

**ORGANIZATION OF EASTERN CARIBBEAN STATES**

**TRADE POLICY BRIEF**

(Vol. 9)

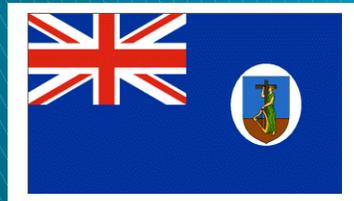
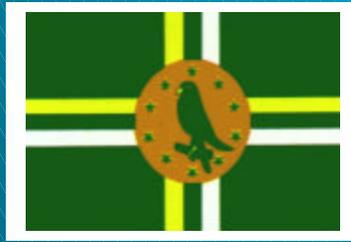
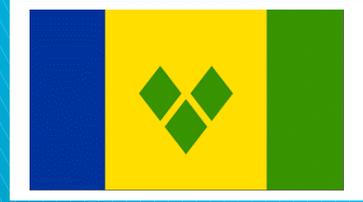
A monthly policy brief on multilateral/hemispheric trade issues of currency for OECS Member States' Trade Policy-makers and the CRNM College of Negotiators



**OECS**



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## An Analysis of the Conference and 'Monterrey Consensus'

*In just under one week an important Conference on Financing for Development will be convened. Because of the links being made to trade by way of the 'Monterrey Consensus', the upcoming Conference and Consensus are the focus of this installment of Trade Policy Briefs.*

### **Objectives of the FfD Conference**

The international Conference on Financing for Development (FfD)<sup>1</sup> is directed to the mobilization of resources required to *accelerate growth* and *achieve broad-based, sustainable development* in developing countries and economies in transition. The Conference<sup>2</sup> will address the obstacles faced by developing countries in such areas as trade, aid, debt, investment, strengthening national capacities and coordination. It seeks to address broad development concerns, and, mainly, the obstacles faced by developing countries in mobilizing the necessary resources to finance their development and fulfill the social and humanitarian goals set by the global conferences of the past decade.

As mandated by the United Nations General Assembly, the Conference aims to promote *international cooperation in six key areas*: mobilizing economic resources within countries; increasing the flow of private international investment; opening access to markets; strengthening official development assistance; addressing developing country debt; and improving the coherence of global economic, financial and trade systems; and, promoting participation of developing countries in international decision-making. Important for developing nations, at large, to note is that the Monterrey event aims at activating the greatest participation of the international community in financing for development. The political goal of the Conference, then, is to be a first solid step in forming an alliance for financing for development anchored in strengthening multilateralism.

### **Background Analysis – The Preparatory Committee for FfD Conference**

As a point of departure it should be noted that Preparatory Committees for the International Conference on Financing for Development were convened in New York from 15-26 January, 2002. The Prep Com FfD concluded its fourth and final session with the unanimous adoption of the "Monterrey Consensus"<sup>3</sup> - the draft outcome

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<sup>1</sup> The Conference will be divided into a high-level official segment, a ministerial segment and a summit segment. There will be four interactive multi-stakeholder round tables during the summit segment and eight during the ministerial segment.

<sup>2</sup> The text of the 'Monterrey Consensus' is available in English/French/Spanish on the FfD website ([www.un.org/ffd](http://www.un.org/ffd)).

<sup>3</sup> Please note this Brief also makes reference to the 'Monterrey Consensus' as simply Consensus.

document of the Conference. Subsequent to this, the FfD Conference will be held from 18 to 22 March in Monterrey, Mexico.<sup>4</sup>

As is evidenced in the Text, Member States resolve to address the challenges of financing for development around the world with particular attention to developing countries. The *eradication of poverty* was cited as a major goal, as was achieving sustained economic growth and promoting sustainable development as Member States advance to a fully inclusive and equitable global economic system.

By the Text, the Heads of State and Government gathered in Monterrey would, as their first step, mobilize financial resources and achieve the national and international economic conditions needed to fulfill internationally agreed development goals, including those contained in the United Nations' *Millennium Declaration*<sup>5</sup> to reduce poverty and improve social conditions. It has now become all the more urgent, post-September 11<sup>th</sup> (2001) to enhance collaboration among all stakeholders to promote sustained economic growth and address the long-term challenges of financing for development and global economic slowdown.

### **Structure and Content of the Draft 'Monterrey Consensus'**

The draft outcome is divided into three sections: -

1. *Confronting the Challenges of Financing for Development: A Global Response;*
2. *Leading Actions; and,*
3. *Staying Engaged.*

#### ***Confronting the Challenges of Financing for Development: A Global Response***

In this first section, Member States resolve to address the challenges of financing for development around the world, particularly in developing countries. Their stated goal is to eradicate poverty, achieve sustained economic growth and promote sustainable development as they advance to a fully inclusive and equitable global

economic system. According to the draft, the heads of State and government gathered in Monterrey would, as their first step, mobilize financial resources and achieve the national and international economic conditions

### *Some Views of Key Member States*

Venezuela's representative, on behalf of the "Group of 77" developing countries and China, expressed his satisfaction at having achieved a global compromise for the Monterrey Conference. The document represented a delicate balance on topics of extreme importance to the international community, particularly the developing countries.

Speaking on behalf of the European Union, the representative of Spain also expressed his satisfaction on the way in which the process had been concluded. The Conference should make a positive contribution to tackling poverty and achieving development.

The representative of Benin, for the least developed countries, said the adoption of the Monterrey Consensus was extremely important. The present document should be understood as part and parcel of the Programme of Action for Least-Developed Countries adopted in Brussels in May 2001.

<sup>4</sup> After grueling negotiations on certain "sticking" issues, the Prep Com for the FfD agreed to a final unedited version of the "Monterrey Consensus", agreed at informal consultations on 27 January, 2002.

<sup>5</sup> Resolution referred by the General Assembly at its fifty-fourth session - adopted by Heads of State and Government gathered at United Nations Headquarters in New York from 6 to 8 September, 2000.

needed to fulfil internationally agreed development goals, including those contained in the Millennium Declaration to reduce poverty and improve social conditions. While each country having *primary responsibility* for their own economic and social development is emphasized in the 'Monterrey Consensus', the Text recognizes that domestic economies are now interwoven with the global economic system, and national development efforts need to be supported by an enabling international environment. It also recognizes the value of a holistic approach to challenges, for which coherent actions are needed in each area of the agenda. Further to this, it commits leaders to join forces through a strengthened multilateralism, in recognition of the potential of the United Nations system for fostering worldwide cooperation, and to consolidate the global economic system around the principles of equity, participation, ownership, transparency and accountability.

### ***Leading Actions***

In respect of leading actions, the draft Text further organizes its review by speaking explicitly to: mobilizing domestic financial resources for development; mobilizing international resources for development/foreign direct investment and other private flows; international trade as an engine for development; increasing international financial and technical cooperation for development; external debt; and addressing systemic issues.

*Mobilizing domestic financial resources* will be enhanced by: good governance; fighting corruption; sound macroeconomic policies; securing fiscal sustainability; social security and safety nets; financial sector strengthening; and capacity-building. Under *mobilizing international resources*, including foreign direct investment and other private flows, the draft suggests that a central challenge is to attract direct investment flows to a much larger number of developing and transition countries. To attract stable inflows of capital, countries need to continue their efforts to achieve a transparent, stable and predictable investment climate, embedded in sound macroeconomic policies and institutions that allow businesses, both domestic and international, to operate efficiently and profitably and with maximum development impact. To buttress national efforts, national leaders - through the Text - would be expected to call on the international financial and development institutions to increase their support for private foreign investment in infrastructure development and other priority areas, including projects to bridge the digital divide. The Text also elaborates on governments being effective facilitators for the private sector, but also stressing the private sector has a responsibility to engage as reliable and consistent partners in the development process. The draft underscores the need to sustain sufficient and stable private flows of all types to developing and transition countries, and design measures to increase the transparency of financial flows and contain the excessive volatility of short-term capital flows and highly leveraged transactions, including trade in currencies.

In respect of *international trade as an engine for development*, States reaffirm their commitment to trade liberalization and ensuring that trade plays its full part in promoting economic growth, employment and development for all. As a result the World Trade Organization's (WTO) stated decision - coming out of the Fourth WTO Ministerial in Doha, Qatar (November, 2001) - to place the needs of developing countries at the heart of its work programme is welcomed by Member States. To benefit fully from trade, which in many cases is the single most important development source, developing and transition countries must establish appropriate institutions and policies. To this end, increased trade and foreign direct investment

is sighted as playing a substantial role in boosting economic growth and as important facilitators for employment. The draft acknowledges issues in international trade of particular concern to developing and transition countries, such as trade barriers, subsidies and other "trade-distorting" measures, particularly in agriculture, and the abuse of anti-dumping measures, etc.. To ensure that world trade supports development for all, the leaders will, among other things, address the commitments made in Doha to help mitigate the marginalization of the least developed countries in international trade and commit themselves to enhancing the role of regional and sub-regional arrangements and free trade areas. They will also call on developed countries to work towards the objective of duty-free and quota-free access for all least developed country exports. To strengthen the effectiveness of the global economic system's support for development, Leaders – by way of the Consensus - encourage, among other things, improving the relationship between the United Nations and the WTO for development, and strengthening their capacity to provide technical assistance to all countries in need of such assistance.

As regards *increasing international financial and technical cooperation*, the draft recognizes that a substantial increase in official development assistance (ODA) and other resources will be required if developing countries are to achieve internationally agreed development goals. To this end, developed countries, that have not yet done so, will be urged to strive towards the target of 0.7 per cent of gross national product (GNP) as ODA to developing countries and 0.15 to 0.2 per cent to LDCs.

In respect of *external debt*, the Text states that external debt relief can free up resources, which can then be directed toward development efforts. Therefore, the 'Monterrey Consensus' calls for debt relief measures to be pursued vigorously and expeditiously, including within the Paris and London Clubs and other relevant forums. In this regard, speedy, effective and full implementation of the enhanced Heavily Indebted Poor Countries (HIPC) Initiative is noted as being critical. Furthermore, the importance of continued flexibility regarding the eligibility criteria is stressed. Building on this, leaders also encourage exploring innovative mechanisms to comprehensively address debt problems of developing countries, including middle-income and transition countries.

Finally, concerning addressing *systemic issues*, leaders recognize the urgent need to enhance coherence, governance and consistency of the international monetary, financial and trading systems. To this end, international efforts under way to reform the international financial architecture need to be sustained with greater transparency and the effective participation of developing and transition countries. The 'Monterrey Consensus', then, urges multilateral financial institutions, particularly the IMF, to continue to give high priority to the identification and prevention of potential crises and to strengthen the underpinnings of international financial stability. Pursuant to this, the Text highlights the need for the Fund to further strengthen its surveillance activities of all economies, with particular attention to short-term capital flows and their impact.

### ***Staying Engaged***

A commitment on the part of leaders to remain fully engaged, nationally, regionally and internationally, to ensure proper follow-up to the implementation of agreements and commitments reached at the Conference, and to continuing to build bridges between development, finance and trade organizations and initiatives is also made in the 'Monterrey Consensus'. They request the United Nation's Secretary-General to

submit an annual report on follow-up efforts and call for a follow-up international conference to review the implementation of the Consensus.

### **How do the OECS Countries Benefit from the 'Monterrey Consensus'?**

The OECS Countries, as do every other developing country, benefit in a very broad way from the thematic thrust of the 'Monterrey Consensus' and International Conference on Financing for Development; especially as they center on the mobilization of resources required to *accelerate growth* and *achieve broad-based, sustainable development* in developing countries and economies in transition. The intention, clearly, is to address the obstacles faced by developing countries in such areas as trade, aid, debt, investment, strengthening national capacities and coordination. Broad development concerns, and, mainly, the obstacles faced by developing countries in mobilizing the necessary resources to finance their development are at the center of the Consensus and International Conference on Financing for Development.

In the long term, however, OECS countries can only *effectively* finance their development needs by gaining greater market access and better prices for their exports. It also is recognized, though, that equally important are 'sustained' comprehensive programmes of support (bilaterally (from developed countries) and multilaterally (from development agencies), in the form of both financial and technical assistance) to address supply side constraints in these countries.<sup>6</sup> Of critical importance to the more fragile economies of the Caribbean, namely the OECS, however, is the need for the extension of more generous trade preferences and longer period of time/duration of transition periods in respect of reciprocity in trade agreements. To not do so would compromise the efficacy of the OECS' integration into the international trading system.

Pursuant to this, does the 'Monterrey Consensus' go far enough in addressing these concerns which are especially acute in small island economies such as those of the OECS? No, it does not. For example, while the Consensus maintains that leaders will call on developed countries to work towards the objective of duty-free and quota-free access for all least developed country exports to developed countries - *no such commitments are apparent, however, in respect of SIDS*. In point of fact, whilst smaller economies do receive attention in the Consensus the document appears more focused on the plight of LDCs; which while this should be applauded is a bias that does not augur well and is perhaps disingenuous to vulnerable small island economies such as the OECS that continue to face tremendous difficulties in the global economy. This notwithstanding, there are more systemic problems in the methodological and language-related thrust of the 'Monterrey Consensus' that should concern not only the OECS Countries, but also developing countries at large.

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<sup>6</sup> Addressing these supply side constraints is seen as fundamental to the structural transformation of OECS economies and *if the potential benefits of deepening market access imperatives are to be effectively realized by these economies*. Currently these supply side constraints are exemplified through an inability to effectively take advantage of market access opportunities made available through trade agreements because of weak sectoral (production), institutional and policy frameworks. If supply side constraints are not comprehensively reconciled, then OECS countries could find themselves bearing the costs of trade liberalization without gaining any of the benefits.

## **The Success of the FfD Conference: A 'Prospective' Analysis**

The United Nation's Secretary-General has been quoted as saying a successful FfD Conference could make a "real difference" in the lives of poor people worldwide. Clearly, the Monterrey Conference could unlock the financial resources that are so desperately needed for development; but to do so requires sharp focus in the remaining few weeks on how best to achieve tangible results. It is imperative that Monterrey mark a turning point in the history of ODA and sharpen consensus on the required policies, mechanisms and institutional frameworks within developing countries to mobilize domestic resources and attract private capital flows.<sup>7</sup> The critical question is – do the 'Monterrey Consensus' and FfD Conference have the potential to do so? Despite the immense attention the FfD Conference is receiving both it and the 'Monterrey Consensus' may not have the impact they are expected to. Why?

The answer can be found within the 'Monterrey Consensus' itself. Both the Conference and 'Monterrey Consensus' goals are certainly noble, i.e. the 'eradication of poverty, achieving sustained economic growth and promoting sustainable development within the context of advancing a fully inclusive and equitable global economic system'. Building on this conceptual thrust the 'Monterrey Consensus' engages in comprehensive analysis; for this it cannot be faulted. This notwithstanding, the Consensus is riddled with shortcomings. As a first shortcoming, what is conspicuously absent from the Consensus are *commitments* to *actually* increase development financing. The reader of the Consensus is left hanging and in search of *specific* commitments after such statements as 'underscore the importance of effective, secure, and predictable financing of trade-related technical assistance and capacity building' - which are never given. The reader of the Consensus is left asking what is the value-added of the Consensus continually making reference to Heads of State 'noting', 'acknowledging', and 'recognizing' but rarely committing themselves, in a concrete fashion, and elaborating on modalities further to this, to achieving the goals that are very well spelt-out? It is not enough, on the critically important issue, for example, of ODA to simply '*urge* developed countries that have not done so *to make concrete efforts* toward the target of 0.7% of GNP as ODA to developing countries'. Again, the Consensus does very well in highlighting the actions needed – but the critical point is *it fails to identify, 'specifically', how stakeholders can act upon these actions by way of concrete commitments.*

Secondly, to what extent does the Consensus attempt to build on and perhaps elaborate on measures to eradicate poverty that have not already been broached in other forums? In point of fact it does not. *In this respect it serves to reiterate what is already well established.* For example, it states the obvious in respect of 'recognizing' the importance of enhanced and predictable access to markets for the exports of developing countries. It further calls on developed countries to grant duty-free and quota-free access for all LDC exports; none of these 'invitations to consider', and 'urging of governments to commit to', type-language goes beyond positions *already* stated on numerous occasions prior to the FfD Conference.

This notwithstanding, the 'Monterrey Consensus' is already having the effect of forcing a re-think of the international development financing architecture. Most notably, the Bush Administration recently proposed that 50 per cent of the resources of the International Development Association (IDA), the World Bank's fund for low-

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<sup>7</sup> And, by extension, the United Nation's Millennium goals must be made a reality.

cost loans to the world's poorest countries, be distributed as grants, *not low-interest loans*. It also wants to tie the US's (and presumably other donor countries') contributions to the future effectiveness of IDA programmes. These proposals, however, have met with some trepidation from Europe; European governments are arguing that switching to grants would jeopardize the Bank's long-term finances. However, the United States' proposals do have merit in that they effectively increase the amount of World Bank assistance to poor countries; and reduces the likelihood of another embarrassing round of writing off unsustainable debt owed by the world's poor to the global financial institutions.

On balance, however, the 'Monterrey Consensus' in *its current form* with little attention to concrete commitments risks rendering the FfD Conference unsuccessful. *In the final analysis the Consensus should have been made more action-oriented.*

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