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GAMBLE ON A JULY HIGH PROFILE WTO MINI-MINISTERIAL MEETING ENDS IN FAILURE

By Ambassador Nathan Irumba

In an attempt to craft a deal that would lead to the conclusion of the Doha Round by the end of the year, the Director General of the WTO, Mr. Pascal Lamy, convened in Geneva 21-31 July, a meeting of a limited number of ministers from countries considered key players in WTO representing a spectrum of the membership. The expectation was that these would agree on modalities for Agriculture and Industrial Products reforms that would pave the way for completing the Round by the end of the year.

Lamy's gamble of calling a high profile Mini-Ministerial meeting thus ended in failure, leaving most delegations wondering as to how they can pick up the pieces to further the process. Lamy acknowledged that *"this process failed to reach its goal, despite more than a week of very intensive negotiations. Members were unable to bridge their differences in the area of the Special Safeguard Mechanism and we did not even get around to discussing Cotton. No one is throwing in the towel. But, we have to be lucid: given where the negotiation broke down, building on the progress made so far will not be easy and we should be under no illusion as to what this week's failure means for the credibility of our collective endeavour,"* he added.

The issue of the Special Safeguard Mechanism was the immediate trigger that led to the collapse. The meeting failed mainly because the developed coun-

tries especially the US and the EU, were reluctant to agree meaningfully reduce their overall level of agricultural support. At the same time they were demanding that developing countries reduce steeply both their agriculture and industrial tariffs. They were adamant in their demands for circumscribing the flexibilities that could be availed to developing countries to protect themselves in the event the projected reforms adversely affected their industries and the livelihoods of their people. The self serving "exchange rate" being demanded by industrial countries, who themselves would actually keep their current levels of actual payment of subsidies intact with ample room for further increase, proved too high a price for developing countries to accept.

PROCESS, TRANSPARENCY AND MARGINALIZATION

Although hyped up in the press, the Geneva meeting was not a formal ministerial meeting within the meaning of WTO agreements. Article IV of the WTO Agreement provides that the highest body for decision making is the ministerial conference composed of representative of all members which should meet once in two years. The last ministerial meeting was held in Hong Kong in December 2005. Therefore, as per WTO rules, a full ministerial meeting should have been convened by December 2007. It appears that because of the current impasse in the negotiations, the secretariat and the members have been

reluctant to convene a full ministerial conference as required by the rules. They seem instead to have settled for mini-ministerial meetings which are essentially informal and whose outcomes can only be given effect by the General Council. Needless to say this raises problems with regard to inclusiveness and transparency of the process adopted that were very well manifested at the recent Geneva meeting. Many member states expressed their disgruntlement at being sidelined.

Only 40 ministers were invited to Geneva by the secretariat and it was not clear as to what was the criterion. Even most of those ministers assembled in Geneva were relatively sideline and expressed frustration. The negotiations were mainly confined to inner circle of the green room among the G. 7 namely: USA, EU, India, China, Brazil, Australia and Japan. Other ministers were just regularly being updated in outer circle of green room, with the rest of the membership being told in the outer chambers in the trade negotiating committee of the whole of the issues discussed, the day before.

Uhuru Kenyatta, in a press statement on behalf of African Group articulated the frustration of many, when he stated that *"the negotiating process in the mini-ministerial has demonstrated the need for more work to done in improving WTO decision making, inclusiveness, openness and transparency. In the Group of Seven (G7), not one African country was represented in a round that purports to be about development. This does not augur well for the future of global governance. At this point in time therefore, seven days after arriving in Geneva to finalize modalities on Agriculture and NAMA, we are deeply disappointed by the lack of progress in the negotiations that are now unfortunately focused on the so-called G7 comprising of the major developed and advanced developing countries. The African Group of Ministers, have been kept in the waiting room with no positive outcome in sight"*.

The Bolivian representative described *"the Green Room process as a group of these privileged WTO members climbing Mount Blanc and looking down over Geneva and relating to other members how Geneva looked from high up. Bolivia, he stated, would prefer it if all members climbed the mountain together."*

This would seem to raise doubt as how acceptable

deal crafted mostly between the G.7 would have been acceptable to the overall membership.

TRIANGLE OF ISSUES AND STATE OF PLAY IN THE RUN UP TO MINI-MINISTERIAL

Lamy has long been of the view that to unblock the impasse in the negotiations requires striking a bargain on a triangle of issues whereby the USA would have to agree to deeper cuts in domestic agriculture support, the EU would have in addition provide increased agriculture market access and the emerging developing countries especially India, China and Brazil would have to lower steeply their industrial tariffs and significantly open up their services markets. Failure to strike an agreement on these issues led to the breakdown at *Postdam* and the impasse thereafter.

The Chairpersons of the negotiating groups on Agriculture and NAMA after intensive consultation put forward draft modality papers proposing ranges of formulas that should be applied, which were to be the basis of consultation among Ministers.

The proposals especially those on NAMA attracted a lot of criticism from developing countries. While much attention has been focused on high profile headline numbers regarding the proposed reduction formulas for Agriculture and NAMA, equally contentious and unresolved, were the extent of flexibilities both in NAMA and Agriculture that would be extended to countries to shelter some of their products from standard market access obligations.

The negotiations on Non-Agricultural Market Access have been characterized by sharp disagreements between developed and developing countries. Many developing countries were concerned that the coefficients proposed in the chairman's draft would require them to reduce their bound tariffs by deeper margins than the developed countries. This would be contrary to the Doha mandate on "less than full reciprocity in reduction communitates for developing countries." There was disagreement on the nature and degree of flexibilities that developing countries, can have when applying tariff cuts according to a "Swiss formula". The developed countries insist that when developing countries affected by the formula choose tariff lines to be protected from full formula cuts as allowed by the flexibilities, they

must not do so in a manner that excludes from the formula cuts a whole sector or portion of tariff lines in the sector beyond a certain percentage.

This "anti-concentration" is aimed at avoiding significant parts of sectors such as motor vehicles and garments being shielded from the full force of the formula cuts. Developing countries object to the anti concentration proposal as it would substantially further narrow down the flexibilities which in case, are already limited.

Furthermore the developed countries want a linkage between the participation of developing countries in "sectoral initiatives" (whereby countries may agree to reduce their tariffs to zero or near zero in selected sectors) and by granting more flexibilities (from full formula cuts) to those countries that choose to take part.

The linking of "rewards" in the form of extra flexibilities to sectoral negotiations would disadvantage the developing countries that do not wish to take part in the sectoral negotiations and is clearly contrary to the principle of voluntary participation agreed on earlier in the Hong Kong declaration.

In Agriculture, one of the major politically charged issues remains the extent to which agriculture subsidies in the developed countries would be reduced. The Chairman of the Agriculture negotiating committee had proposed a tiered formula applicable as follows:

- a) Where the OTDS base level is over US \$60 billion, the reduction shall be [75-85] percent.
- b) Where the OTDS base level is over 10 to 60 billion, the reduction shall be 66-73 percent.
- c) Where the OTDS base level is less than or equal to \$10 billion, the reduction shall be 50-60 per cent.

This would mean that, as the US OTDS base allowed level is estimated at \$48.2, the USA would have to cut its subsidies by 66-73 per cent. Its overall level of trade distorting support would thus range from \$13-16.4 billion. This is actually higher than the actual current payment of \$7 billion.

The EU's OTDS base allowable level is estimated to

be at Euro 110 billion. Applying the above formula would reduce its OTDS by 75-85 per cent. This would bring it in the range of Euro 16.5 - 27.6 billion. The above proposals did not satisfy the G.20, and other developing countries, as they would cut only in the water.

Another point of contention is the treatment of sensitive products designated by developed countries, which would benefit from reduced tariff cuts and which are linked to the expansion of import quotas for such products to be in order to ensure market access in these products. Although some progress had been made regarding the calculation of domestic consumption that would be the basis for tariff quota expansion the number of such products remained undetermined and have as yet to be agreed on.

A major point of disagreement and of particular importance to developing countries, especially the G.33, was the extent of the remedies that would be given to them under the Special Safeguard Mechanism (SSM), whereby it would be possible for them to take measures to raise tariffs above the bound levels when there are import surges to protect food security and livelihoods of their people.

Lamy's Proposed Compromise

In order to break the deadlock Lamy proposed a compromise text on NAMA and Agriculture. The text continued to reflect the imbalances in favour of developed countries in the earlier texts.

Just before the Mini Ministerial began the USA announced that it was willing to reduce its overall level of domestic support gap to 15 billion dollars. While announcement was considered a positive move, it was considered by G.20 as inadequate since it was almost double the current level of actual USA is spending on domestic support.

On agriculture Lamy's text proposed that the United States cut its annual farm subsidies to 14.5 billion dollars (9.2 billion euros) under new proposals.

The text proposes EU cuts its farm payments by 80 percent to 24 billion euros. This is inline with an

earlier undertaking to reduce them by between 75 and 80 percent.

The text also envisages that European agricultural tariffs that are currently at or above 75 percent would be cut to 70percent.

Developing countries would be allowed to classify 12 percent of their products as "special products" which would partially shield them from tariff reductions.

Five percent of products would be excluded completely from any cuts.

As regards the special safeguard mechanism (SSM). Lamy's text proposes that the SSM be activated if import volumes rise by 140 percent.

Developed economies would be allowed to designate 4.0 percent of products as "sensitive products" to be shielded from tariffs cuts.

Key agricultural importers among developed countries could extend this to cover 6.0 percent of products and all countries would be required to have a maximum tariff of 100 percent of the value of a product.

As regards industrial products, developing countries would be able to set tariffs with a coefficient ranging from 20 to 25 which will determine the scale of cuts according to the formula.

The text also includes an "anti-concentration clause." That would prevent developing countries from shielding entire sectors of their economies from tariff cuts. The anti concentration clause would apply to either 20 percent of a country's products in a sector, or alternatively 9.0 percent of total trade volume in a sector.

On sectorals, the compromise text proposed that developing countries committing to participate in at least two sectorals voluntary agreements to sharply reduce or eliminate tariffs in individual industrial sectors will be given more flexibility to raise their coefficients (i.e. reduce the amount of general tariff cuts) by an amount still to be specified.

Text fails to bridge divergences

Many countries in the TNC meeting while critical of the Lamy text as not taking on board their concerns, were willing to work with the text as a basis for further negotiations. Many developing countries stressed that they were especially uncomfortable with proposals on SSM as these would render it difficult to invoke the measure in time. In NAMA, the anti concentration clause was seen as a clear threat to their own nascent industries.

The developed countries, especially the USA, acted as if Lamy's text was written in stone and which had to be accepted in total without any modifications. India in a TNC meeting had made it clear that the numbers proposed by Lamy on SSM "has *all the makings of a deal breaker*" as it would harm the interests of the farmers and "*the bound rate trigger of 14 percent was simply not acceptable.*" The USA was unwilling to contemplate any change in this regard. This was the trigger which sparked off the collapse of the ministerial meeting. Many issues, such as cotton, were not even considered by the meeting.

As the meeting of the TNC came to a close, many delegations while disappointed indicated that it would be useful to restart the negotiations on the basis of what has been agreed so far.

AFRICAN MINISTERS OUTLINE EXPECTATIONS AND FRUSTRATIONS AT THE GENEVA MEETING

In a statement outlining the expectations of the African Group at the Geneva WTO mini ministerial meeting issued on 25th July 2008, the African Ministers said they "were deeply disappointed by the lack of progress in the negotiations that are unfortunately focused on the so called G.7 comprising of the major developed and advanced developing countries. The African Group Ministers had been kept in the waiting room with no positives outcome in sight.

Noting that not one African country was represented in the Group of 7 that was the main theatre of negotiations in around that purports to be about development, the ministers said "this does not augur for the future of Global governance."

Here below is an abridged the text of the press statement issued by the Kenya Deputy Prime Minister on behalf of the Group:

As the round enters into its decisive stage, the African Ministers here in Geneva, informed by: the decision of the last Summit of the African Union Heads of State and Government held in Shanna El Sheik, Egypt on 24th June to 15t July 2008; and the Addis Ababa Ministerial Declaration of 3rd April 2008,

Agriculture

In agriculture we expect the outcome of these negotiations to unlock the production potential of this sector in Africa so that it can effectively contribute in addressing our development needs such as livelihoods, food security and rural development.

The negotiations in agriculture therefore, should result in real and effective substantial reduction of trade distorting domestic support in rich industrialized countries, and increased market access for products of export interest to African countries. If this is done, African Countries will develop themselves via fair trade rather than relying on the diminishing aid. We therefore expect an effective solution that will address the instability of commodity prices in the world market, which continue to adversely affect the export of our commodities.

Import surges have also continued to undermine agriculture production in African countries. The African Group therefore expected an agreement on Special Safeguard Mechanism that will effectively address import surges which mostly arise from unfair trade practices, particularly from trade distorting domestic support systems.

On cotton specifically, we expect a more ambitious outcome that will substantially accelerate the reduction of production subsidies in developed countries. Millions of poor people in African are dependent on cotton production. However, the huge subsidies provided by the developed countries have continued to depress world prices and thereby driving farmers out of production with no other sources of income. We are therefore looking forward to an effective and long-term solution on cotton of equal importance to the trade policy aspects of the cotton issue is the

development assistance dimension. This is in the Doha mandate. Progress has however been made on this aspect, but there is wide scope for faster implementation of the commitments by the developed countries and even faster disbursements.

On the issue of bananas, the African Group would like a solution that will not impact negatively on the African banana exporting countries. We are therefore in support of the current consultations initiated by the WTO Director General on this issue with a view to arriving at an amicable solution that will continue to facilitate exports of bananas from Africa.

Industrial Products

The African Group has concerns in both agriculture and NAMA negotiations regarding the negative impact of tariff reductions on preferences. Most of the exports from African countries are dependent on preferences granted mainly by the developed countries. The erosion of preferences will expose exports from Africa to abrupt competition leading to disruption of exports with adverse impact on export earnings as well as job losses. This can cause instability in the African Countries.

On Non-Agricultural Market Access Negotiations, the African Group is demanding for sufficient flexibilities in order to nurture and safeguard our industrial base. The African Group therefore will not accept proposals that will restrict flexibilities and thereby constrain policy space in the manufacturing sector. The African Group would like to reaffirm that the sectoral initiatives must be purely on voluntary basis and should not be linked to the formula for tariff cuts.

The sectoral initiatives also must not have any impact on the preferential market access. In the context of fulfilling the development dimension of this Round, we expect concrete commitments on the provision of assistance to enhance supply side capacity, so that African countries can take advantage of the increased market access opportunities that will arise from this Doha Round.

Intellectual property

The African Group supports proposals to amend the

WTO Trade related Intellectual Property Rights Agreement in order to accommodate issues pertaining to Convention on Biodiversity (COB). This will enable the continent to equitably share the full benefits arising from its enormous biodiversity resources.

The African Group attaches great importance on the development aspect of the extension of geographical indications as well as their registration. This will protect the originality of the African products and enhance both the market potential for resources emanating from the continent and the accrual of tangible benefits to the African Countries from which these resources originate. It will also be a good marketing tool that will ensure that African products do not lose identity in the global markets.

The African Group is of the view that rules resulting from these negotiations in all areas, must not constrain the process of Africa's industrial development.

Dissatisfied with the process

The Group has also observed that, the negotiating process in this Mini-Ministerial has demonstrated the need for more work to be done in improving WTO decision making, inclusiveness, openness and transparency.

We are deeply concerned that in the Group of Seven (G.7), not one African country was represented in a round that purports to be about development. This does not augur well for the future of global governance.

The African Group now calls upon the G.7 to demonstrate proper leadership and adequate political will to unblock the issues that have obstructed the timely conclusion of the negotiations that should lead to the development of modalities in agriculture and NAMA.

We want to point out in this regard that we from Africa with our limited resources have bent over backwards to give all that we have to ensure that this Doha Development Round is successfully concluded.

We would want to recall at this point that when this DDA was launched, we did not demand for the Doha Round, the developed countries are indeed the ones who demanded it and they are the ones blocking the movement forward.

We came into the round in good faith convinced it would be truly a development round that would help our African continent that is the most need of development to be able to pull out of abject poverty and join the rest of the world as an equal partner in global trade.

At this point in time therefore, seven days after arriving in Geneva to finalize modalities on Agriculture and NAMA, we are deeply disappointed by the lack of progress in the negotiations that are now unfortunately focused on the so called G.7 comprising of the major developed and advanced developing countries. The African Group of Ministers have been kept in the waiting room with no positive outcome in sight.

We therefore once again call upon this Group to make the necessary political decisions to ensure that we as the representatives of the Global trading communities do not fail our people. This is a historic moment and we must seize this opportunity to ensure that we succeed. Failure is an option that we cannot afford.

Finally, I wish to assure all that the African Group is constructively engaged in these negotiations and is committed to ensuring, that the WTO members achieve a successful Doha Round that will deliver meaningful development to Africa and other poor countries. African countries are now demanding fair trade so that we can all be integrated into the global economy and live as equal partners without having to rely on aid.

FORMER UN OFFICIAL CALLS FOR REFORM OF THE INTERNATIONAL MONETARY AND FINANCIAL ARCHITECTURE

"The major deficiency of the current system in the macroeconomic area is the large reliance of the global reserve system on a national currency, the US dollar. This system is not only inequitable, as it confers excessive privileges to one country in terms of seignorage powers and monetary policy autonomy,

but also unstable, as it leads to cyclical swings in the confidence in the major reserve currency, a dramatic phase of which we are living today." This was stated by Mr. Jose Antonio Ocampo, Professor, Columbia University and former Under Secretary General of the United Nations for Economic and Social Affairs, when addressing the UN ECOSOC Hearings with Civil Society on Financing for Development, in the UN Headquarters, New York, 16 June 2008. The session was part of the preparatory process for the forthcoming Doha Review conference for Finance for Development scheduled in November 2008.

He said "The follow-up to the Monterrey Conference on Financing for Development should therefore be seen as an opportunity to generate new momentum for reform of the international monetary and financial architecture and called for fair representation of developing countries in international economic decision making and the role of regional arrangements."

Here below is a text of his statement:

The major deficiency of the current system in the macroeconomic area is the large reliance of the global reserve system on a *national* currency, the US dollar. This system is not only inequitable, as it confers excessive privileges to one country in terms of seignorage powers and monetary policy autonomy, but also unstable, as it leads to cyclical swings in the confidence in the major reserve currency, a dramatic phase of which we are living today.

The systemic agenda that is addressed in chapter VI of the Monterrey Consensus covers two broad set of issues: the functions' of the international monetary and financial architecture, and its governance structure. With respect to the first of these issues, we can broadly define four functions: (1) guaranteeing that national macroeconomic policies are consistent with the stability of the global economic system, and avoiding the adverse effects that macroeconomic policies of individual countries could have on other nations; (2) designing appropriate transparency and regulation of international banks and capital markets, and adequate regulation of domestic and international financial systems, including cross-border capital account flows; (3) providing sufficient international official liquidity in crisis conditions; and (4) designing standstills and orderly debt workouts mechanisms at the international level for managing

problems of over indebtedness. With respect to the governance structure, I will focus here only on the fair representation of developing countries in international economic decision making and the role of regional arrangements.

The Asian crisis and its spread throughout the world unleashed a high level of attention to many of these issues. Indeed, the Monterrey Consensus is part of that process, and its great virtue is that it provided for the first time an agreed framework for the reform of the international financial system and its development implications. A decade later, however, we face the worst macroeconomic imbalances of the post-war period, large turbulence in developed countries' financial markets, linked to a clear and outstanding regulatory deficit in world finance, and the International Monetary Fund is facing the worst crisis in its history. The follow-up to the Monterrey Conference on Financing for Development should therefore be seen as an opportunity to generate new momentum for reform of the international monetary and financial architecture.

The major deficiency of the current system in the macroeconomic area is the large reliance of the global reserve system on a *national* currency, the US dollar. This system is not only inequitable, as confers excessive privileges to one country in terms of seignorage powers and monetary policy autonomy, but also unstable, as it leads to cyclical swings in the confidence in the major reserve currency, a dramatic phase of which we are living today. Let me say, however, that a system based on competing reserve currencies from industrial countries, say the US dollar and the euro, would not only continue to be inequitable but may be even more unstable, as the world economy lacks mechanisms of macroeconomic policy coordination and is thus subject to large exchange rate swings among those currencies. Mechanisms for global policy coordination have been not only ad-hoc (the G8 today) but also weak.

These inherent deficiencies of the global monetary system can only be solved by reliance on a true global reserve currency and the creation of stronger mechanisms of macroeconomic policy coordination. In the redesign of the International Monetary Fund, these issues should be high on the agenda. The SDRs are, indeed, the only global reserve currency, so far considerably under-utilized, and the

"multilateral surveillance" mechanisms launched by the IMP a couple of years ago may be seen as the seed of a new global macroeconomic policy coordination framework, though its results so far have been largely frustrating.

The ongoing US financial crisis has made us all conscious of the large regulatory deficit that characterizes world finance. The major step forward after the Asian crisis was the strengthening of prudential regulation and supervision in developing countries. But the major industrial centers, and thus global finance, faces significant gaps in regulation associated, among other things, lack of transparency and regulation of derivatives markets and hedge funds, of banks off-balance sheet transactions, of the risks associated with the issuance of asset-backed securities, and of the lack of regulation of rating agencies. To this we should add the lack of focus of the Basle Committee on Banking Supervision on the major failure that characterizes financial markets: excessive risk-taking during macroeconomic booms. This means that a counter-cyclical focus should be built into world financial regulation, an issue that absent from the existing agenda. Further, given that capital is increasingly global in character, a claim can be made that we need to create a truly global regulatory institution or mechanism.

The Asian crisis led to a series of important innovations in IMF financing: the creation of the Supplemental Reserve Facility and the Contingency Credit Line. The latter was correctly seen as a preventive line to manage pro-cyclical swings in capital flows, but was never used and was soon discontinued. A new framework for lending to low income countries has also been put in place. A troublesome feature was the excessive conditionality that continued to characterize all forms of lending. This includes the compensatory financing facility that could play an important role in the face of record oil and food prices, but which has ceased to be used due to excessive conditionality. The need for agreed rules on the limits of conditionality as well as a preventive credit line for capital account crises continue to be, therefore, major deficits in this area. These two factors are largely behind the large build up of foreign exchange reserves by developing countries, as a form of "self-insurance" in response to the lack of collective insurance provided by the world monetary and financial system, as well as the limited demand for IMP funds to avoid its overburdening conditionality. Although positive from the perspective of these countries, such a build up has contributed to global

macroeconomic imbalances.

The initiatives to manage over-indebtedness of poor countries, the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief (MDRI) Initiatives must be seen as a bright spot in the global agenda of the last decade, though their effects have been insufficient for many countries. The Paris Club continues to play an important role for official financing, though it has not overcome its traditional reliance on sequential rescheduling, which means that debt overhangs affect developing countries for excessively long periods. The generalization of collective action clauses in bond issuance is also a step forward. However, the lack of a regular institutional framework to manage debt overhangs at the international level i.e., an international debt court similar to those created to manage bankruptcies in national economies, the decisions of which are legally binding-is one of the major deficiencies of the current global system. One of its effects is the tendency to rely on ad-hoc mechanisms such as the HIPC and MDRI Initiatives, and the Baker and Brady Plans in the 1980s, as well as traumatic individual debt renegotiations.

Finally, let me just point out two issues in relation to governance. The first is that the Monterrey Consensus was a major step forward in calling for broadening and strengthening the participation of developing countries and economies in transition in economic decision-making and norm-setting. The discussion of this issue in the Bretton Woods institutions is a step forward, including the decision taken this spring on quotas and basic votes in the IMP, even though the latter was only a modest first step of a longer-term process. But let me underscore that the Monterrey Consensus applies to many more institutions, such as the Basle Committee on Banking Supervision and many other norm-setting bodies in which developing countries have no representation. The second is to underscore that, in this area; developing countries also have part of the solution in their hands, through the creation of regional and sub-regional institutions. The major advance in this area has been the Chiang Mai Initiative of ASEAN+3, and the Latin American Reserve Fund is an older mechanism of its kind. A better and more equitable international system to manage finance must rely on a dense institutional network, which includes strong global, regional and national institutions.

The regional dimension is crucial in this mix, particularly for smaller countries. In this light, the large foreign exchange reserves of many developing countries may be seen as an opportunity to create or strengthen these initiatives.

This is, of course, an ambitious agenda, but the challenge of the follow-up to Monterrey is to put in place the comprehensive agenda that is already part of the Consensus, and to face the several emerging issues that have come up since its adoption in 2002.

*** Mr. Antonio Ocampo, is a Professor in Columbia University and was a former Under-Secretary-General of the United Nations for Economic and Social Affairs*

CIVIL SOCIETY PROPOSES BENCHMARKS FOR DOHA REVIEW CONFERENCE ON FINANCE FOR DEVELOPMENT.

In a June 2008 statement prepared for the preparatory process for the Doha review conference on finance for development, civil society organisations have expressed concern that since 2002 Monterrey Conference, financial flows to support the achievement of the Millennium Development Goals and other internationally agreed goals, especially in the South have remained grossly inadequate, unpredictable, and volatile. They stressed that it is important both to address the systemic weaknesses that have undermined the consensus reached in Monterrey, and to supplement the 2002 commitments with a package of new, concrete monitorable measures, coupled with a strong and explicit political commitment to implement them. The statement analyses the issues in all pertinent areas and suggests a package of measures to address the problems identified.

The section on trade underscores the need for fair trade rules and the linkage between trade and finance necessary to promote development. Extracted here below is the text of the analysis and recommendations concerning trade.

FAIR RULES FOR WORLD TRADE

The Monterrey Consensus called for trade measures to ensure that trade plays its full part in promoting growth, employment and development for all. After

more than six years, the Doha Round of trade talks that the Monterrey Consensus called to deliver such measures remains deadlocked, and its potential to live up to that call, uncertain.

In this regard, it is urgent that the WTO negotiations change their direction. Principally, the governments of the North ought to drop all demands on the countries of the South calling for further tariff reductions in all WTO negotiations. Instead, in the sense of Special and Differential Treatment, the countries in question ought to be able to define the speed and extent of further liberalisation steps themselves.

Ongoing bilateral negotiations are also a matter of concern. The European Commission's schedule for the continuation of the European Partnership Agreement (EPA) negotiations is putting considerable time pressure on the ACP Countries, which are signatories of the "Lome Convention" and some of which are still far away from independent regional integration. In the further negotiations, the stipulations of the agreements that counter the development targets of the ACP Countries have to be renegotiated.

All countries of the North should completely end their subsidies for agricultural exports to the developing countries, especially to Africa. The EU's deeds should follow its words regarding its announcement to completely eliminate the remaining subsidies for agricultural exports by 2013, independently of the further course of negotiations in the WTO. In addition, measures should be taken to enhance the performance of local markets and protect them from foreign agricultural dumping. This issue is increasingly important in light of growing recognition that agricultural subsidies in the North have contributed to the current global food crisis. This crisis, on the other hand, reaffirms the need for subsistence farmers and small producers in the South, many of whom are women, to be supported in a variety of ways so that they can continue to grow staple food.

Importantly, the Monterrey Consensus, with its pursuit of a holistic approach, recognized that trade measures alone cannot ensure that trade promotes growth, employment and development for all. 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:

1. 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. 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. In negotiations on Non-Agricultural Market Access (NAMA) and the Economic Partnership Agreements (EPAs), low tariff levels have the potential to jeopardize industrial development, diversification of industries, and the creation of decent and productive employment.

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.

There is no straightforward connection between increased access to other markets and growth, let alone domestic process of capital accumulation in countries getting such access. 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. 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. Inter alia, this calls for negotiations on Non-Agricultural Market Access (NAMA) and the Economic Partnership Agreements (EPAs) to withdraw requirements for developing countries to lower industrial tariff levels, the strategic use of use of tariffs, support and access to technology and the utilization of controls on foreign investment as a key tool to prevent transfer-pricing and erosion of public revenue bases.

2. Exchange rate, 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.

3. 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.

Member countries should commit in FFD to ensure that recipient countries 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.

4. The role of international financial institutions and donors in trade negotiations

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 government procurement standards that prejudice the role and direction of trade policy in the development strategies of recipient countries.

5. Financial issues in Free Trade and Investment Agreements

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 runs 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 incorporate the lessons from past financial crises by avoiding impinging

upon the flexibility to manage the financial sector, the capital account and sovereign debt.

LEAST DEVELOPED COUNTRIES REPORT 2008 CALLS FOR A PARADIGM SHIFT IN DEVELOPMENT POLICY

Reported by Ambassador Nathan Iumba

The Least Developed Countries Report 2008 report recommends that LDCs should have greater control and flexibility over how the foreign aid they receive is used so that it can have the greatest positive impact. The report points out that the fundamental priority for LDC Governments is to formulate and implement national development strategies that promote sustained development and poverty reduction. This requires effective national development strategies, effective development aid and development-friendly international regimes for trade, investment and technology.

The Report finds that there are major constraints on the ability of LDC Governments to exercise effective leadership in the design and implementation of their national development strategies and policies. This arises because of very high levels of dependence on donor finance, weak technical capacities, the **continuing bark and bite** of policy conditionality, the slow progress in aid alignment with country plans and budgets, and donor financing choices.

Weak country ownership, the report states, has negative consequences for governance. It notes that *"when politicians and policymakers feel inhibited from saying and doing certain things because of a sense of aid dependence, the political qualities of free-thinking society atrophy."* The Report shows that weak country ownership is also having adverse consequences for development effectiveness. This is particularly due to: (a) the weak integration of the macroeconomic framework with sectoral and trade policies; (b) the downscaling of ambition in relation to increased aid inflows; and (c) the low financing of productive sector development.

The report observes that the notion of ownership has been *"at the heart of the partnership approach to development cooperation elaborated internationally since 2000."* The principle received strong political support at the highest level, including the G.8 summit at Gleneagles, Scotland, in 2005.

However, the report observes that there is still a big

gap between rhetoric and practice. The current aid system is not as effective as it could be because the ongoing aid delivery mechanisms continue to undermine effective country ownership. Problems include poor alignment between donors and recipients, lack of information, lack of transparency, donor-led, top-down, parallel systems of aid delivery, lack of coordination and harmonization between aid and government plans and budgets and processes, lack of aid predictability, and wide annual fluctuations in the amounts of aid delivered.

The report recognizes that "*second generation*" Poverty Reduction Strategy Papers (PRSPs) have become the main instrument by which aid donors and recipient governments fashion development plans.

While the World Bank and IMF have made efforts to reduce the negative effects of conditionalities for the use of aid, it stresses that the job is far from done. It cites examples of Official Development Assistance (ODA) inflows to Malawi, Zambia, and Sierra Leone which were cut in 2003 and in 2007 because of those countries' "failures to meet macroeconomic targets." Macroeconomic stabilization, privatization, and liberalization of the banking and financial sectors remain key conditionalities applied to aid, complemented with more rules on governance more than ever before. These requirements limit what governments can do and have adverse consequences, the report says. A system is needed that allows government ownership while ensuring donors that aid is used properly and effectively.

Increasing country ownership should be a major priority for LDCs, Governments, and their development partners in order to improve development effectiveness. This will involve action on a range of fronts, which include, in particular, further reconsideration of the issues of policy conditionality and aid predictability, and the building of local research and policy analysis capacity which can support the Most LDCs remain agricultural economies with limited capacity to mobilize domestic resources or provide people with adequate means for survival; more and more people are seeking work outside of agriculture, but employment opportunities are not being generated fast enough to meet the growing demand, the report notes. The food crisis in many LDCs is in part a result of this lopsided development pattern. The report points out that the LDCs have not reduced their heavy dependence on external sources of finance, particularly official development assistance. They continue to have insufficient domestically generated resources. Reliance on external finance has declined for a number of LDCs (from 11% to 8% as measured by the ratio of agree-

generation of policy alternatives and in particular home grown solutions.

The report also argues that the development model underpinning IMF-style conditionalities on aid has not led to sustainable or inclusive growth in most LDCs. The report states the trends in economic growth, poverty, human development and food security that are taking place in LDCs are related to policy choices and to the development model which has been pursued in most LDCs. The current pattern of economic growth is neither robust nor inclusive enough.

A basic message of the Report, therefore, is that it is time for a paradigm shift. What is required is not a shift in sectoral focus, but rather a deeper change in approach which puts production, productive capacities and productive employment opportunities at the heart of policies to promote development and poverty reduction.

As discussed in the LDC report of 2006 and 2007, such a shift would involve the following three elements:

- ◆ Policy should focus on production, productivity and productive capacities rather than global integration and international trade *per se*.
- ◆ International trade is essential for productive development and productive development is essential for international trade. But policy should start at the development end, rather than the trade end, of the relationship between trade and development.
- ◆ Policy should recognize the primary importance of productive employment as the basis for substantial poverty reduction. This does not mean that social sector spending and human development goals are unimportant.
- ◆ There is a need for a better balance between States and markets in promoting development and reducing poverty. The persistence of pervasive poverty and the food price bubble indicates massive market failure.

The big policy illusion of the past decades was that investment in productive sectors would be taken care of by the international private sector through increased access to international capital markets or FDI inflows. But these inflows have concentrated on a few LDCs and have been weakly linked with the rest of their economies, the report says. Most FDI remains concentrated on natural resource extraction, particularly of oil and minerals.

gate net flows to GDP), but still remains much higher than in other developing countries (3% in 2006), especially in the case of African and island LDCs (11%).

To build economic resilience, the LDC economies need to improve agricultural productivity and diversify for their economies to create non-agricultural employment opportunities. As argued in earlier Least Developed Countries Reports, this requires a new development model focused on building productive capacities and on shifting from commodity-price-led growth to "catch-up" growth.

EDITORIAL: RESIST PRESSURES AND TEMPTATIONS TO STRIKE A DOHA DEAL AT ANY COST.

By Ambassador Nathan Irimba

The Director General of WTO, Mr. Pascal Lamy convened in Geneva towards the end of July "a conclave" of about forty selected ministers for what was billed as a make or break meeting for reaching modalities for Agriculture, Industrial Products, and Services reforms that would lead to the conclusion of the Doha Round by end of 2008. In the course of the Mini Ministerial meeting this "conclave" was further reduced to the G.7 with the rest reduced to the role of bystanders.

Within the context of the Doha Round negotiations it has become a firmly embedded common practice to have mini-ministerial meetings for purposes of pushing forward the round. This practice, understandably, is viewed with apprehension by those left out as it effectively marginalises them and shifts the negotiation to smaller groups. However, the negotiations in these small groups have repeatedly collapsed. As *Lal Das* observes, the strategy of pushing the ministers into tight schedules in the expectation that they will hurriedly soften their positions has failed. The stakes and interest involved in the negotiations are too complex and diverse for such tactic to be effective. What is needed is to have a meeting of minds in a cool atmosphere rather than a clashing of heads in artificially created atmosphere (*the WTO's Doha Negotiations: An assessment by B. Lal Das*). This is the lesson that the Geneva Mini-Ministerial collapse reinforces.

The meeting collapsed ostensibly "because members were unable to bridge their differences in the area of the special safeguard mechanism," and as Lamy observes the meeting did not get around even to discussing cotton. While the frustration expressed by many who had invested in the meeting is understandable, the objective reality is that the deal that was on the table was far removed from, and betrays the development promise of the Doha Round. Therefore the collapse, rather than being a reason for disappointment, should be looked at as an opportunity to reassess where we are with a view of rectifying the

imbalances inherent in Lamy's text. The Doha Round has often been marked by uncertainties and the sense of crisis. Underlying this crisis is whether Doha Round will deliver on its development promise.

In the seven years since the negotiations were launched, ministers and trade diplomats have persistently missed the various deadlines they set themselves for concluding a deal. It has become common at various summits and ministerial meetings for leaders to commit themselves to work towards the urgent and successful conclusion of the Doha round, only to be belied by subsequent events. There appears to be a clear disconnect between the enthusiastic rhetoric of the leaders in support for advancing balanced outcome that serves development and the intransigence displayed by their representatives at the negotiating table.

The core agenda for the stakeholders has remained the same: on one hand improved market access for the goods and services of developed countries through a faster pace of trade liberalisation in developing countries. On the other hand, developing countries expected that the round, as envisaged would focus on development and address the imbalances in the multilateral trading system, and thus securing policy space for their development.

While the Doha mandate is very wide, covering many areas of interest to developing countries such as Special and Differential Treatment, WTO rules, and capacity building, the three market access issues in areas of: agriculture, Industrial tariffs and Services have been the main focus of the negotiations.

The aggressive interests of major countries to expand their economic space have in these negotiations been clashing with the vital development priorities and survival concerns of developing countries. In the process the development round has veered away from its direction of promoting development. The draft modalities now on the table seem to be more concerned with accommodating the demands for market access issues for the developed countries.

Lamy's compromise text merely tinkers with numbers in the modalities proposed in the earlier texts of the chairs of the NAMA and Agricultural negotiating groups, which texts were vehemently objected to by many developing countries. It maintains the same imbalances in favour of developed countries, and same measures for constraining developing countries flexibilities.

It is amazing, although not surprising, that the mini-ministerial collapsed on the issue of Special Safeguard Mechanism (SSM) which is designed as a defensive measure for developing countries in the event of import surges or price collapse. A major objective of the Round is to reduce drastically the subsidies granted by the developed countries which for long have distorted world agricultural trade. Lamy's compromise text would leave the actual level of OTDS in place with more than ample room to increase them. It would cut only in the water.

It is therefore unconscionable that these same countries, which enjoyed unlimited SSG arrangement under the Uruguay Round, are the ones making every effort possible to render the SSM for developing countries very cumbersome to invoke. The main concern of SSM is the sustainability of agriculture in developing countries and to give protection in difficult times. As developing countries have sizable populations of small scale farmers, rapid trade liberalisation can be unmitigated disaster for them. They can be easily swamped by a flood of subsidized imports from developed countries. They therefore need an SSM which is readily available and easy to use.

The developed countries are furthermore linking their offers on agriculture to their demand for extensively liberalisation of Non Agricultural Products by developing countries. The coefficient in the draft modalities on NAMA already in effect reverse the principle of less than full reciprocity agreed on in the Doha mandate. In addition the developed countries are insisting on circumscribing the ability of developing countries applying the formula to protect their industries, by insisting on the anti concentration clause. This is most unfortunate.

The LDC report 2008 points out that ***“International trade is essential for productive development and productive development is essential for international trade. But policy should start at the development end, rather than the trade end, of the relationship between trade and development.”***

We agree. This is a message Africa should bear in mind in all trade negotiations.

Although the mini-ministerial failed, moves are afoot to restart the negotiations on the basis of what is on offer in order to preserve *“the Geneva acquis”* in spite of its inherent weaknesses. The developing countries are better advised to resist the pressures and the temptation to have a Doha Accord at any cost. In our view a no deal is better than rushing to sign a bad deal which would be difficult to reverse. At a time when the US administration has no fast track authority, it is only prudent to be cautious. It is most probable that any incoming administration will, invariably, open what

has been agreed and press developing countries for more concessions.

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