

**ADDRESS OF THE
HONOURABLE RAMAKRISHNA SITHANEN
DEPUTY PRIME MINISTER
MINISTER OF FINANCE & ECONOMIC DEVELOPMENT**

**AT THE OECD POLICY DIALOGUE WITH NON-MEMBERS ON AID FOR
TRADE: FROM POLICY TO PRACTICE**

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H.E. Dr. Mia Horn af Rantzien, Ambassador of Sweden to the WTO
Mr. Kiyotaka Akasaka, Deputy Secretary-General, OECD
Her Excellency, Mrs Valentine Rugwabiza, Deputy Director General, WTO
His Excellency, Mr Prasad Cham, Senior Minister of Commerce, Cambodia
Mr Walter North, Deputy Assistant Administrator, USAID
Mr John Panzer, Sector Manager, Trade Department, World Bank
Mr Sarasin Viraphol, Executive VP, CP Group Co. Ltd., Thailand
Excellencies,
Distinguished guests,
Ladies and Gentlemen,

It is indeed a great pleasure to be here today. Let me at the very outset thank the organizers, for inviting me to make an address in this session. I should like also to thank them for organizing this forum, which focuses on a wide range of practical issues and approaches. It is an excellent opportunity to express the views of Mauritius on moving the process on Aid for Trade from Policy to Practice. I am confident that the deliberations on the various issues would accelerate the operationalisation of the AFT concept for there are indeed significant benefits to be reaped individually by participating countries as well as collectively by the global community.

As a country that has been at the forefront of the debate on the concept ever since the Hong Kong Ministerial Conference in December 2005, Mauritius is very pleased and very satisfied that AFT is now moving from Policy to Practice. Time is not on the side of those countries, which like Mauritius, are finding it extremely and increasingly difficult to meet the challenges of an inexorable globalization process.

After over four decades of exemplary progress, moving from a mono-crop to a well diversified economy, from a per capita income of USD 200 to USD 5000, and making significant advances on human development, Mauritius is now overwhelmed by the impact of globalization and trade liberalization. Our textiles and clothing industry has been downsized by a third as a result of the phasing out of the Multi Fiber Agreement (MFA) in January 2005. At the same time oil prices have soared. As a result of these two shocks our terms of trade deteriorated by over 15%, from 2003-05, equivalent to 4% of GDP. This income loss is also reflected on the demand side through a slowing down of investment, high budget deficits and debt, and worsening external balances. And the worse is not behind us. As the EU implements a 36% price cut over the period 2006-09 there will be further income and job losses. The high oil prices will continue to exert pressure on our terms of trade and undermine our export competitiveness.

In the face of such predicament, we realize that our development approach has become ineffectual and obsolete. No economy can thrive in the new global economy dominated by trade liberalization on the old paradigm of preference based trade and development. Mauritius is therefore shifting to a new economic model centered on global competitiveness and more openness. As we pursue this new development path we will have to overcome huge structural obstacles that are standing in the way of trade in all sectors of the economy. We will also have to strengthen our production and marketing capacity and catch up with the faster globalisers.

But all these are easier said than done. The challenge is a tough one, especially for a country that is hit by not one but three major external shocks at the same time. The transition to global competitiveness will require fundamental reforms, restructuring and reengineering that pervade all sectors of our economy and society and sift deep through the microeconomic environment. It will also require a solid macro-economic environment with sound public finances and a comprehensive plan for empowering people through the transition and protecting the vulnerable.

We have thus formulated a reform programme that comprises (i) reforming our investment climate to take Mauritius among the top ten nations in Doing Business from the present ranking of 32nd.; (ii) restructuring our economy to achieve trade competitiveness, (iii) consolidating our public finances while at the same time reforming our trade taxes to make of Mauritius a duty free island and (iv) strengthening social protection and social coherence.

With the assistance of the World Bank and IMF we have estimated that the cost of these reforms to be implemented over the next ten years would add up to around 4 billion euros. Around half of that amount will be financed through investment, by the private sector, including FDI and through public sector investment. The rest will have to come from external sources, preferably through AFT as concessionary finance. We also estimate that most of the four billion euros will have to be frontloaded.

We recognize that we need such a plan, fully endorsed by the international institutions to be able to access AFT resources. In fact, we have since the very beginning argued that one of the prerequisites for any eligible country to access AFT resources should be a well-thought out plan featuring:

- A detailed reform strategy with clear objectives
- A costing of the reform plan prepared with the assistance of international institutions to give the plan credibility
- A financing plan that outlines efforts to raise funds from domestic sources and the need for concessional finance, and
- A set of deliverables and targets so as to take full ownership of the formulation and implementation of the programme.

In terms of eligibility – we would agree with the position taken by Barbados in its communication to the Aid for Trade Task Force. AFT should address the relevant needs of all WTO developing country Members with priority to LDCs, Small Vulnerable Economies and acceding small developing countries.

In the light of the Mauritian experience with trade shocks and the loss of trade preferences and of the experience of other countries that have problems overcoming the capacity constraints for increasing their trade, we believe that in general, AFT should address weaknesses in all areas that directly and indirectly relate to trade. Some of the most constraining weaknesses are in

the areas of trade policy and regulations, infrastructure and productive supply side.

It is also our conviction that AFT should specifically help countries deal with adjustment costs to preference erosion, to loss of tariff revenues and loss of employment due to exposure of local industries to severe adverse trade shocks.

The transition to global competitiveness in an environment of more liberalized trading involves fundamental and costly reforms which can be undermined if there are not adequate and timely accompanying measures to retool industries, train and re-skill workers who lose their jobs and provide safety nets to those who cannot survive the liberalization programme. And we know, in a democracy, if the population gets disenchanted with the reform measures, the political commitment to trade liberalization will weaken.

We therefore welcome the decision of 16 October 2006 of the EU General Affairs and External Relations Council to endorse the WTO Task Force recommendations on Aid for Trade. Mauritius also welcomes the decision of the EU to provide annually €2 billion to finance Aid for Trade and that all developing countries will be eligible.

As regards the modalities for disbursement of Aid For Trade we believe there should be a variety of instruments and mechanisms, enough to be manageable and at the same time fit the varying needs of recipient countries.

Our stance is that first, AFT should be made available through general budget support – in which case a set of targets and indicators should be decided upon by both donors and recipient countries for monitoring and for ensuring that the resources are utilized efficiently, with maximum impact on development and to the satisfaction of donors. We believe that recipient countries should be fully alive to the fact that donors also are accountable for the resources that they will provide. This emphasis on joint – donor/recipient selection of the targets and indicators should ensure ownership which is critical to the effectiveness of AFT. We do recognize that while general budget support gives more flexibility in the use of resources there is however more risk for the recipient countries. Mauritius is willing to accept the higher risk and greater flexibility that general budget support entails.

Our second stance is that AFT should also be available for infrastructure financing to ease supply side constraints, perhaps as co-financing with the multilateral development banks, including EIB.

Third, we believe that each donor should use its own existing instruments to decide on the nature and extent of financing for a particular reform programme. In the case of the EU, approval by the Commission could open the way for pooling of resources, subject to any additional criteria the individual member states may have. I should like to share with you that in line with the Paris Declaration on Aid Effectiveness, Mauritius is requesting its development partners to work together to harmonise their response strategy to help us implement our economic reform programme. The World Bank, the European Union, the African Development Bank and the Agence Française de Développement have already agreed to align their intervention on our economic reform programme. We have also requested our traditional development partners to mobilise AFT resources that can be blended with their own resources to make the financing more concessional. This coordinated approach allows for the design and implementation of joint operations while allowing each partner to intervene in its own area(s) of interest according to its own disbursement criteria either under its existing aid programme or under the Aid for Trade Initiative.

Fourth, we propose that those donors that would not deal directly with recipient countries, can channel AFT resources through regional funds such as the COMESA Fund currently being set up. The European Commission could align resources for trade-related adjustment in the context of both Regional Funds and EPA negotiations. Proposals for a Regional Integration Budget Support Mechanism and for adjustment support in the context of the EPA could be folded into one facility along the lines of the COMESA Fund. Such Funds could have two windows: one for general budget support and another for infrastructure including, in addition to traditional road/corridor projects, an emphasis on regional communications and trade facilitation. This would involve financing, such projects as the EaSSy for a high speed ICT cable, ports and airports.

Fifth, AFT should have an effective mechanism for improving the private sector capacity to participate fully in trade development.

Ladies and gentlemen, these are the position of Mauritius on the issues of eligibility, criteria for accessing resources under AFT, instruments and mechanisms for disbursement and most importantly donor/recipient relations. We need to act fast to operationalise AFT. But as we proceed we must seize the opportunity to learn from past experiences or from past frustrations with mechanisms, processes and conditionalities that in many cases have become in themselves hurdles to development efforts. We must avoid such mistakes. AFT should be applied with greater flexibility and at the same time with greater accountability so resources are used to achieve maximum impact on trade development in recipient countries and on global trade liberalization.

I thank you for your attention.