendas. **Recipient countries must play the central role in the Aid for Trade decision process. The structures for diagnostic, delivery and monitoring should ensure developing countries are free to use funds to enhance their capacities to advance their interests, regardless of what the donors' interests might be. Trade-related programs should be untied, unconditional and non debt-creating. Aid for Trade promises should be additional to previously promised increases in aid.**

The role of international financial institutions and donors in trade negotiations

While the WTO was set up to sustain and enhance multilateral trade relationships and to carry out common actions, the institutional arrangements and agreements negotiated under its auspices have been dominated by the interests of powerful economies. Not coincidentally, the latter countries are also the key players at the IMF and WB, the main drivers of trade liberalization in the developing world in the past twenty five years. **The role of the IMF and the World Bank should be redefined away from trade policy, towards their original roles. Trade and investment agreements should urgently operationalize effective mechanisms to redress the asymmetric impact that development finance institutions and agencies have had on the negotiating space of recipient countries.**

The OECD's Aid Effectiveness agenda utilizes the World Bank's Country Policy and Institutional Assessment as an evaluative measure for lending worthiness that rests on elements which emphasize trade openness as a criterion of good policies and good governance. **To be faithful to the principle of ownership it predicates, the OECD's Aid Effectiveness agenda should drop requirements such as the CPIA or certain government procurement standards that prejudice the role and direction of trade policy in the development strategies of recipient countries.**

Financial issues in free trade and investment agreements

We are concerned about the proliferation of provisions that constrain the capacity of governments to manage the financial sector, the capital account and sovereign debt in a number of trade and investment agreements. These provisions are contrary to the interests of developing countries, as they forcefully expressed in categorically rejecting their inclusion in multilateral trade negotiations in 2003.

More importantly, these constraints are not consistent with the flexibility needed to successfully implement pro-development fiscal, monetary and banking policies, such as employment- or exchange rate-targeting, where governments may deem them necessary. Painful financial crises have been the product of exactly the type of policies that such provisions aim at crystallizing in legal rules and commitments. The risks intensify because trade and investment agreements also contain provisions for dispute settlement by supranational arbitral tribunals, so very delicate matters of regulation of the financial sector for development purposes may become subject to the decision of such tribunals. **Trade and investment agreements should avoid impinging upon the flexibility to manage the financial sector, the capital account and sovereign debt.**

Signatory organizations (in alphabetical order)

Africa Trade Network

Center of Concern

Development Alternatives with Women for a New Era (DAWN)

Institute for Agriculture and Trade Policy

International Cooperation for Development and Solidarity Network (CIDSE)

International Trade Union Confederation (ITUC)

Latin American Network on Debt, Development and Rights (LATINDADD)

Medical Mission Sisters

NGO Committee on Financing for Development

Third World Network Africa

UBUNTU Forum Secretariat

WIDE Network