

**Review of the Monterrey Consensus on Financing for Development**  
**May 19-20, 2008 Review Session on**  
**International Trade as an Engine of Growth for Development**

**U.S. Government Submission**

The 2002 Monterrey Consensus identifies *international trade as an engine for development* as the third of six “leading actions” or pillars in support of financing for development (FfD). The Consensus sets out a broad range of actions, recommendations, and commitments by both developing and developed countries toward the objective of trade playing its full part in promoting economic growth, employment and development for all.

Since Monterrey, there has been an unprecedented level of dynamism in the international economic system and in the area of development finance, with important systemic initiatives underway in every area of the Consensus. The strong and dynamic world trading system built over time has indeed contributed to economic growth, particularly in the developing world.

**Monterrey Consensus—International Trade as an Engine of Growth**  
*(key elements)*

- Support for trade liberalization as a key element in growth and a sustainable national development strategy.
- Importance of trade to developing countries, particularly the least developed.
- Enhance the participation of developing countries in the multilateral trading system.
- Strengthen bilateral and multilateral trade-related assistance, including effective and predictable funding.

Of course, ambitious, concrete and timely results in the WTO’s Doha Development Agenda (DDA) negotiations are needed to achieve meaningful economic growth and development for developed and developing countries alike. It is clear that, for the DDA to bring about meaningful new trade flows and thereby provide new and real global economic opportunities, all WTO Members must contribute on a basis commensurate with their economic circumstance and participation in the global trading system.

**Key Areas of Progress since 2002:**

*A leading accomplishment of the Monterrey Consensus is that, since 2002, most developing countries have experienced high and sustained levels of economic growth, and trade has been an important engine of this growth.* Emerging and developing countries enjoyed sustained 7.2 % real GDP growth from 2002-07, far outpacing advanced economies (2.4%). All regions performed well during this period, including Africa. Exports of these economies grew at a faster pace than those of advanced economies during 2002-2006. Exports grew in low and middle income countries steadily increased from 29% of GDP in 2002 to 35% in 2006, while exports of high income countries rose modestly from 23% of GDP in 2002 to 26% in 2006. The developing

country share of manufactured products in developed country markets grew to nearly 40 percent in 2003 from less than 14 percent in 1973, with growth in all regions (IMF World Economic Outlook and World Bank, World Development Indicators and Global Economic Prospects).

At the same time, developing countries are increasingly trading with other developing countries. One telling example of this trend is that of India, which has achieved continuous growth in exports to developing countries in the recent past. According to the Confederation of Indian Industry (October 2007 report to UNCTAD), India's exports to these countries rose from 38% of total Indian exports in 1995 to 52% in 2005. India's total exports, which grew by over 26% in fiscal (April-March) 2005-06 have shown massive directional changes in recent years. By 2005-06, more than 30% of India's exports were within Asia compared to 14 percent in 2000-01.

*Trade liberalization is a key element in growth and a sustainable national development strategy.* Economic growth occurs at the producer level, and perhaps the most powerful incentive for producers to raise productivity is competition. There is no substitute for good domestic policies in the quest for competitiveness. Indeed, research shows that countries with better institutions and countries that trade more grow faster; and countries with better institutions also tend to trade more. In the same vein, increased openness does not necessarily lead to growth in economies with excessive regulation. (World Trade Indicators 2007) Since Monterrey, the pace of regulatory reform in many developing countries has been impressive. The World Bank/IFC *Doing Business Report* is a good window into domestic reforms and, indeed, has been used as a driver of reform by many countries. For example, business regulations, property rights, trade policies and the rule of law are particularly relevant to the ability of entrepreneurs to operate and prosper in any economy. Injecting transparency and accountability into the business environment can increase productive activity and reduce crippling rent-seeking behavior. *Doing Business* reports that two hundred reforms in 98 economies were introduced between April 2006 and June 2007 alone.

*Participation by developing countries in the world trading system, including its process of decision making, has expanded significantly since Monterrey and more developing countries and economies in transition are joining the WTO,* as called for by paragraphs 30, 38 and 63 of the Consensus. Developing countries are playing central leadership roles in the Doha Development Agenda negotiations and in the regular work of the WTO. The WTO is also expanding its membership. Since 2002 it has grown by eight, to 151, including six developing countries or economies in transition, of which three are Least Developed Countries (LDC). A fourth LDC is expected to join the WTO upon completion of its domestic ratification procedures.

*Developed and developing country partners have increased their focus on trade as an integral part of national development strategies and trade-related development assistance to support those strategies.* The discussion of trade-related assistance as a complement to trade liberalization has intensified since Monterrey. The Aid for Trade process started at the WTO Hong Kong Ministerial meeting in 2005 has focused attention on trade-related assistance, not as a stand alone (or “stove-piped”) issue, but one that

must be fully integrated into a nation's national development strategy. Aid for Trade has also expanded the discussion beyond traditional trade-related technical assistance, to institution building, supply-side issues and building productive capacity. At the same time, overall financial support for trade-related assistance is growing. In the longer term, it will be important for partner countries to continue to prioritize trade in national development plans.

The Integrated Framework (IF) process has been enhanced significantly since Monterrey. Forty-five LDCs are now active in various stages of the IF coordination process. Under the new Enhanced IF (EIF), six core international organizations will continue their work together to provide LDCs with technical assistance and capacity building related to trade. The World Bank, IMF, UN Conference on Trade and Development (UNCTAD), UN Development Program (UNDP), International Trade Centre, and World Trade Organization (WTO)—as well as bilateral donors—each work from a single, country-driven trade development plan, using their unique strengths and programmatic capabilities to address systemic problems and achieve greater impact than would be possible working independently. Donors have substantially increased the resources available for the EIF.

The U.S. has also significantly increased its provision of Trade Capacity Building (TCB) assistance during this period. This assistance is aimed at helping developing countries take advantage of the opportunities of the global trading system, and, more broadly, to harness trade as an engine of growth. The U.S. has more than doubled its annual TCB spending since 2002, resulting in aggregate outlays of nearly \$6.5 billion in grants. USAID and the Millennium Challenge Corporation are the two largest U.S. providers of trade-related assistance. Through MCC, in particular, the U.S. is making significant new investments in infrastructure, including trade-related infrastructure. Since 2004, MCC has committed about \$6 billion in grants, of which about \$3.2 billion is trade-related.

Finally, government assistance is only a piece of the development picture. Governments are not the primary drivers of trade, the private sector is. Developing country access to developed and advanced developing country markets helps developing countries grow. In 2007, U.S. imports from developing countries totaled \$800 billion, not including China. Recognizing that public-private alliances multiply the impact of official development assistance, more attention needs to be focused on engaging the private sector in development partnerships. The private sector provides assistance that ranges from developing information technology skills to helping small farmers.

### **Remaining Challenges and Emerging Issues:**

Clearly the most immediate challenge, and the United States' top trade priority, is concluding an ambitious outcome in the Doha Development Agenda negotiations. The negotiations will establish the core trade-related assumptions for the middle of the next decade and beyond and provide a "once in a generation" opportunity to strengthen global economic growth and contribute to poverty reduction. A successful outcome will bring about meaningful new trade flows for agricultural products, industrial goods and services

that will make our economies more competitive and more productive. This will benefit our economies and our people by providing new and real global economic opportunities for all countries and thus contribute to economic growth and poverty alleviation. This will only happen if all key Members contribute on a basis commensurate with their economic circumstances and participation in the global trading system.

The second challenge for donors, bilateral and multilateral, including within the UN system, is to support sustained economic growth in partners countries. For the United States, promoting economic growth is an objective of our foreign assistance program. Achieving the integration of trade into national economic growth strategies is a parallel challenge. Too often, trade and trade-related assistance are not part of the primary discussion between host governments and their donor partners. Aid for Trade emphasizes an integrated approach that combines supply side, productive capacity and policy issues into national development plans.

Finally, each government is responsible for creating the domestic climate that will “enable” growth. For trade to truly be an engine for development, productive enterprises must be able to operate and trade. While progress has been made, as noted above, there are significant opportunities to eradicate corruption, improve business regulation, property rights, and establish and enforce the rule of law toward the objective of well-functioning markets and competitive enterprises.

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## **Fact Sheet on U.S. Government Trade-related Assistance Programs**

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U.S. TCB has also benefitted from changes in the way that U.S. assistance is delivered by supporting partner country ownership, promoting best practices to improve aid effectiveness, and leveraging private resources. In particular:

- The U.S. established the MCC in 2004 to focus resources where sound economic policies and good governance provide an enabling environment for economic growth. MCC has committed nearly \$6 billion in grants: \$5.5 billion for compacts with 16 countries and has approved 18 threshold programs totaling some \$400 million. More than \$3.2 billion in being invested in trade-related assistance. MCC projects include significant infrastructure investments. These programs use development frameworks and program designs that are initiated and implemented by developing countries and ensure civil society participation.
- USAID has field operations in more than 70 countries and operates programs across the full range of trade-related assistance, from agricultural development to building productive capacity to building supportive economic and regulatory environments. USAID support for trade capacity building has reached \$3.6 billion since 2001.
- Governmental assistance is only a piece of the development pictures. The United States has actively engaged the private sector in development partnerships, including to multiply the impact of official development assistance, including through USAID's Global Development Alliance (GDA):
  - Starbucks and GDA worked together to help Rwandan farmers upgrade their coffee-farming infrastructure. Starbucks now sells Rwandan Blue Bourbon coffee in its 5000 stores.
- By promoting reforms to improve the business enabling environment, including access to finance, the U.S. assists developing countries in expanding opportunities for the private sector to succeed.