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Ministers

Director General of the WTO

President of the IDB

President of the World Bank

Specially Invited Guests

Ladies and Gentlemen

At a time when the international community is wrestling with the challenge of placing development at the core of its efforts to liberalise world trade in both goods and services, the Inter-American Development Bank (IDB) and the World Trade Organization (WTO) are to be highly commended for appreciating the importance of a conference on Aid for Trade in this hemisphere to examine and assess its development needs and, hopefully, to mobilize the appropriate resources.

Permit me to apologise for the absence of Prime Minister, the Rt. Hon. Owen Arthur, who very much wanted to be here. Unfortunately, his duties as Chairman of the CARICOM Heads of Government Conference do not permit him to be with us at this time.

Trade can be a strong catalyst for growth and poverty reduction in developing countries. However, there is no automatic correlation between trade or increased market access and development. The history of EU-ACP relations presents a clear example of this predicament. It has been established that the ACP countries' share of the EU market has declined in real terms over the past thirty-five (35) years despite the preferential market access provided under successive Lome Conventions and the current Cotonou Agreement.

In reality, the share of the poorest developing countries in world trade has remained marginal, despite the preferential trade regimes granted by industrialized countries. Moreover, there is ample evidence that in order for developing countries to grow and successfully become integrated into the global economy, they require

not only easier market access but also increased support to address structural impediments and supply-side constraints.

The Aid for Trade initiative has the potential to become one of the key factors in facilitating economic growth, and it must be seen as a vital component of any broad-based effort to help developing countries to overcome their supply-side capacity constraints. It must also become one of the leading policy objectives of overseas development assistance (ODA) and to support international undertakings, such as the Millennium Development Goals (MDGs). Aid for trade should improve the capacity of developing countries to access international markets effectively by strengthening their trade-related infrastructure, increasing domestic productivity and improving their capacity to trade. It should also help to boost the export competitiveness of economic operators in developing countries.

Although the international community has recognized these trade-related challenges for more than fifteen years, the introduction of the Aid for Trade initiative at the WTO Hong Kong Ministerial Conference of December 2005 brought the issue to the fore. The United Nations

Conference on Financing for Development in Monterrey in 2002 and the UN World Summit of September 2005 had already affirmed the commitment of the UN membership to increasing aid to help developing countries to build their supply-side capacity and trade-related infrastructure.

In the context of multilateral trade agreements, the need for trade-related assistance to enable developing countries to meet the associated adjustment costs and to implement the agreements was recognized since the Uruguay Round negotiations. It is important to recall that even in the Free Trade Area of the Americas process, there was acceptance of the principle of Special and Differential treatment for smaller economies in the hemisphere. Therefore, the Aid for Trade initiative can also be seen as a further effort to cement the link between the implementation of trade agreements and the provision of development support.

The WTO Aid for Trade Task Force in its recommendations which were endorsed by the WTO General Council, stated that “additional, predictable, sustainable and effective financing is fundamental for

fulfilling the Aid for Trade mandate”. The Task Force’s Report also recommends, in keeping with the Hong Kong Ministerial Declaration, that targeted funds should be made available for building infrastructure and removing supply-side constraints over and above capacity-building and technical assistance.

One of the principles established by the Task Force is that Aid for Trade should be guided by the Paris Declaration on Aid Effectiveness and that this should apply to all parties involved in the aid process – donors, agencies, and beneficiaries.

In endorsing the recommendations of the Task Force, the international community has embraced the proposition that enhanced aid is necessary to strengthen productivity and trade capacities in developing countries. In addition, the question of an explicit linkage between the implementation of a trade agreement and the provision of aid has now also emerged in the context of the Economic Partnership Agreements (EPAs) to be concluded between the EU and African, Caribbean and Pacific (ACP) countries. The concept of Aid-For-Trade evokes

different responses from different WTO member countries, but the European Union has adopted it as one of the cornerstones of its international trade policy and, in that context, has prioritised the Economic Partnership Agreements (EPAs) with ACP countries. It is against this background that the EU decided, not only to make its trade-related commitment an integral part of its overall development policies, but also to ensure that one of the priorities is to operationalize Aid for Trade as an integral part of the EU-ACP partnership.

Therefore, the 2005 “European Consensus on Development” – a Joint Statement by the European Council, the European Parliament and the Commission, in keeping with the principles which would later be established by the Task Force - aligns the EU’s approach to trade-related assistance with the objectives set out in the Paris Declaration on Aid Effectiveness. This process was undoubtedly facilitated because the European Commission was already of the view that Economic Partnership Agreements would not be standard reciprocal free trade agreements, but “tools for economic development”.

The Paris Declaration, you may recall, is supported by over one hundred countries and international organizations, which are committed to increasing their efforts in managing aid for positive results. It involves the creation of stronger mechanisms for accountability by promoting a model of partnership for the use of development resources so that donors and recipients of aid are held mutually accountable to each other and their compliance in meeting agreed commitments are publicly monitored.

The EU, in response to queries from the ACP Group, has stated that its strategy on “Aid-for- Trade” will also respond to broader trade-related issues such as productive capacities and trade-related infrastructure. Although we welcome this approach from the EU side, there are some concerns about the quantum of additional resources and the arrangements for making the Aid-For-Trade programme operational. Therefore, the Caribbean and other ACP regions are seeking some clarification on the amount of additional resources associated with the EU’s commitment, how much of it will be available to the ACP for EPA-related support and what mechanism will govern the delivery of this trade-related assistance.

Effective EPA implementation requires, *inter alia*, adequate resources to address structural adjustment needs, mitigate the fiscal impact of a reduction in tariff revenues, upgrade infrastructure, strengthen public and private sector institutions, improve competitiveness in the productive sectors and undertake other trade capacity building measures.

During the EPA negotiations, ACP negotiators have been arguing from the beginning that neither liberalized trade nor preferential market access, by itself, will promote development; because countries suffering from capacity constraints and institutional inadequacies will not be able to make the best use of market access, even under preferential terms. This proposition is becoming more widely accepted as an increasing number of experts accept that “*Trade will not promote development without parallel investment in the supply side*”.

The need for additional resources to help governments adjust to the loss of border taxes, associated with trade liberalization, has

emerged as another area of concern for CARIFORUM countries (CARICOM plus the Dominican Republic in the ACP-EU theatre of negotiations), particularly since they depend on these revenues to fund social programmes, such as health care, education etc.

The Caribbean ACP member states have long held the view that adjustment support is also about minimising public financial losses due to reduced tariff revenues. In this regard, the EU, faced with persistent criticism from their own NGO community and mounting ACP concern over the scope and pace of the adjustment process, which would accompany the implementation of EPAs, has now accepted that Caribbean and other ACP countries will need additional resources to offset the loss of government revenue resulting from preference erosion and EPA-induced trade liberalization.

Technical assistance and capacity building in the area of Trade Facilitation represent other aspects of development support which the ACP countries have been seeking within the context of an EPA. The EU, according to its WTO and EPA pronouncements, recognizes the need for Special and Differential Treatment (S&D) for developing

countries in the area of Trade Facilitation. In addition to the WTO principle of special and differential treatment (S&D) for developing countries and LDCs, the concept of S&D treatment for small economies is particularly important for the Caribbean and we see the vulnerability of our economies as deserving of special consideration in terms of Aid-For-Trade. The challenge is to ensure that the trade facilitation support measures, offered by donors, are compatible with the region's priorities and address its identified needs, particularly with respect to strengthening export sectors and helping to raise competitiveness. In addition, the region must not be required to assume any commitments until the member states are in a position to implement them.

A key objective of Aid-for-Trade is to strengthen the capacity of poor countries to identify needs and mainstream trade into their development strategies. This is a necessary condition for effective Aid-for-Trade and requires both public and private sector participation.

Non-LDCs also need support to mainstream trade into their national strategies and to establish broad-based consultation processes involving the private sector, civil society, and relevant Government agencies. These processes will help to formulate trade strategies, to develop action matrices and to generate priority project proposals. However, because some of the constraints facing developing countries are regional, sub-regional or cross-border in nature, they need to be identified and properly addressed at a regional level. The regional organizations, which might play a role in this process, would include regional development banks, regional integration organizations and regional economic communities.

One aspect of the EPA negotiations which we would wish to take into the wider international trade arena is the linkage between trade issues and development co-operation instruments. EPAs differ from the usual free trade agreements because they have sustainable development as their overall objective. Linking trade issues directly with development co-operation is a new approach and we need to work on this linkage to make it an integral part of the overall Aid-For-Trade process.

From a Caribbean perspective the EPA negotiations and the issue of linking trade-related assistance to EPA implementation present an important test case with respect to the obligations of a developed country trading partner to provide effective Aid-for-Trade. This position has been elaborated on during the Caribbean regional EPA negotiations, where we have adopted an approach based on a synergistic strategy of combining trade commitments with development cooperation provisions in trade-related areas. This approach is consistent with the imperative of augmenting the competitiveness of Caribbean goods and services, through the delivery of a range of infrastructural, institutional strengthening, and restructuring support.

In the EPA negotiations, Caribbean negotiators have been making the case that the logical sequencing of EPA implementation underlines the need for the European Commission to address supply side constraints and trade capacity shortcomings before CARIFORUM undertake any further trade liberalization. This logic would also lead to the conclusion that the region should not be asked to make binding commitments in those areas where it has inadequate

or, in some cases, no capacity to discharge such obligations. In this regard, we have been arguing in the WTO and various bi-lateral trade negotiations that we should have an equitable approach to international trade. This equity would require that more advanced countries pay attention to the development priorities of developing economies before they are prodded into liberalizing their markets and undertaking other commitments.

Considering the principles for aid effectiveness, as detailed in both the Paris Declaration and the report of the WTO Task Force, preference should be given to the channeling of funds through existing national and regional planning processes. This approach would facilitate a more rapid and efficacious delivery of development support, as well as fostering ACP ownership.

The overarching vision which we share in the Caribbean Community is for sustainable development of the regional economy. This vision encompasses economic, social, environmental and governance dimensions, grouped into six broad elements:

1. Self-sustaining economic growth based on strong international competitiveness, innovation, productivity, and flexibility of resource use
2. A full-employment economy that provides a decent standard of living and quality of life for all citizens; elimination of poverty; and provision of adequate opportunities for young people. This would constitute a desirable alternative to emigration
3. Spatially equitable economic growth within the Community, having regard to the high growth potential of those Member States with relatively low per capita incomes and large resources of under-utilized land and labour.
4. Social equity, social justice, social cohesion and personal security
5. Environmental protection and ecological sustainability
6. Democratic, transparent and participatory governance

This encapsulates the vision which we have for the development of our region. We are working assiduously to make it a reality.

In July 1989, the Heads of Government of the Caribbean Community decided to establish the Caribbean Single Market and Economy (CSME) in order to promote our own economic development and to successfully position ourselves within the new global economy. The CSME is designed to provide a single economic space within which business and labour operate in order to stimulate greater productive efficiency, higher levels of domestic and foreign investment, and growth of intra-regional trade and of extra-regional exports. The Single Market component, which has already been established, consists of freedom of movement of goods, services, capital, business enterprises and labour.

We are now in the process of putting in place the Single Economy by 2008. Under the Revised Treaty of Chaguaramas which establishes the CSME, the Single Economy requires harmonization of policies, laws, and regulations; production integration; enhanced monetary

cooperation; functional cooperation; and common external economic policies.

Not all of our economies will be able to move at the same pace. Therefore, the Revised Treaty has provided for the establishment of a regime for disadvantaged countries, regions or sectors, in order to enhance their prospects for successful competition within the Community as viable economies. The assistance contemplated will also be designed to redress any negative impact of the establishment of the CSME.

An essential component of the regime is the Regional Development Fund which is intended to provide financial and technical assistance. The initial subscriptions to the Fund will be from Member States, and augmented by subventions from private sector entities. The CARICOM Community would welcome contributions from extra-regional governments and organizations. Indeed, the Regional Development Fund could be a suitable vehicle for Aid for Trade in the Caribbean.

Given the regional integration process underway in the Caribbean, the need for regional support is clear and the regional character of the EPAs further underlines the importance of regional trade-related assistance. This support could be channeled through development funds managed by regional integration organizations or regional development banks, such as the Caribbean Development Bank or, in the wider Caribbean and Latin American region, the Inter-American Development Bank. These options would have the advantage of ownership by the region and increased likelihood of quick disbursement.

Nevertheless, it is important to apply aid effectiveness principles at the regional and national level, in particular by supporting the capacity of regional and national recipients to own and direct Aid-for-Trade programmes. We must strive continually to improve the process by coordinating the programming, by pursuing more streamlined delivery modes and by enhancing cooperation with other donors, notably regional financial partners, other financial institutions and multilateral organizations.

Regional mechanisms may be used, not only to support regional and cross-border activities, but also as channels for support at the national level. The importance of regional support has also been highlighted by the Aid-for-Trade Task Force, which states that many countries require cross-border infrastructure and regional policy cooperation to trade more effectively.

Trade liberalization is not enough for the Caribbean. Several decades of development support, centred around favourable access to developed country markets, has not improved the capacity of Caribbean countries to develop and compete in global markets. This preferential market access approach has failed to deliver the hoped for results because it does not address the critical supply-side constraints and other structural problems which are the real impediments to Caribbean competitiveness and development. This is where Aid-for-Trade, with its sustained and host country-led trade capacity building measures, should be more effective

The Caribbean, with respect to trade-related assistance, needs to attract increasing Aid-for-Trade flows, but above all we need to improve the efficiency and effectiveness of the aid which is already available. In this regard, there is need for a new strategy, which builds on the principles of the Paris Declaration on Aid Effectiveness and the recommendations of the Aid-For-Trade Task Force.

Caribbean countries must overcome the difficulties, which often inhibit small countries, in adopting an Enhanced Integrated Framework or similar instrument for co-coordinating and aligning Aid-for-Trade between donors and partners. However, much will depend on the capacity of recipient countries to take ownership of the process. The Paris Declaration rightly demands that the aid programmes of all donors be based on the development strategy and priorities of the respective developing country.

The trade-related financial allocations, which reflect policy and programming decisions at country and regional levels, should enable Caribbean countries to take full advantage of increased

trading opportunities and maximize the benefits of trade reforms. The international community can promote an effective response to the wider Aid-for-Trade agenda by continuing to strengthen support for demand-driven, poverty-attacking development strategies. These mutually supported strategies should incorporate the building of productive capacities, upgrading trade-related infrastructure, and funding trade-related adjustment, such as the net revenue reductions resulting from tariff liberalization and fiscal reforms.

At present accountability requirements are often harder on developing countries than donors because of the limited institutional capacity of the former, yet it is now generally accepted that aid is more effective when partner countries exercise strong and effective leadership over their development policies and strategies. This is why ownership, through which developing countries take the lead in prioritizing their development needs and ensuring the alignment of donor support, is one of the fundamental tenets underpinning both the Paris Declaration and the recommendations of the Task Force.

A paper by the OECD Secretariat also points out that the idea of a global review mechanism, such as that envisaged by both the Paris Declaration and the Aid for Trade Task Force, establishes a feedback process, which supports national Aid-for-Trade partnerships between the host governments, donors, regional organizations and the private sector. This kind of global review can strengthen the international community's ability to act upon identified key constraints to improve trade capacity. These could range from unmet financial needs to the lack of technical capacity to design, implement and manage trade-related assistance. The OECD paper also notes that a global review mechanism could spearhead better coordination among various trade-related initiatives, which already exist at a global level, such as those on standards, trade facilitation and intellectual property.

The international donor community must explore how to respond effectively to the call for wider Aid for Trade support beyond trade-related assistance (trade policy and regulations and trade development). Donors need to be sensitive towards and be prepared to provide support in areas related to infrastructure and

building productive capacities. This could mean that the adjustment challenges, which certain developing countries may be facing as a result of trade liberalization, should also attract Aid for Trade commitments.

Trade-related assistance comes in many guises, but it is important that the international community cooperate to ensure that developing countries have effective access to the net financial inflows that would help to cover the costs of overcoming supply-side constraints, institutional adjustment, technical assistance and capacity building. In this context, imposing limitations on the policy choices of recipient countries or requiring the acceptance of specific policy recipes as conditions for access to trade-related assistance is, in reality, depriving that country of the policy space, which it might need in order to pursue its legitimate development priorities. Therefore, the international community must speak out clearly against such conditionalities and developing countries must have the courage to resist this type of unacceptable bullying or blackmailing.

There is great uncertainty surrounding Aid for Trade and many questions remain unanswered. If Aid for Trade is to be harnessed to catalyse trade as an engine of growth in developing countries, by what means is this initiative to be rendered effective? Once Aid for Trade is underway, how can developing countries safeguard the development dimension of Doha, ensuring that this aid, and other elements of the 'development package', are not the only development outcome of the Doha Development Round? How much aid will be provided and in what form? Is Aid for Trade "new" money? Will countries have predictable access to Aid for Trade without stringent conditionalities and cumbersome administrative procedures? Developing countries are seriously contemplating these matters because they do not wish to be short-changed in *this* round of trade negotiations. Caribbean countries would wish predictability of funding; that it be "untied"; that aid commitments be codified in the final Doha Round agreement; and that effective disbursement procedures are ensured.

We in the Caribbean welcome the acceptance by the international community that there is a fundamental link between the

implementation of trade agreements and development assistance to support necessary institutional strengthening, economic restructuring, trade facilitation and fiscal adjustment. In this context, timely development assistance to address the supply-side constraints and related shortcomings, which currently impede growth in many Caribbean economies, is an absolute necessity.

I can assure you that if the developed countries continue to ignore these critical supply-side capacity issues, which are the real impediments to competitiveness and development in the Caribbean and other developing regions, the optimistic assumptions about the benefits of trade liberalization will not hold. The importance of addressing supply-side issues has been recognized by the Aid-for-Trade task force and the Paris Declaration has given us a framework for improving the delivery of aid. It is now essential for the advocates of globalization to recognize that increased and more effective aid is needed to support LDCs and small economies in their efforts to use trade more effectively for reaching development objectives.

I thank you.