

Chapter 3

Trade and Development: Making the WTO Deliver More for its Weaker Members

A key challenge for contemporary global economic governance is to reconcile trade and development under conditions of globalisation. Trade and development are closely connected. Trade growth and trade liberalisation are clearly necessary, albeit not sufficient, conditions for development. As we discussed in Chapter 1, contemporary conditions are very different from those that prevailed in the era of decolonisation between the late 1950s and the early 1970s when trade, in the language of dependency theory, was seen as a process of unequal exchange with adverse effects on the newly independent developing countries. At this time, development strategies were largely underwritten by policies of national protection and import-substituting industrialisation at home, and calls for a NIEO abroad. It was also popular to refer to the 'South' with little or no attempt to disaggregate it into very different categories of developing countries.

The above matters are seen differently in the early 21st century, as indeed they have been since the recognition that the success of the first, and indeed subsequent, waves of newly industrialising countries was built on export-oriented strategies rather than import substitution. We believe there is now broad acceptance of the notion that effective integration into the global trading system is a major, but far from the only, key to accelerating growth and eradicating poverty in developing countries.

3.1 Trade and Development Strategies and the Role of the WTO

We do not claim an authoritative interpretation of the precise nature and causal direction of interactions between trade, growth and development. The intricacies of these relationships are the subject of longstanding academic debate. Rather, the modest aim of this Chapter is to offer some practical suggestions about how to tackle trade

and development as policy questions, notably as they relate to the role of international trade rules and commitments in furthering development and the role of AfT in trade-related capacity building.

As we have already noted, developing countries that, later if not sooner, opted for export oriented strategies, especially in East and South Asia, have fared better than those that have not. But trade liberalisation has not resulted in significant economic development for all, especially for many countries in Africa. Between 1965 and 2004, per capita GDP in Sub-Saharan Africa fell from 17.1 percent of the world average to 9.7 percent. Although a certain degree of trade liberalisation has taken place in some of these countries while standards of living have declined, international trade is generally not considered to be the prime factor in the weak development of the poorest countries. The strength and quality of institutions, political stability, functioning domestic markets, adequate physical and economic infrastructure and appropriate domestic policies equally are all essential ingredients of sustained growth and development.

WTO rules and procedures affect the interests of developing countries in at least three ways. First, the very choice of the negotiating agenda for trade rounds can influence the development prospects of the WTO's weaker members. The prominence given to reform of national agricultural policies in the DDA, for example, reflects the strong conviction of many developing country governments, and others, that the subsidies paid to farmers in certain industrialised countries retard rural economic development in poorer countries. Second, the set of principles that guide WTO negotiations will have implications for development. The insistence, in the DDA, on less than full reciprocity in favour of developing countries is an example of such a principle.

Third, the manner in which WTO obligations are implemented also affects developing countries, and many concerns were raised after the completion of the Uruguay Round about the potential cost of complying with the numerous commitments made in that negotiation. There are, however, important examples where WTO rules and initiatives have advanced the cause of development. The decision taken on access to medicines at the WTO Ministerial Conference in 2001 was widely regarded as pro-development, and it should not be forgotten that one of the core obligations of WTO membership – that of MFN treatment – substantially weakens the ability of powerful states to pick on weaker counterparts in the application of their commercial policies.

The challenge in the 21st century is not to protect the poorest developing countries from trade, but to enable them to participate in the international division of labour on more equal and successful terms. What rules and procedures would enable these countries to secure the maximum benefit from a liberalising trading order? Without denying the virtues of open, freer trade, many developing countries nowadays believe that some WTO norms and applications are inimical to their development. Some would argue that the system today is based more on assumptions of reciprocity stemming more from the theory of club goods than a theory of public goods predicated on non-rivalry and non-excludability and availability to all. One observer captured perfectly the dilemma of seeing the international trade regime as a global public good and the DDA as a ‘development round’.

*‘The adjustment burden of new rules will mostly fall on developing countries, as the rules that are likely to emerge will reflect the status quo in industrial countries (‘best practice’) ... If the Doha Development Agenda is to live up to its name, the fact that country priorities and capacities differ enormously will need to be addressed. There are two basic options: shift back to a club approach, or pursue universal membership agreements that are accompanied with more development provisions.’ (Hoekman, B, ‘Operationalizing the Concept of Policy Space in the WTO: Beyond Special and Differential Treatment’, *Journal of**

International Economic Law 8 (2) 2005: 406, emphasis added)

To move beyond this dichotomy, we recommend that pursuing a more variegated approach comprising the following three elements may hold greater promise: (i) critical mass-based initiatives (to facilitate the provision of club goods); (ii) a richer set of S&DT provisions for developing countries than employed at present; and (iii) a strong commitment to Aft measures that ease the implementation burdens weaker WTO members may face. The first elements of this approach were discussed in Chapter 2; the balance of this Chapter is devoted to the second and third elements.

3.2 Special and Differential Treatment

Defining and operationalising development provisions – commonly referred to in WTO discussions as Special and Differential Treatment – is a major political and economic challenge. It is political precisely because, in our view, much of the discourse has been over-politicised. It is economic because S&DT will only serve its true purpose if it responds adequately to the development needs of individual WTO Members.

We know from our earlier discussion of the increasingly complex politico-economic geography of the contemporary era that part of the political problem stems from the very success of large parts of the developing world in addressing development challenges through trade growth. But now, previously little-challenged key actors in the developed world are feeling the heat of competition in a heretofore unprecedented way. India, China and Brazil may still exhibit economic characteristics of developing countries, but they are also now major players in global political terms. The United States, the European Union and others are increasingly reluctant to consider them as developing countries for negotiation purposes, hence their reluctance to sign off on S&DT provisions that do not distinguish among the varying needs of individual Members.

Much of what has been written into WTO agreements regarding S&DT is operationally problematic for at least two reasons. First, many provisions are of a “best-endeavour” nature, offering no guarantee of an appropriate balance of rights and obligations within the system. Second, many current S&DT provisions seem to be predicated on the notion that the development challenges faced by WTO Members are broadly the same and can be attended to by uniform rules – in other words, the assumption is that “one size fits all”. We believe the latter needs to be modified through a more nuanced design of obligations.

In sum, the challenge of S&DT is to develop an approach that defines clear and concrete rights and obligations for all Members, while at the same time recognising that the development needs of Members are varied and call for differentiated responses. This is a difficult task, but shunning it will ensure that S&DT remains an issue of political contention that carries both systemic and developmental costs, the consequences of which weigh on the WTO as an institution and its entire membership.

A final and distinct aspect of S&DT concerns market access. On the export side, many developing countries, especially the poorer among them, benefit from non-reciprocal preferences granted by larger partners, mostly but not exclusively, developed countries. This aspect of S&DT has become a growing source of controversy as developing countries have voiced concern over the effects of multilateral trade liberalisation on their preference margins. A number of suggestions have been made on how to deal with preference erosion, but the issue remains contentious. Non-preferential and preferential margins will be continually eroded, logically as a result of the further spread of preferences, including RTAs, as well as any multilateral liberalisation. In the Commission’s view, if any compensation for countries suffering from preference erosion is to be contemplated, this should be through resource transfers rather than the denial of trading opportunities to those outside such arrangements. In other words, further multilateral trade-opening should not be impeded on the altar of preserving preference margins.

The other aspect of S&DT relating to market access concerns the quantum of liberalisation that should be offered by developing countries in the context of multilateral trade negotiations. This is a key issue in the DDA, just as it has been in previous rounds. We make no attempt in this Report to calibrate appropriate levels of liberalisation commitments among Members. But we do believe that the ability of nations to take advantage of open trade is influenced significantly by the degree to which they are able and willing to manage the distributional consequences of changes brought about by liberalisation and to make investments to overcome supply side bottlenecks and related weaknesses.

As we have argued in Chapter 1, too little attention is paid to the distributional impact of trade-opening domestically, including at the sectoral level. Ignoring this reality courts political trouble as it risks alienating a regime’s constituent members. We need to find ways to allow liberalising states effectively to help liberalisation’s losers to take advantage of the commercial opportunities created by trade reform. Prominent among the means of doing this is the AfT initiative, to which we now turn.

3.3 Aid for Trade

The WTO is not a development bank, an aid agency, or other funding body; and nor do we suggest it should become any of these things. Little in the WTO’s history, or the expertise of its staff, let alone the trade diplomats sent to represent their countries’ interests at the WTO, suggest that this international organisation has the capacity to identify, design, fund, and implement development projects. Moreover, the WTO has enough demanding and important functions to execute as it is.

Nor, in similar vein, should we assume, on the one hand, that the evolving patchwork of bilateral, regional, and multilateral trade-related capacity building initiatives pursued by national aid ministries and international organisations can meet all of the legitimate needs of developing countries or, on the other, that attaining these ends can solely be a matter of implementing commitments made

by nations at the WTO. Indeed, nowadays it is almost conventional wisdom that WTO Members, including developing countries, must take complementary measures to make the most of opportunities created by trade agreements. These measures can include improving national transportation and communication infrastructures, taking steps to meet international safety and product standards, and training for trade officials, potential exporters and staff in a diverse range of regulatory agencies.

While the nuanced perspective identified above is welcome, it poses significant challenges for the WTO membership and for the very reputation of the WTO; challenges which the current AfT initiative has brought to the fore. Calls for greater coordination among donors and providers of technical assistance, although not new, are not particularly surprising in this context. “Coherence” may seem an unquestionably desirable goal but is the AfT initiative likely to deliver it? We consider this question below.

The Doha Declaration contains multiple references to the need for technical assistance and capacity-building to help poorer countries meet WTO commitments and to benefit from the Round. This emphasis effectively builds from 1996 Singapore Ministerial Meeting, which led to the creation, in 1997, of the Integrated Framework (IF) of Trade Related Technical Assistance (TRTA). This facilitated cooperation amongst several organisations to provide for horizontal inter-agency coordination of trade adjustment assistance to Least Developed Countries (LDCs).¹⁸ In response to calls from G7 Finance Ministers in 2005, the World Bank and the IMF produced their paper ‘Aid for Trade: Competitiveness and Adjustment’.¹⁹

The initiative was endorsed at the July 2005 Gleneagles G8 Meeting and then picked up again when the 2005 Hong Kong Ministerial Meeting put AfT (or TRTA) on the WTO agenda and established a Task Force on how best to operationalise it within the wider development framework of the DDA. AfT, as the Hong Kong Declaration noted, aims to help developing countries, particularly LDCs, ‘build

the supply-side capacity and trade-related infrastructure...’ that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade. The WTO’s current role is to ‘mobilise, monitor and evaluate’ AfT. It is doing this through a series of regional reviews and a major review in Geneva, in November 2007.

But aid resources devoted to trade development are limited – and what is currently available is not concentrated or targeted in its distribution. Funding for trade facilitation development currently comes from a range of separate activities including the IMF’s Trade Integration Mechanisms (TIMs), World Bank development policy lending for adjustment, individual OECD donor programmes and the IF (already based in Geneva). A purpose-specific Multilateral Fund, a second pillar, to respond to trade needs in a dedicated way beyond these funds, is under consideration. But AfT needs to build on existing mechanisms which in turn have to improve their ability and effectiveness in the delivery of AfT.

For the developing countries, AfT is a potentially important vehicle for capacity building but not before a series of questions have been addressed. These questions concern factors such as (i) the adequacy of donor commitments and whether donor promises will be met; (ii) the degree to which AfT will reflect developing country, rather than donor, priorities; (iii) the coherence and coordination of AfT amongst the institutions that are currently party to its administration; and perhaps most importantly, (iv) developing countries are concerned lest AfT come to be linked to their negotiating positions in multilateral trade negotiations. This would be considered totally unacceptable. Furthermore, it should always be explicit that AfT is a complement to, not a substitute for, other existing aid programmes.

The Warwick Commission believes there are four principled reasons for prioritising AfT in the early 21st century and strengthening the role of the WTO in taking this process forward.

They are:

- The WTO is the point of entry for the negotiation and implementation of multilateral trade policies.
- Trade reform and liberalisation in developing countries to enhance competitiveness is essential and desirable if developing countries are to take long term responsibility for their own development. But the institutional capacity for trade and investment policy formulation in poor countries is often weak and requires considerable strengthening.
- Development strategies based on trade liberalisation are not without cost. Support for developing countries to meet such costs – and not just their WTO obligations – is necessary. Indeed, the poorest countries need support to realise the benefits of WTO membership, not least because the costs of trade reform are often invariably incurred “up front” while the benefits are often ‘downstream’.
- Not only is AfT good for the poorer countries, it bolsters the multilateral trading system at a time when multilateralism needs strong moral and practical support. While it should not be seen as a substitute for, rather than a complement to, the DDA, it will be important to the poorer countries whatever the outcome of the Round. AfT is ethically appropriate and makes good economic and political sense.

To the extent that the AfT initiative provides the impetus to eliminate duplications in aid programmes and to meet the unfulfilled needs of developing countries, then this is clearly a good thing. However, it is unclear precisely how a non-binding, exhortatory initiative of this type will alter the interests, incentives, and priorities that have generated the diverse array of trade-related aid initiatives in the first place. Previous attempts at coordination among donors have often yielded little and it is not apparent why matters should be any different this time around. Our concerns are particularly heightened by the often muted support given by industrial country aid ministries. Many of

these are solely focused on poverty reduction agendas and act as if they perceive little positive contribution by trade to economic development, consequently not funding AfT initiatives and associated trade-related capacity building and technical assistance.

Worse still, the broadening definition of what constitutes AfT has enabled an increasing number of aid projects to be classified as trade-related thus creating the impression that substantial funding of these matters is currently taking place.

The consequences of inadequately pursuing the current AfT initiative could be particularly adverse for the WTO. Once again, expectations among poorer countries and civil society will have been raised about the pro-development impact of the WTO and these may not be fulfilled; not unlike the impact of giving the DDA a “development” label. Care needs to be taken in deciding which institutions and policymakers are responsible for what – here accountability is crucial. The WTO Secretariat and its Director-General may have convening power but that does not confer responsibility on them for meeting the aid-related promises made by WTO Members at various Ministerial Conferences and elsewhere. It should be made clear that the WTO’s negotiating and juridical functions relate to creating and preserving commercial opportunities for its Members.

To the extent that the WTO plays a role in trade-related capacity building it should focus on ensuring coherence and accountability. Information gathering, the development and exchange of best practice approaches and reporting any gaps between commitments made and actions taken are all part of this contribution. In the months and years ahead it will be important to remind trade and development policymakers, civil society, and the media where the WTO’s obligations really lie and why others, including the aid ministries of national governments and the providers of technical assistance, should not fail in their trade-related aid commitments to developing countries. Responsible WTO Members and commentators should avoid creating expectations regarding AfT that might not be fulfilled by this initiative.

3.4 Conclusion

The relationship between trade and development is highly contentious and, as this Report argues, it involves a number of significant economic and political considerations. The importance of trade to development is universally recognised but the opportunities provided by trade liberalisation do not always translate into benefits for all countries. Countries hamstrung by inadequate infrastructure, inefficient bureaucracy, immature legal regimes and macroeconomic instability will not increase their exports as their overseas market access increases.

The multilateral trading system needs to offer meaningful support to developing countries that not only assists them in key elements of their development strategies, especially trade liberalisation, but also convinces them of the utility and legitimacy of the WTO. This understanding is the basis for the AfT discussions. It may be a cliché, but the WTO still needs to find a greater role for developing countries as stakeholders in the institution, while maintaining the engagement of the rest of the membership. In this Chapter, we have suggested more nuanced and relevant approaches to S&DT as well as one principled – as opposed to strictly practical – argument as to how this process may be advanced, namely by insisting on a key role for the WTO in the development and delivery of AfT. AfT has a purpose that remains valid outside the context of the Doha talks and thus should, in line with the recommendations of the WTO Task Force on the matter, continue to unfold despite the stalled negotiations.

CHAPTER 3: RECOMMENDATIONS

- 5 Debate over S&DT provisions in the WTO has been contentious and over-politicised and the need for substantive analysis has often been neglected. Critics of S&DT provisions have characterised them as insensitive to diverse conditions in developing countries, often irrelevant to real development needs, and over-reliant on best-endeavour undertakings that are often disregarded. The Commission recommends that efforts be redoubled to design clear, concrete S&DT provisions based on solid analysis of development needs and cognisant of the reality that differing needs among developing countries call for differentiated measures. The Commission commends the approach taken in the Doha negotiating mandate on trade facilitation, where the need for technical assistance and resource support to undertake new trade disciplines is linked to the ability to do so. The Commission also believes that the systemic aspects of this issue should be taken up in the proposed reflection exercise.
- 6 The Commission notes the importance of increasing opportunities for developing countries to benefit from trade through improving physical infrastructure and human capital, modernising and streamlining administrative procedures, and strengthening trade-related regimes such as those dealing with product standards. The Commission applauds the AfT initiative and recommends that the respective responsibilities of the WTO, donor nations, potential recipient nations, and the other international organisations involved with this initiative be clearly delineated. Failure to identify the locus of respective responsibilities will weaken the effectiveness of AfT and heighten the risk that the WTO will be wrongly blamed for the lapses of others. Thus each party should be held accountable for its contribution to this initiative, which should stand apart from trade negotiations.