# The Finance and Trade Nexus: Systemic Challenges

Celine Tan*

Statement on behalf of the Third World Network,
Informal Hearings of Civil Society on 'Civil Society Perspectives on the Status of Implementation of the Monterrey Consensus and the Tasks Ahead',
High-Level Dialogue on Financing for Development,
United Nations, New York
22 October 2007

Five years ago, when the Financing for Development (FFD) Conference was held in Monterrey, Mexico, there was considerable momentum generated in which governments pledged to work within a coherent framework led by the United Nations (UN) in addressing the systemic financial, trade and developmental challenges facing countries, especially developing countries.

The Monterrey Consensus of 2002 articulated the international community's recognition of the urgent need to enhance the coherence, governance and consistency of the world's monetary, financial and trading systems to complement national development efforts. Trade, finance and development should be treated in an integrated manner to create and sustain an enabling environment for generating resources for social and economic development. This reflected the increasing integration of domestic economies into the global economic system and growing interdependence among countries as a result of globalization.

Globalization itself was recognized as offering both opportunities as well as challenges, especially for developing countries. State signatories to the Monterrey Consensus pledged to implement policies and measures to make globalization more inclusive and equitable, with such policies and measures formulated and implemented with the full and effective participation of developing countries in order to assist them to respond to these opportunities and challenges.

Five years on, there remains systemic deficiencies within the international trade and financial architecture which continue to undermine efforts to meet the objectives of the Monterrey Consensus to 'eradicate poverty, achieve sustained economic growth and development'. At the same time, there remain little advances towards building 'a fully inclusive and equitable global economic system' as encouraged by the Monterrey agreement. In spite of some incremental reforms to international economic system – such as current proposals towards reforming the governance structures and policy approaches of the international financial institutions – current global arrangements to manage international trade and financial flows remain imbalanced and incoherent, to the detriment of developing countries.

The lack of a focus on development objectives within the trade and financial systems, coupled with the asymmetrical application of international regulatory norms, has meant that current mechanisms used to manage, regulate and coordinate international economic relations have served in many ways to exacerbate rather than redress the economic polarization which has

* Senior Researcher, Third World Network, Malaysia.

accompanied the uneven process of economic globalization. There remains a lack of coherence between multilateral disciplines on trade and finance despite the significant inter-linkages between the two areas and even though this lack of coherence impacts heavily on countries', especially developing countries', capacity to generate financing for development.

The problems of a polarized global economy have been compounded by the unequal participation of states and peoples in the regulatory policies of globalization. International trade and financial regulatory regimes remain primarily constitutive of the interests of powerful developed state actors and influential non-sta protectionist measures in developed countries against products of interest to developing countries, such as domestic subsidies for agricultural producers, tariff peaks and tariff escalation for processed agricultural products and non-tariff barriers. Countries are also facing structural, supply-side constraints, including access to technology, which prevent endogenous

Balance of payments problems are also compounded when a financial crisis is generated as a consequence of rapid and improperly managed financial liberalization. The reduction in foreign currency reserves as a result of sudden capital outflows in a financial crisis and the often accompanying currency devaluation limits the ability of countries to finance imports and increases the costs of debt servicing. This is worsened by both the absence of international debt workout mechanisms which enable countries to suspend debt servicing obligations in the face of a crises and the lack of official counter-cyclical financing to offer liquidity to countries facing such balance of payments shocks.

The fall in demand for imports in countries undergoing financial crises impacts on their trading partners as there is a decline in demand for commodities and other industrial inputs in addition to consumables. Global financial stability therefore affects the trade of countries directly involved in financial crisis as well as other countries, ultimately impacting upon the overall growth of global trade. The tightening of global credit could also hamper global trade flows as reduction in economic activity in industrialised countries and emerging markets can lead to a decline in demand for industrial inputs, including commodities, which are the primary exports of many low-income developing countries. All this subsequently impacts on the ability of countries to generate resources to meet their social and economic needs.

The absence of a comprehensive international framework for resolving systemic financial crises is therefore a significant barrier to achieving internationally agreed development targets.