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Heritage Foundation Statement to the United Nations Review Session on Chapter III of the Monterrey Consensus: “International Trade as an Engine for Development”

Ambassador Terry Miller

The following statement was delivered on May 19, 2008, by Ambassador Terry Miller, the Director of the Center for International Trade and Economics at The Heritage Foundation, to the United Nations Review Session on Chapter III of the Monterrey Consensus, held in New York.

International trade is fulfilling its promise as the most significant source of external financing for development, surpassing all other external sources combined. In the first five years following the adoption of the Monterrey Consensus, exports from emerging markets and developing countries have grown, according to the International Monetary Fund, at an average annual rate of almost 11 percent. Current account balances for those countries have grown from \$78.4 billion in 2002 to \$596 billion in 2006.

That these increases have come despite the lack of success so far in achieving further trade liberalization in the Doha Round reflects an important fact, which is that the world already has an international trading environment that is open enough to provide significant opportunities for enterprises in developing countries to grow and prosper through trade. The opportunities are not confined to one regional group. African developing countries had a current account surplus in 2006 of almost \$29 billion; Western Hemisphere developing countries gained \$44.9 billion from exports; developing Asia had a

surplus of an astounding \$278 billion. The opportunities to export are there. The promise of Monterrey was an honest promise.

Unfortunately, the Doha Round has deteriorated, as trade negotiations are apt to do, into a battle of special interests, with groups privileged by law in various countries fighting to maintain their preferential treatment. Those who enjoy protection from competition because of tariffs, quotas, subsidies, or non-tariff barriers to trade are loath to give them up. Average citizens, consumers, and the poor are losers as a result. There are very few countries in the world today with political leadership brave and strong enough to withstand the protectionist pressures of special interests.

Still, it would be in their citizens' interest to do so. The World Bank estimates that the continued reduction of tariffs on manufactured goods, elimination of subsidies and non-tariff barriers, and a modest 10-15 percent reduction in global agricultural tariffs would allow developing countries to gain nearly \$350 billion in additional income by 2015.

This paper, in its entirety, can be found at:
www.heritage.org/Research/TradeandForeignAid/wm1936.cfm

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These are just the benefits to developing countries from exporting. As promised in Monterrey, developing country exports are a significant source of financing for development. There is another important concept, however, that the Monterrey Consensus raised in connection with aid flows but not in connection with trade, and that is the efficient use of resources for development. As with aid, the efficient use of resources from trade depends on a good policy environment in the developing country itself. You need the rule of law, an honest regulatory environment, and protection of private property. But the efficient use of resources also depends upon the openness of developing countries to imports. Imports drive down prices for consumers, promoting the maximum standard of living for citizens at all income levels. This is a vital factor in achievement of the Millennium Development Goals. An environment open to imports also drives down the price of intermediate goods used by developing country manufacturers, improving their competitive position. An environment open to imports promotes

productivity gains, the single most important factor in sustainable growth. So powerful are these welfare gains from openness to imports, that trade liberalization is good for the country doing the liberalizing, irrespective of the actions of other countries.

Let me repeat that: Trade liberalization is good for the country doing the liberalizing, irrespective of the actions of other countries.

At a time when progress in negotiating international trade agreements is hard to come by, developing countries can promote significant welfare gains for their citizens by resisting the protectionist impulses of their special interests and economic elites and opening their economies to the world. Openness is the revolutionary path to development, the path through which to maximize the Monterrey Consensus's promise of international trade as an engine for development.

—Ambassador Terry Miller is the Director of the Center for International Trade and Economics at The Heritage Foundation.