

Financing Economic And Trade Reform in the context of Liberalisation:
Conceptualising and Accessing Aid for Trade

Opening Speech of Hon.Madun Dullo, Minister for Foreign Affairs and
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Deputy Prime Minister & Minister of Finance & Economic Development, Hon. Rama Sithanen,

Hon. Joseph Deiss, Federal Councillor of Switzerland,

Mrs. Elizabeth Tankeu, Commissioner for Trade and Industry of the AU,

Honourable Ministers,

Members of the Diplomatic Corps

Distinguished Guests

Ladies and Gentlemen

It gives me great pleasure to welcome you to this high-level consultative forum on Financing Economic and Trade Reform in the Context of Liberalization with special focus on the concept of Aid for Trade. I welcome my colleague, the Hon Min. Deiss, with whom I have the pleasure of working in the WTO, especially in the G-10, with a view to establish a fair, equitable and balance trade regime as a successful outcome of the current WTO Doha Development Round of Negotiations. I also welcome all my colleague ministers and/or their distinguished representatives as well as representatives of international organizations and international financial institutions who have accepted our invitation to participate in this meeting.

The fast pace of the globalization of the economy and of trade liberalization have

brought in their wake, daunting economic challenges for a number of countries, several of which have already embarked on wide-ranging economic reforms. However, the social, economic and fiscal adjustment costs of such reforms are high and stretch beyond the budgetary resources of many developing countries, especially middle income, small and vulnerable economies like Mauritius.

As we await progress in the work of the Aid for Trade Task Force at the World Trade Organization in Geneva, there are compelling circumstances for those countries that are undertaking reforms to seek urgent assistance with a view to meeting the adjustment costs of these reforms.

We are gathered here to reflect on the modalities for accessing such assistance and support for restructuring. All of you present here, development partners, regional economic groupings and international financing institutions, can contribute to this reflection and provide the necessary support for such reform through the development of appropriate financing mechanisms.

We would like to:

- (a) address the urgent need for assistance and additional financing to meet the economic and social adjustment costs of economic reforms including market liberalization;
- (b) examine how regional groupings can coordinate their strategies to help their member states tap additional resources with a view to accelerating trade liberalization and regional integration; and
- (c) identify modalities for accessing assistance by countries undertaking reforms and restructuring

Participation in the global economy and in world trade creates winners as well as losers. There is a growing concern that the current imbalances in the global economy have the potential to result in slower growth for many developing countries, which are essentially small vulnerable economies and LDCs. These countries are exposed to increasing marginalisation. Their vulnerability is further compounded by their inherent weaknesses and specific characteristics in terms of physical isolation and distance from main markets, minimal share in world trade, low productivity and insufficient supply-capacity, inability to diversify production, high transport and transit costs, difficulties in attracting foreign investment and low competitiveness. In order to maximize welfare gains from trade, it is important that the winners compensate the losers. We are also aware that the winners have their own constraints: the EU and the US for instance, have the concerns of their farmers at stake. The emerging economies of the G20 would not like to negotiate the subsistence and livelihood security of their rural population nor put in peril their infant industries.

We understand and sympathise with such apprehension and position. But you can imagine what the situation is for small vulnerable economies, which do not have the same economic resilience and resources and which depend on a limited number of sectors for economic activities or of commodities for trade. You all know of the shocks that hit Mauritius and other ACP countries in sugar, Textile and energy. The price of oil is hitting US \$ 80 and this can be made worse by present the Middle East Crisis.

You have been briefed or will be briefed on the bold reforms and restructuration program Mauritius has adopted. Most of the painful measures including reduction in public expenditure, tariff cuts, fiscal consolidation are contained in the first budget present by the new government which emerged from the

last general elections in July 2005. One can argue that one can take such high political risks at the beginning of one's mandate, whereas others have to face elections or their constituents soon. It is good that we should listen to the voice of the people, to our constituents. We should put our nation first, our people first. But we should also ensure that each and every nation, each and every people and each and every citizen of the world finds and preserves his means of livelihood and wellbeing.

As you see Mauritius and other such vulnerable economies have already boldly taken the plunge in the wide ocean of liberalization. We cannot make it alone. We need perhaps a life-saving or safety jacket to keep us afloat for a while.

The special situation of this disadvantaged group of countries warrants that they should be provided with extra support and incentives to enable them to compete in a liberalizing environment and to integrate the multilateral trading system. It is an established fact that treating unequals with equal rules simply exacerbate inequalities. What is needed is perhaps a sort of affirmative action in the multilateral trading system that will enable these countries to enhance their export capacity and face adjustment shocks. It is against this backdrop that the Hong Kong WTO Ministerial Conference came up with the Aid for Trade initiative with the aim of helping developing countries to build the supply-side capacity and trade-related infrastructure that are necessary to expand their trade and to integrate the multilateral trading system.

It is unfortunate that we have not been able to meet the various deadlines we have agreed upon in the Hong Kong Declaration. We are also disappointed that the Geneva WTO meetings at the beginning of this month ended in deadlock. We have

therefore given a special assignment to the Director General, Pascal Lamy to broker for a compromise to unlock the famous "iron triangle" constituted of market access in Agriculture, NAMA and domestic support. We know that Pascal Lamy is presently in St Petersburg trying in the margins of the G8 Summit to get the US the EU and influential members of the G20 to achieve a political breakthrough to move towards a common platform. In fact, the G6 countries hold the key to unlock the present impasse. We hope that the prevailing crisis in the Middle East and other concerns of the world do not direct attention from the WTO priorities.

It is important that the Aid for Trade umbrella must have a strong component for trade adjustment compensation to respond to preference-erosion. Market access on its own is not sufficient to bring benefits. We agree with our strong partners of the G6, including the US and the EU, that liberalized market access means more trade flows, more trade flows lead to more and better growth, greater growth leads to development and prosperity. But it has also been recognized that market access means little in the absence of adequate trade infrastructure and supply-side capacity. During the post independence era, many countries of Africa, the Caribbean and the Pacific, regrouping themselves as the ACP have been able to restructure their economy, by moving away from the plantation economy to benefit from new multilateral and regional cooperation instruments and facilities put in place. However, many of them have not been able to take advantage of preferential access because they do not have the capacity to produce goods and services competitively and the ability to get them to markets a reasonable cost. We agree with the EU Trade Commissioner, our friend Peter Mandelson, who, in a keynote address at the London School of Economics on 4 February 2005, stated that "trade will not promote development without parallel investment in the supply side" and that "there is an urgent need for the world's richest countries to establish a Special Trade Adjustment

Fund”.

Given the severity of the problems faced by many weak and vulnerable countries, Aid for Trade measures must be made operational upfront and must not be linked to the final conclusion of the Doha Round as part of the “single undertaking” principle.

There is therefore a need to put in place an effective mechanism to implement the Aid for Trade Initiative. In recent years a number of institutions have made concerted efforts to deal with trade adjustment and capacity building. These include the Integrated Framework for Trade-Related Assistance (IF) and the IMF’s Trade-Integration Mechanism (TIM). At the same time bilateral aid for trade has been increasing and multilateral development banks have stepped up their technical assistance programs and increased support for trade-related investments.

While we need to ensure that such a mechanism would not encroach on the existing frameworks available to LDCs, I would like to call upon reflection for the setting up of the most effective and feasible way to have a structure that will manage and disburse fund to those countries that are facing severe adjustment costs. Given the fact that the effects of these adjustment costs are already being felt by those countries, we need to ensure that the disbursement of such funds are frontloaded. We therefore need to think of the best option: should we continue with existing mechanism, should we create a new trade specific fund or should we reform existing mechanisms?

In the case of Mauritius I would like to give a particular twist to some of our needs in terms of adjustments costs. The contraction of the sugar industry due to the fall of

the preferential sugar prices and the closures of the textile factories as the result of the post-MFA effects have compounded the employment situation. While trying to re-deploy and re-skill the laid-off workers, Government is also mainstreaming the role of temporary migration in the future development of Mauritius. Side by side by making Mauritian diaspora a source of foreign remittances, we also want to promote a policy of 'return migration' with a view to making overseas Mauritians as potential investors in their home country. Currently, there is no reliable data on Mauritian migrants spread throughout the world. Our recent adherence to the International Migration Organisation will surely help us to keep track on the movement of Mauritians abroad and to design operational policies and arrangements for using the potential of the Mauritian overseas community. I would very much like if a component of Aid for Trade could be dedicated to tap trade-related development opportunities associated with temporary migration and diaspora policy.

The recommendations of the WTO's Task Force for operationalising Aid for Trade are dependent on substantial increases in additional financial resources for trade-related programmes and projects. Donors need to give more attention to trade issues in their aid programming. Rich countries must finance aid for trade to help developing countries meet the economic and social costs of adjusting to a new global trading environment. Aid for trade must be viewed as an investment in shared prosperity and in affirmative effort to rescue the multilateral trading system. Failure to deliver on the promises of aid for trade to-day will generate enormous costs for the world society tomorrow. Because poor and marginalized countries without any hope of being mainstreamed in the global economy can become the fertile ground for economic crimes, money laundering and terrorism, thus threatening stability, security and peace of the world.

Over the coming decade aid has the potential to play a central role in realizing the ambition set out in the Millennium Declaration. But realizing the potential of aid will depend on donors combining increased support with fundamental reforms in aid governance. I hope that this meeting will come up with concrete and sensible ideas in financing Economic and Trade Reform in the Context of Liberalization, especially in conceptualizing and operationalising the Aid for Trade initiative.

I thank you for your kind attention.