

Foundations for Economic Growth

The 1990s have seen a period of sustained world economic growth and rising prosperity spurred by the globalisation of trade and foreign investment flows, and prudent macroeconomic policies.

Some developing countries which changed to outward-oriented development strategies in earlier years have achieved notable growth and seem well placed to exploit the new opportunities. Others, however, have lagged behind in adopting development strategies based on sound macroeconomic management and structural adjustment. For them, economic growth has been slow, export performance lacklustre and poverty persistent. They are at risk of being further marginalised economically in the 21st century.

Recognising this problem, Commonwealth Heads of Government in 1995 called for several measures to promote development and eradicate poverty throughout the Commonwealth. Since then, the Secretariat has sought to help poorer developing member countries to manage the transition to more rational development strategies in order that they may benefit from the new world economic and trade order – and avoid economic marginalisation.

Assisting Adjustment and Strengthening Competitiveness

The Secretariat has, for many years, assisted member countries in implementing structural adjustment programmes through policy advice, technical assistance and training. In 1996, it began providing assistance to those countries wishing to develop practical strategies for export growth and diversification in the open trading environment created by the post-Uruguay Round and increasingly global capital flows. Much of this assistance was through assessing the competitiveness of certain sectors in member countries in addition to assistance in implementing various elements of the reform programme.

Working together with local counterparts, teams of Commonwealth Secretariat staff and experts have assessed competitiveness in Sri Lanka and Mauritius and begun similar assessments in Zimbabwe and Pakistan. Each assessment seeks to translate the experience of building export competitiveness in successful countries into practical, medium-term strategies for others. Work is also proceeding to develop competitiveness indicators to monitor development in member countries against international benchmarks.

There are several common elements in each assessment: a mapping out of the country's pattern of competitiveness and those of its main competitors; an examination of the macroeconomic regime focusing on inflation, interest rates and exchange rates; an appraisal of the trade and foreign investment policies affecting industry; an analysis of the technological capabilities of manufacturing industries directed at increasing market shares and future exports; and an evaluation of existing financial



institutions and mechanisms for supporting new enterprise growth in areas of dynamic comparative advantage.

Each country assessment also includes some unique aspects. The Mauritius assessment emphasised deepening the financial sector and developing offshore financial services and policies to enhance this. The Zimbabwe assessment will examine the problems of small and medium-sized enterprises, with a focus on enterprises headed by women, and on policies which can stimulate their growth.

These assessments feed into national policy-making. In Sri Lanka, the report was a major input into the work of the Presidential Commission on Employment and Development Strategy and the National Development Council. In Mauritius, it will feed into the work of the Finance Ministry on how to shift from reliance on the garment industry into new manufacturing and service exports. In Zimbabwe, it is expected to contribute to the country's new three-year development plan as well as an industrial policy statement.

The Commonwealth teams have also contributed to capacity-building and training by transferring their expertise to their local counterparts. In the future, it is hoped that the counterparts will be able to undertake their own assessments on national competitiveness assessments and thus update the Commonwealth exercise.

Debt Management

The meetings of Commonwealth Finance Ministers have been instrumental in trying to win international agreement on debt issues (see page 97). These initiatives have been supported by technical assistance and policy advice to member states on debt management.

Following World Bank/IMF agreement on the Debt Initiative for the Heavily Indebted Poor Countries (HIPC) in 1996, the Secretariat

Busy ports, stronger economies ... here the Singapore lion symbolises development strategies that work

DOMESTIC DEBT

While a number of countries have been bringing management of their external debt under control, the associated growth of domestic public debt levels is increasing – and more so in countries where external debt still remains high.

Although domestic borrowings of government are those made in local currency and from residents, there is nevertheless a significant degree of interaction between external and domestic debt. Indeed, as monetary exchange regimes are liberalised, the distinction between domestic and external debt is becoming blurred.

Since 1996, at the request of Commonwealth Finance Ministers, the Secretariat, through the CFTC, has been revamping the domestic debt module of the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS). A number of countries in Africa, the Caribbean and the Pacific have started using the domestic module, together with the external one, to capture the various forms of government borrowings – loans, overdrafts, treasury bills, bonds, post office certificates and so on. The analytical features of CS-DRMS will be enhanced to enable debt sustainability to be determined, taking into account both external and domestic debt.

Regional workshops for senior executives on the issues facing effective domestic debt management have been held in June 1996 in St Kitts and Nevis for Caribbean countries, in collaboration with the Eastern Caribbean Central Bank, and in Sri Lanka for Asian countries.

A new Domestic Debt Compendium highlighting best practice in domestic debt management is also being prepared, taking into account the experiences of various Commonwealth countries.

has begun to help countries carry out their own analysis of debt sustainability, that is, the ability of a country to meet its current and future external debt service obligations in full, without recourse to debt relief, rescheduling of debts or the accumulation of arrears, and without unduly compromising growth. The Secretariat is also helping countries to understand the criteria required in order for them to access debt relief from the Initiative.

In June 1997, the Secretariat held a workshop in London designed to help HIPC countries understand these criteria, discuss the issues pertinent to achieving debt sustainability, develop their ability to do so and identify the relevant policy guidelines as part of effective debt management. Representatives from Cameroon, Ghana, Kenya, Malawi, Mozambique, Tanzania, Uganda and Zambia as well as observers from Belize and Trinidad and Tobago attended.

The Secretariat is also undertaking work on the fiscal sustainability of debt and on the impact of debt overhang on investment and access to capital markets.

Nearly 40 member countries now use the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS), the computer software which was developed in-house and launched in 1985.

The focus of assistance in debt management continued to be on areas identified by individual countries, and these included reviews of institutional arrangements (Malawi, Seychelles and Tanzania), data validation (Sri Lanka, Tanzania, Mozambique and Lesotho), advice on debt strategy and restructuring (Kenya, Guyana) and guidelines for borrowing. A significant amount of resources was devoted to capacity-building at all levels.

The training programmes focused on the interpretation of loan agreements, on the use of CS-DRMS for managing debt portfolios, on developing debt strategies and techniques and, more recently, on customising reports to the local environment.

In 1996, Commonwealth Finance Ministers approved a three-year modernisation programme to create an improved Windows-based version of CS-DRMS. The new version will expand facilities in debt analysis, introduce new features in domestic debt and government on-lending, and permit CS-DRMS to be accessed by a larger group of users with differing needs. The first phase of the modernisation programme was completed with the release of version 7 of CS-DRMS in March 1997, and a programme to upgrade all existing users is under way.

Domestic debt management is also increasingly becoming an important component of the Secretariat's advisory services in debt management.

Trade Policy and Promotion Assistance

The Secretariat continues to help member countries respond to the Uruguay Round agreements and other developments in the international trading system. Several extensive assessments were prepared during 1995 and 1996 of the implications of the Uruguay Round agreements for Commonwealth developing countries. Region-specific and country-specific assessments were also prepared in 1996 at the request of Botswana, Jamaica and Mauritius.

An important consequence of the Uruguay Round is its influence on the terms of future trade arrangements between the set of African, Caribbean and Pacific (ACP) countries and the European Union, which

are currently contained in the Lomé Convention and accompanying protocols. The Secretariat has been assisting the ACP countries (of which 38 are Commonwealth members) by providing expert analysis of the implications of the proposals in the EU's Green Paper on this subject, in close co-operation with the ACP Secretariat. This assistance is likely to be continued as ACP-EU negotiations approach.

Another sequel to the Uruguay Round is a set of links between trade policy and other issues – environment, regionalism, foreign investment and competition – which members of the World Trade Organisation (WTO) have agreed to discuss. The Secretariat provided a commentary on the prospective 'link' issues to Commonwealth members before the WTO ministerial meeting in Singapore in December 1996.



A computer workshop in Bangalore, India ... the Commonwealth works towards improving export competitiveness

The Secretariat has also assisted some member countries in considering accession to the WTO and helped relevant institutions in member countries to formulate and implement strategies for the export of goods and services in the light of the Uruguay Round.

Regional Co-operation

In response to a request from the SADC, the Secretariat recently prepared a study, *The Impact of the Removal of Tariffs for the Free Trade Area (FTA) of the Southern African Development Community*, which analysed the effects of the formation of the FTA on trade, output, employment and customs revenue in the SADC countries.

The results are heavily qualified by limitations in the available trade data, but they suggest that the distribution of benefits to exporters in the FTA is likely to be widespread, even in those countries which initially have only small exporters. However, the study also indicated that difficulties may arise from loss of customs revenue in some countries, and from possibly extensive structural adjustment. These results suggest that

the FTA should incorporate adequate adjustment periods for countries faced with sectoral difficulties.

The report was presented to a SADC meeting in June 1996 which called for a study analysing the complementary economic policies needed to accompany the FTA. The Secretariat is designing this study which will focus on tax policies, the possibility of a compensatory mechanism, export development and facilitating cross-border investment. The study is planned to be followed by further forms of assistance to SADC members as they determine and implement the FTA.



The Secretariat holds workshops on managing debt

Technical Assistance

Audit advisers and managers were sent to Lesotho and Seychelles, income tax and property tax consultations were provided to Antigua and Barbuda, Samoa, and Trinidad and Tobago, and an adviser in CS-DRMS went to Jamaica. Advisers are being provided to South Pacific Forum member countries on trade and investment issues relating particularly to WTO membership, and to Belize on trade matters. An adviser assisted the Aid Management Unit in Ghana, and a national accounts adviser was provided to Barbados.