Reflections on Global Partnership for Development

Reality and Potential

25 years 1983 2008 CUTS International

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Contents

Abbreviations

ABC	*Agência Brasileira de Cooperação*
ACETT	Association of Consulting Engineers of Trinidad and Tobago
ACP	African, Caribbean and Pacific
ADB	Asian Development Bank
AERC	African Economic Research Consortium
AFD	*Agence Française de Développement*
AfDB	African Development Bank
AfT	Aid for Trade
AGOA	Africa Growth and Opportunity Act
AITC	Annual International Training Courses
APRM	African Peer Review Mechanism
ARI	African Rice Initiative
ARV	Antiretroviral Drug
BAPA	Buenos Aires Plan of Action
BOETT	Board of Engineering of Trinidad and Tobago
CAR	Central African Republic
CARICOM	Caribbean Community
CDP	Committee for Development Policy
CGE	Computable General Equilibrium
CHOGM	Commonwealth Heads of Government Meeting
CRNM	Caribbean Regional Negotiating Machinery
CSO	Civil Society Organisations
CSS	Contractual Service Suppliers
CUTS	Consumer Unity & Trust Society
DAC	Development Assistance Committee
DDA	Doha Development Agenda
DFID	Department for International Development
DRC	Democratic Republic of Congo
DSF	Debt Sustainability Framework
DSU	Dispute Settlement Understanding
DTEC	Department of Technical and Economic Cooperation
DTIS	Diagnostic Trade Integration Study
EADS	European Aeronautic Defence and Space
EC	European Commission
ECLAC	Economic Commission for Latin America and the Caribbean
ECOSOC	Economic and Social Council of the United Nations
ECOWAS	Economic Community of West African States
ED	Emerging Donor

EDF	European Development Fund
EDI	Emerging Donors Initiative
EITI	Extractive Industries Transparency Initiative
ENT	Economic Needs Test
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FES	Friedrich Ebert Stiftung
FICCI	Federation of Indian Chambers of Commerce and Industry
FLEGT	Forest Law Enforcement, Governance and Trade
FOCAC	Forum on China-Africa Cooperation
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GNI	Gross National Income
GPD	Global Partnership for Development
GSP	Generalised System of Preferences
HIPC	Heavily Indebted Poor Countries
ICBC	Industrial and Commercial Bank of China
ICT	Information and Communication Technology
ICTSD	International Centre for Trade and Sustainable Development
IDRC	International Development Research Centre
IF	Integrated Framework
IFSC	Integrated Framework Steering Committee
ILEAP	International Lawyers and Economists Against Poverty
IMF	International Monetary Fund
IP	Independent Professionals
IPR	Intellectual Property Right
ITC	International Trade Centre
ITS	International Trade System
JBIC	Japan Bank for International Cooperation
JHRDF	Japan Human Resources Development Fund
LDCs	Least Developed Countries
LLDCs	Land-locked Developing Countries
MCA	Millennium Challenge Account
MDG	Millennium Development Goal
MDTF	Multi-Donor Trust Fund
MFA	Multi-fibre Arrangement
MFN	Most Favoured Nation
MOFCOM	Ministry of Commerce

MoU	Memorandum of Understanding
MRA	Mutual Recognition Agreement
NAFTA	North America Free Trade Agreement
NAMA	Non-agricultural Market Access
NARS	National Agricultural Research Systems
NBER	National Bureau of Economic Research
NDRC	National Development and Reform Commission
NEPAD	New Partnership for Africa's Development
NERICA	New Rice for Africa
NGO	Non-governmental Organisation
NIC	Newly Industrialised Country
NSA	Non-state Actor
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
PEAP	Poverty Eradication Action Plan
PoA	Programme of Assistance
PPP	Purchasing Power Parity
PRS	Poverty Reduction Strategies
PRSP	Poverty Reduction Strategy Papers
PTA	Preferential Trading Agreement
R&D	Research and Development
RADS	Regional African Development Strategies
ROW	Rest of the world
S&DT	Special and Differential Treatment
SA	South Africa
SEATINI	Southern and Eastern African Trade, Information and Negotiations Institute
SER	Social and Environmental Responsibility
SEZ	Special Economic Zone
SIDS	Small Island Developing States
SME	Small and Medium-sized Enterprise
SoE	State-owned Enterprise
SPS	Sanitary and Phytosanitary
SSA	Sub-Saharan Africa
SSM	Special Safeguard Mechanism
SVE	Small and Vulnerable Economies
SVS	Small Vulnerable States
SWF	Sovereign Wealth Fund
T&C	Textiles & Clothing
TA	Technical Assistance

TBT	Technical Barriers to Trade
TCDC	Technical Cooperation among Developing Countries
TCTP	Third Country Training Programme
TDC	Trilateral Development Cooperation
TDP	Trade-Development-Poverty
TFP	Total Factor Productivity
TICAD	Tokyo International Conference on African Development
TICP	Thai International Cooperation Programme
TIM	Trade Integration Mechanism
TNC	Trade Negotiating Committee
ToR	Terms of Reference
TRIPs	Trade Related Aspects of Intellectual Property Rights
TRTA	Trade-Related Technical Assistance
TWN	Third World Network
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organisation
UN-OHRLLS	United Nations Office of the High Representative for Least-developed Countries, Land-locked Developing Countries and Small Island Developing States
USSR	Union of Soviet Socialist Republic
USTR	United States Trade Representative
WARDA	West African Development Association
WB	World Bank
WPDR	Working Party on Domestic Regulation
WTO	World Trade Organisation

Editors' Note

– By Pradeep S Mehta* and Siddhartha Mitra**

Introduction

Among the Millennium Development Goals (MDGs) of the United Nations Development Programme (UNDP), Goal 8 pertains to the evolution of a *Global Partnership for Development* (GPD). Moreover, the UNDP has set certain targets which have to be achieved to facilitate the attainment of this goal: develop further an open, rule-based, predictable, non-discriminatory trading and financial system; address the special needs of the least developed countries, landlocked developing countries and small island developing states etc.

On August 12-13, 2008, CUTS International and the Federation of Indian Chambers of Commerce and Industry (FICCI), in association with the Department of Commerce, Government of India; Commonwealth Secretariat; and World Bank, India office; and with the support of other donors such as *Agence Française de Développement* (AFD), France; Department for International Development (DFID), UK; Friedrich Ebert Stiftung (FES), India; Ministry of Foreign Affairs (MINBUZA), The Netherlands; Norwegian Embassy, Delhi; and International Development Research Centre (IDRC), Canada organised a conference on the GPD in New Delhi. The conference was enriched by papers and presentations from a wide range of experts hailing from both the developed and the developing world as well as open house deliberations and panel discussions. This volume compiles the papers presented during the course of this conference.

CUTS has been working on these issues for quite sometime now. In fact this conference was held towards the end of the project period of its flagship programme: Trade-Development-Poverty linkages (TDP). The papers and presentations associated with this conference reaffirmed the lessons learnt from this project and in many cases helped to draw deeper insights. Some explanation is needed in this regard.

One of the main findings of the TDP project is: trade liberalisation is not sufficient to guarantee either economic development or poverty alleviation – the potential

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***** Director (Research), CUTS International***

gains from trade liberalisation can be realised only if countries adopt favourable domestic policies / practices and invest sufficiently in infrastructure and human capital.

The emphasis on international relations is also present in the GPD by definition as the levers needed to activate this partnership are trade in both goods and services, foreign direct investment (FDI) and various kinds of developmental aid. The papers received examine these diverse aspects of the GPD from different angles – the opportunities for facilitating it, the various barriers that impede its facilitation and how these can be overcome.

These contributions can also be used to further generalise the hypothesis put forward by the TDP project in the following manner: the mentioned levers of inter-country interaction can be utilised in a beneficial manner from the context of a given country only if both domestic policies and facilities meet certain standards.

Before we analyse the individual contributions in detail a short brief on these (which provides an overview) is in order.

T N Srinivasan discusses the ways in which least developed countries (LDCs), landlocked developing countries and small states benefit from the global economic system. In a related essay, Magda Shahin looks at whether trading relations / rules are evolving in a manner that is suited to the interests of developing countries, with specific reference to the Doha Round.

The future of the global trading system, especially opportunities and pitfalls, is discussed by Richard Higgot and Andrew Roadnight, the assumption being that the global trading system is a valuable medium through which the GPD is harnessed.

There are three contributions on foreign aid. Chris Milner looks at the challenges in operationalising aid for the purpose of international trade. Dominique Njinkeuu examines the effectiveness of an emerging category of aid – trilateral development cooperation, in which the synergies of monetary aid from traditional donors with the technological expertise of emerging economies are utilised to augment the welfare of the most deprived economies of the world. Finally, Jean Raphael Chapponiere looks at the peculiarities of Chinese aid to Africa, highlighting the opportunities or threats there from to the viability of the GPD.

In the last paper in this volume, Ramesh Chaitoo looks at the issues of service liberalisation and domestic regulation, thus providing an opportunity to readers to understand how the resulting augmentation of service trade can be another pivot around which the GPD can be furthered.

The Contributions in Greater Detail

All the papers in this section have one thing in common – they discuss economic interactions among countries from the viewpoint of the welfare of poor low income countries. In other words, we can link each of these papers to the GPD even though the contributors themselves may or may not have drawn this link explicitly.

Given the common thread running though all these contributions, the discussion of each author's contribution in this section is preceded by a header stating the implications of the author's findings / conclusions for the GPD. This header is not necessarily a statement made by the author but encapsulates his / her contribution from the perspective of the GPD.

TN Srinivasan – More meaning needs to be breathed into the GPD

TN Srinivasan reiterates the argument that trade alone is not enough for bringing about economic development and poverty alleviation – complementary factors such as favourable domestic policies, infrastructure and social safety nets are important to realise the potential benefits from trade.

Srinivasan's conclusions are supported by the findings of the CUTS TDP project which has examined the implications of the linkages among trade, development and poverty alleviation at the sectoral as well as national levels. This study points to the diversity of development and poverty outcomes associated with trade liberalisation which can only be explained by that in flanking policies / facilities etc.

Srinivasan does not think that the concretisation of the GPD through the establishment of the World Trade Organisation (WTO) and conclusion of the Uruguay Round has resulted in proven benefits for the GPD. Much of the acceleration in growth in LDC economies which has taken place from 1990-2000 to 2002-04 can, according to him, be explained by short run favourable trends such as improvement in commodity terms of trade. Other more stable determinants of growth such as domestic capital formation and savings as a proportion of GDP have not shown much of a change between the two periods.

In other words, the observed acceleration might be eyewash especially as Srinivasan conjectures that multilateral organisations such as the WTO still hardly provide LDCs with empowering voice and influence. The most important reason for inadequate voice and influence is 'inadequate capacity' – an umbrella term which covers shortcomings such as small size, meagre resources, lack of knowledge about negotiating issues and therefore skills etc. These are also some of the flanking factors highlighted by the TDP study.

International programmes to assist developing countries, especially the least developed ones, in developing these flanking facilities do exist. Foremost among them, as Srinivasan points out is the Aid for Trade (AfT) programme of the WTO. The Aft programme was launched at the Hong Kong Ministerial meeting of the WTO with two objectives: (a) help the developed country members (especially the least developed ones) to implement the results of multilateral trade negotiations while coping with required adjustment costs; and (b) help these members develop trade related capacity pertaining to both production for export and trade facilitation.

According to Srinivasan, the success of AfT has been reduced by the paucity of concrete and specific actions and the abundance of general ones. As a result, many countries are still not prepared for international trade and not in a position to utilise it as an engine of economic development and poverty alleviation.

It is in this context that the GPD seems to be incomplete. However, Srinivasan goes even further to claim that the GPD at present might not be meaningful. The primary reasons for this are: (a) multidimensionality of development implying that certain countries might be strong in certain dimensions but weak in others rendering labels such as 'less developed', 'developing' and 'emerging' meaningless from the point of view of design of any GPD; (b) concurrence of all countries on all dimensions of development may not be possible though that of a large number on some dimensions may be.

However, the paper does conclude with certain recommendations which can breathe more meaning into the GPD: downsizing of the World Bank (WB) to an institution dealing with the problems of only developing countries; limiting the focus of the International Monetary Fund (IMF) to the maintenance of global stability; reform of the weighted voting mechanisms at WB and IMF; strengthening of multidimensional efforts to build capacity among LDCs for effective participation in the WTO; evolution of a system that facilitates quick reform of WTO rules once these become irrelevant/inappropriate; and finally curbs on preferential trading agreements (PTAs) with non-trade provisions.

Magda Shahin – It is essential to mainstream trade into national development strategies and vice-versa for an effective GPD

According to Shahin, there has been a tendency towards such mainstreaming over the years. Here again she reiterates the finding of the CUTS TDP project and the inference by Srinivasan that trade liberalisation alone is not enough to generate sustainable development – a strengthening of supply side capacity is necessary to cash in on the potential advantages of trade liberalisation.

Shahin also makes the point that the Doha Round has been used by major economic powers to further their own strategic interests and the original objective of mainstreaming development priorities into the work programme of the WTO has been put on the backburner. Thus, though the objective of the Doha Round was to enhance the GPD through better trading relations, progress towards that goal has been slow. The reasons are mainly two fold – first, scant attention has been paid to implementation issues; and second, the development of supply side capacities through the AfT initiative has been neglected.

Shahin contends that the Doha Round far from being a Development Round has generated tendencies inimical to the interests of developing countries – pressure has been mounted on these to open up their markets to agricultural and non-agricultural imports from developed countries.

Second, while the idea of give and take in issues that relate to development (of developing countries) and market access (for developed countries) has found acceptance in both the developed and developing world and has been mooted in negotiations, mutually acceptable agreements still have not been attained.

Proposals and negotiations relating to special safeguard mechanisms and reduction in cotton subsidies have fallen by the wayside. Whatever concessions are being granted to LDCs, such as the extension of preferences, are actually far less significant than what they seem, given the general downward trend in tariffs.

Shahin's paper thus concludes that polarisation and heterogeneity of interests in a world, where narrow short run interests take precedence over the common good of all countries in the long run, have to an extent sabotaged the pursuit of the 'development objective' through the Doha Round and led to considerable stagnation in the GPD that it was supposed to promote.

Richard Higgot and Andrew Roadnight – Reform in the international trading system can enhance the benefits from the GPD

According to Higgot and Roadnight, the multilateral system is threatened by a loss of faith in globalisation *per se* because of the pursuit of speculative investment by global players and financial firms seeking "ever larger profits at the expense of sound business practice".

Second, though the positive influence of the multilateral trading system on economic growth is clear, the transmission of its impact through purely market driven growth has raised sustainability concerns "in the face of dramatic population growth and environmental degradation including climate change".

Higgot and Roadnight then go on to analyse the major challenges to the international trading system.

First, there is a need for reversing the negative popular perceptions in industrialised countries about international trade which is blamed for many economic problems, such as stagnant wages, job losses, growing income inequality and environmental degradation.

Second, there is a need to ensure that the shift in power from traditionally powerful economic actors to 'emerging economies' is not accompanied either by a disengagement of the former or the loss in stakes of the poorest WTO members.

Third, it is necessary that WTO countries resolve their disagreements about the future agenda of the WTO. This is essential as significant benefits from the WTO can be realised only through full blooded implementation of its agenda.

Fourth, sustained future engagement by the diverse WTO membership also rests on the effectiveness with which the issues of fairness and justice are addressed therein, particularly in the negotiation and decision making process.

The fifth and final challenge lies in enhancing the speed at which the WTO works and progresses – greater speed is necessary to ensure that frustrated members do not undermine the international trading system by breaking off into regional and PTAs.

Higgot and Roadnight also provide recommendations for enhancing the usefulness of the GPD through a reform of international trade and underlying mechanisms: greater coherence among international institutions such as the WB, IMF and the WTO; institution of proper global regulators to prevent corruption and ensure good governance; the use of AfT to build up capacity for trade and related negotiating skills among the weaker and poorer WTO members; and last non-indulgence by leading players in PTAs associated with strategic non-economic considerations, as well as predominant use of most favoured nation [MFN) / non preferential] channels for trading.

Chris Milner: Success of reforms for integration into the GPD is preconditioned on aid/expenditure that provides for the adjustment costs of trade

According to Milner these adjustment costs are quite diverse – production and employment adjustment resulting from the fact that trade liberalisation generates

- a contraction in the size of certain import substituting sectors and expansion in sectors producing exportables
- demand for skill development and productivity enhancement as the national economy not only competes with other countries in the international market but also expands in certain sectors necessitating a quick plugging of gaps in labour supply through costly training
- demand for trade facilitation: a rise in the volumes of foreign exchange earning exports and cheap raw material inputs / imports will register only if cross-border transit is quick, cheap and risk free and services provided at ports are both prompt and of high quality and low cost
- demand for export diversification as a glut in the international markets in any good implies low prices; export diversification, as is the case with any other activity associated with return, reduces risk and might even guard against cost escalation produced by diseconomies of scale
- fiscal costs caused by lower tariffs which might not be recoverable through other fiscal means such as indirect or direct taxation

The necessary aid of course has to be forthcoming from individual countries (bilateral aid) or multilateral institutions (multilateral aid). Milner does not devote any space to a discussion of trilateral aid mechanisms which are expounded by Njinkeu. He also illustrates that the motivation behind aid varies across countries and institutions.

As far as international trade is concerned aid is used to improve three aspects of performance:

- Overcome shocks arising from greater openness in economies – an unexpected spurt in certain international prices might result in short term balance of payments difficulties;
- Integrate trade into national development plans by identifying crucial domestic issues, (such as low productivity or human capital, poor roads etc.) which need to be addressed to derive benefits from greater openness, through diagnostic studies; and
- Alleviate the constraints identified above as also provide for trade facilitation and augmentation of capacity to participate effectively in trade negotiations.

Aid of the first category is provided by the Trade Integration Mechanism of the IMF, of the second category by the Integrated Framework (IF) for Trade Related Assistance to LDCs and of the last category by AfT programmes by various multilateral and bilateral donors.

According to Milner, if one takes into account the ratio of the overall Organisation for Economic Cooperation and Development (OECD) country expenditure in meeting the mentioned adjustment costs to the overall OECD country GDP and then applies this ratio to the combined GDP of all developing countries, the high end projection for the needed expenditure on such costs is US$48.6bn, far in excess of the estimate of aid committed by developed countries to the developing world (US$21bn), which in any case is biased upwards.

Milner's study seems to suggest that the institutional structure needed for the provision of aid to support the GPD is present – it is only the quantity of aid, and its absorption and use that is not satisfactory.

Dominque Njinkeu – Trilateral Development Cooperation (TDC) is a new and important tool for leveraging development in low income countries

Through TDC financial aid from a traditional donor country/institution is coupled with technical expertise from an emerging power (say expertise on information technology from India or that on tackling AIDS and other health related issues from Brazil) to provide a comprehensive aid package to a low income country which can raise productivity and human capital levels.

TDC usually targets a group of 50 failed states labelled by Paul Collier as the 'bottom billion'. In these countries aid does not necessarily bring about positive results as even the capacity to absorb it is poor.

The fulfilment of flanking conditions, as pointed out above, is necessary for the success of any aspect of GPD. This is especially true in the case of the bottom billion in which poor productivity, low skill levels and poor infrastructure tend to perpetuate poverty and misery. TDC constitutes a comprehensive package for effecting transformation among these low income failed states – the idea is to leverage productivity through both financial aid and transfer of knowledge and technology.

The engagement of emerging economies in TDC is useful in another way – the countries in the 'bottom billion' can often identify with these, some of which were not very long back caught in the same vicious circle of low productivity and poverty.

Njinkeu's contribution sketches out the entire spectrum of TDC in which individual country donors (for instance, Japan), multilateral organisations (such as the UN) and other non-state actors (UNCTAD, WB etc.) perform the function of traditional donors whereas the actual transfer of know how takes place through emerging economies, such as Thailand, Brazil and China. Both opportunities and pitfalls in TDC are also highlighted.

Njinkeu's paper ends with recommendations for policy and action. For instance, he is favour of a common African agenda for TDC which helps to deal with immediate challenges, ensures that the participation of African countries in GPD is sustainable as well as welfare augmenting, and assists in terms of trust building.

Njinkeu also sketches out a comprehensive research agenda for the future. This includes: re-examination of the principles of the Paris Declaration on aid effectiveness in the context of TDC, and cost-benefit analysis of present and potential TDCs on a case by case basis.

Jean Raphael Chapponiere – Aid initiatives by large economies can potentially benefit the GPD; on the other hand these might mask strategic considerations which might hurt rather than benefit recipients

Chapponniere's study illustrates the above statement through an exhaustive study of Chinese aid to Africa which has seen rapid growth in recent times in keeping with the even more amazing growth of Afro-Sino trade. Moreover, the growth in aid shows no signs of abating – official announcements claim that Chinese aid to Africa would double between 2006 and 2009 through soft loans and social projects. While China seems set to meet its promises for future delivery of aid to Africa, OECD countries will probably not be able to live up to their commitments. In other words, China's importance as a donor to Africa is likely to rise over time. In fact, according to projections it might become the largest country donor to Africa by the turn of the present decade.

This increase in Chinese aid to Africa has mixed ramifications. On the positive side, it seems that such aid complements that from OECD countries as it is concentrated in regions where OECD countries have not allocated enough aid. Second, much of Chinese aid is in infrastructure where OECD aid by contrast has been inadequate.

At the same time, the expansion of Chinese aid to Africa exhibits tendencies which might imperil the GPD. First, its aid disbursals are not transparent and no official statistics are released; moreover, the fact that China often provides aid to African countries at the expense of neglecting some of its own provinces way more backward than the aided countries raises doubts over its motives. Third, Chaponniere's estimates of Chinese aid to various countries show that Chinese aid is allocated preferentially to oil and raw material exporting countries, again casting doubt over underlying motives.

Chinese aid to African countries is often tied to their commitments to employ Chinese contractors and incur a certain minimum portion of project expenditures on Chinese inputs. The advantages secured for Chinese firms are not counterbalanced by any restrictions on social and environmental abuses.

Other strategic commitments are requested in exchange for aid – breaking off diplomatic relations with Taiwan or opposition to a Security Council seat for Japan. China also continues to give aid to African countries boycotted by other donors because of humanitarian concerns.

Chaponniere's thesis on China, though specific to this country, can be considered to be illustrative of the mixed effects that aid from a large donor can have on low income backward countries and their participation in the GPD.

Ramesh Chaitoo – Appropriateness of domestic regulation is the key to effective liberalisation of service trade and therefore to a major contribution of such trade to GPD

According to Chaitoo, developing countries have much to gain from multilateral disciplines on domestic regulation of services as these facilitate the adoption of quality standards, consumer protection norms and market codes of conduct for firms that are effective in combating market failure and anti-competitive practices in the domestic economy as well as barriers to export of services to foreign markets.

Chaitoo makes a clear distinction between deregulation and service sector liberalisation. While service sector liberalisation leads to more entry into the market, more competition and therefore promotion of consumer interest, the former also applies to product standards, marketing and distribution norms. Thus, market liberalisation is only one type of deregulation; the other types of deregulation can actually be harmful for the economy and lead to market failure or market capture through anti-competitive practices . Moreover, effective market liberalisation or entry of foreign competitors into markets often requires the strengthening of regulations.

Chaitoo points out that the agenda for negotiations in the Doha Round does not include market access issues related to the service sector. Service providers in developing countries continue to find it difficult to penetrate developed country markets. Thus, without multilateral norms for liberalisation of service sectors, service trade is unlikely to be an important lever for achieving progress in the GPD.

Conclusion

The collection of papers in this volume can be used to form a comprehensive impression of the GPD and envision how its utility as a lever for economic development and poverty alleviation in the most backward nations of the world can be enhanced.

Broadly speaking the GPD represents the entire complex of activities and relationships among developed and developing countries which can potentially help developing countries, especially the least developed ones, in embarking on a sustainable path of economic development and poverty alleviation.

As mentioned before, three blocs of activities constitute this relationship: international trade (in goods and services); foreign aid (country to country, by multilateral institutions and that leading to trilateral development cooperation); as well as FDI (resulting in not just capital transfers but also that of beneficial knowledge and technology). These three blocs of activities along with mechanisms / relationships that connect these are depicted in the figure below.

Thus, international trade in goods and services benefit from foreign aid in three ways (labelled in the figure as synergistic activities): IF (diagnostic studies initiated by the WTO to gauge supply side constraints); AfT (aid from multilateral and bilateral donors for alleviating supply side constraints as well as improving trade negotiation and facilitation); and trade integration mechanism (launched by the IMF to meet short term instability resulting from trade).

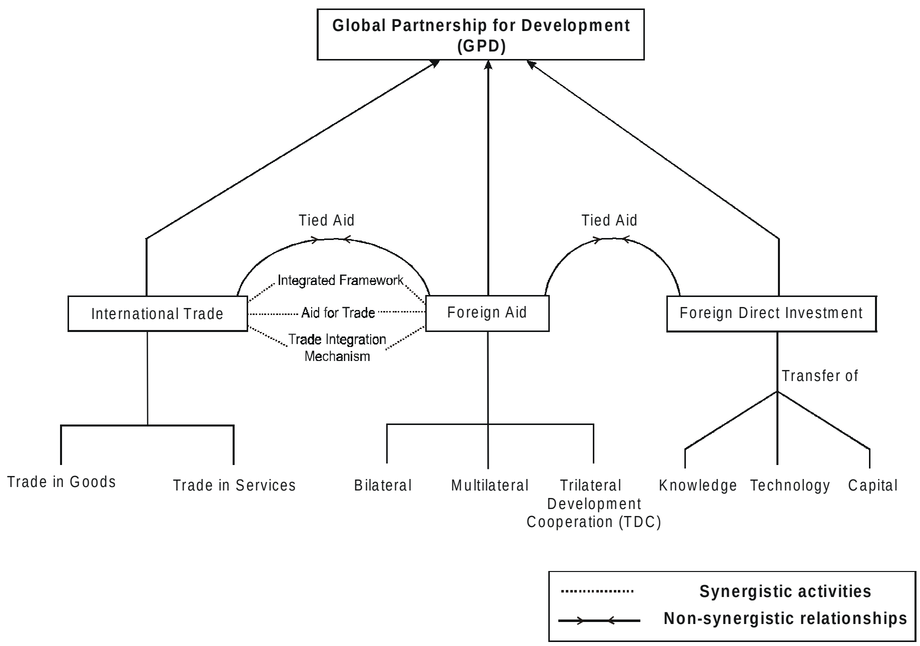
Foreign aid, international trade and foreign direct investment (FDI) are also linked by strategic considerations – often outflows of foreign aid from a donor to a developing country are tied to the flow of exports / direct investment from the former to the latter. While synergistic activities contribute positively to the GPD, strategic activities, by definition and because of the absence of underlying developmental considerations, might actually have a negative impact on the GPD.

Finally, FDI can benefit the GPD as it can alleviate the supply side constraints that hamper the ability of low income countries to participate in international trade, especially as exporters: not only does FDI provide valuable and scarce physical capital to these deprived countries but it also results in transfer of knowledge, know how and modern technologies. There can be other direct developmental benefits from FDI: employment generation for alleviating poverty and stimulation of domestic investment.

Not only do the contributions in this volume help us to define the superstructure of activities / relationships that constitute the GPD, the very identification of the synergistic activities listed above give us an idea about the sequence in which these should be undertaken.

The rationale behind this sequence again stems from the finding of the CUTS TDP project (and other related studies) that trade liberalisation is only a necessary condition for sustained economic development and poverty alleviation; certain pre-conditions need to be fulfilled for a country to benefit from trade liberalisation.

GPD: The Superstructure of Underlying Activities/Relationships



The attainment of such pre-conditions also determines the success of the other component activities of the GPD – aid and FDI. For example, for certain types of aid to be useful the necessary absorptive capacity has to be there. Aid for road building might be wasted if construction of roads is stalled due to an unchecked malaria epidemic. In this case lack of health facilities limits the ability to absorb aid for infrastructure. Moreover, unfinished roads (or any other infrastructure) often tend to depreciate very fast when exposed to the vagaries of nature.

The first step that needs to be taken to make a closed low income economy ready for international trade is a diagnostic study which identifies supply side constraints etc. As we know, this usually involves the disbursal of aid from the Integrated Framework. Once these constraints are identified then these can be alleviated through focused AfT programmes.

It is only when reasonable supply side capacity has been built that trade facilitation and the development of trade negotiation capabilities (also provided for in AfT programmes) can boost exports. Finally, it is only when trade facilitation (and possibly the capability to negotiate at multilateral forums) has reached reasonably high standards and facilitated significant volumes of export and import, that stabilising aid disbursals from the trade integration mechanism are justified.

Thus, the contributions to this volume not only imbue us with a comprehensive and detailed view of the various components of the GPD, their synthesis also provides us with an idea of how aid programmes / mechanisms can be sequenced to generate maximum leverage for the GPD. The basic idea behind this sequencing is that progress of an economy in the international arena is conditioned by the stock of capital, infrastructure, knowledge etc and that the usefulness of any kind of aid expenditure rests on the satisfaction of specific pre-conditions.

However, while certain neat conclusions can be derived from these contributions, questions still remain. Many African countries have been pushed into international trade without adequate preparation or attention to their supply side constraints. How these countries can be rescued from the developmental muddle these find themselves in, to enable these to benefit from the GPD, is one puzzle that requires a quick and definite answer.

1

LDCs, Land-locked Developing Countries and Small States in the Global Economic System

– By TN Srinivasan*

Introduction

The global economic system – consisting of international trade in goods and services, flows of finance, ideas, labour and technology – is becoming increasingly integrated, with more and more nations participating in the system. However, in the integration process, developing countries, in general, and groups of developing countries, in particular – such as LDCs, land-locked developing countries (LLDCs), small island developing states (SIDS) and small vulnerable states (SVS) – are widely presumed to face special challenges and problems to varying degrees. Work programmes and operational documents of the World Bank, WTO and others describe their proposed actions in support of LDCs.

In particular, the declaration of the Ministerial Conference of the WTO in Doha, Qatar, in 2001, which launched the Doha Round of multilateral trade negotiations (the 'Development Round') explicitly refers to development issues, and in particular to those relating to the integration of LDCs and small economies into the global trading system. Going beyond the desires, goals and action programmes, whether the various countries (be they developed or developing, including LDCs) themselves have made concrete and credible efforts and commitments to achieve them is an open question.

The paper explores this question, along with the scope for strengthening the links between trade, growth and poverty reduction though cooperation between the developed and developing (including LDCs) nations, including cooperation that goes beyond multilateral trade talks and regional trading agreements.

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It argues that a coherent analytical framework is essential for thinking both about the possible mechanisms of the interaction between trade, growth and poverty reduction, and, importantly, about their presence or absence (and their strength, if present) in the specific context of each country so as to assess the scope of public policy at national and international levels. By subsuming the process of liberalisation of foreign trade and capital flows under the broader process of globalisation, it suggests a possible framework by distinguishing the influence of globalisation on growth, growth on poverty reduction, and globalisation on poverty reduction by drawing on economic theory and empirical evidence across countries as well as individual country experiences.

Trade, Growth and Poverty Linkages

Plausible links in the globalisation-growth-poverty reduction chain can be postulated in theory. Yet the reality is far more complicated, and many links could be absent in some countries at some points in time and may vary in their strength over time, even if present. Not all links need be unidirectional – thus, it is possible that in some links, globalisation influences growth positively, but the character of that growth increases poverty. This being the case, it is important to avoid selectively focusing on some aspects of globalisation, and ignoring other processes besides globalisation when explaining the observed outcomes; in this way misleading assertions about the role of globalisation can be avoided. Globalisation can reduce poverty directly by accentuating the mechanisms that raise the returns to the resources of the poor (and by attenuating those that lower the returns) or indirectly through influencing other processes, such as growth, that play an instrumental role in reducing poverty.

Globalisation influences growth by positively contributing to each of the three sources of growth: growth in inputs of production; improvements in the efficiency of allocation of inputs across economic activities; and innovation that creates new products, new uses for existing products or brings about more efficient use of inputs. Domestic resources are allocated more efficiently when the economy can specialise in those activities in which it has comparative advantage. By being open to capital, labour and other resource flows, an economy is able to augment relatively-scarce domestic resources and use part of its abundant resources elsewhere, where they earn a higher return. Clearly, efficiency of resource use in each nation and across the world is enhanced by the freedom of movement of resources. Finally, the fruits of innovation anywhere in the world become available everywhere in such an open world. Moreover, theory also suggests that globalisation and growth have a self-reinforcing relationship, in that higher growth spurs a larger volume of trade flows.

The instrumental role of growth for poverty reduction works through the effects of growth both on demand (domestic and global) for goods and services in which the poor are involved, either as self-employed producers themselves or workers in their production. These effects depend on the competitiveness and efficiency of the markets for such goods and services, as well as on the access of the poor to those goods (e.g. seeds, fertiliser and water) and services (education, health and insurance). Globalisation, by reducing the barriers to trade, particularly in labour-intensive goods and services, reduces poverty by raising the returns to labour.

Also, by accelerating the process of removal of domestic distortions that perpetuate poverty, globalisation could reduce poverty permanently. Since the mechanisms through which globalisation influences poverty directly and indirectly necessarily operate in the context of domestic and global institutions and policies, dysfunctional domestic institutions (which are ubiquitous in developing countries) such as those that limit flexibility of labour use, segment markets and fail to provide an adequate and solid economic structure, could attenuate considerably or even reverse the beneficial effects of globalisation on poverty.

Potentially many domestic policies could reduce poverty, including redistribution of income and assets to the poor. Lessening market distortions has a dynamic effect in that: it not only increases the value of present resources, but also encourages greater investment and future accumulation. Redistribution policies often fail because they are not well targeted and are high jacked by the non-poor. Even if they do not fail, their success is short-lived unless redistribution is continued indefinitely. Greater integration with global financial markets would increase the efficiency of financial intermediation, and thereby have large and long-term benefits for the poor by facilitating their investment in both physical and human capital. Integrating domestic product and factor markets by reducing transactions costs and increasing investment in transportation and communication infrastructure, so that the poor are not only able to compete in larger and more competitive markets, but also have up-to-date market intelligence, is also important. Above all, institutional reforms have to be undertaken for correcting massive failures of governance, particularly by seriously addressing endemic corruption.

International policies that influence the trade-growth-poverty linkages include the access to the world markets for goods, services, technology and capital by poor countries. Protectionist policies in rich countries, such as higher than average tariff rates on imports of goods and services exported by the poor countries, domestic support and export subsidies on goods in which they and the poor countries compete in world markets, adversely affect poor countries and especially the poor in those countries. Protection of agriculture (a sector upon which much of the poor in developing countries depend for their livelihoods) in the US and European Union (EU) is an egregious example of such barriers. In addition, tariff escalation in rich countries, in the sense of lower tariffs on unprocessed goods exported by poor countries in comparison to tariffs on processed goods, adversely affects the potential for manufacturing by discouraging processing in poor countries, thus limiting the movement of labour from low-productivity primary activities to higher-productivity manufacturing.

Another important aspect is whether or not rich countries deter bribing of foreign bureaucrats and politicians by their multinational companies. Policies that encourage, rather than stand in the way of, mutually beneficial off-shoring of manufacturing and services by rich country firms would benefit some, if not all, developing countries by increasing the demand for their skilled labour.

Of course, domestic policies in poor countries have to be accommodating in the sense of encouraging skill accumulation, and making it more attractive for such labour to work at home rather than emigrate. Encouraging FDI in poor countries could facilitate productivity gains and technology transfers. FDI in the financial sector, as well as integration of global financial markets by reducing costs of financial intermediation, encourage productive use of credit for investment. On the other hand, financial opening could increase the risks of a financial crisis if a country's domestic financial institutions are not adequately developed. Balancing the benefits from increased expected returns and increased risk from financial integration would depend on individual country institutions and other characteristics.

The analysis in this paper of domestic and international policies for strengthening the trade-growth-poverty linkages leads to one very important conclusion, namely, that the primary constraints on such strengthening are largely *domestic and basically of political economy*. This is not to say that external constraints are absent or unimportant, but only that they are secondary to the domestic ones. The paper surveys relevant empirical studies dating from the late-1960s to the present. It finds that the more careful among the cross country studies that use appropriate econometric techniques, do find a strong association, not only between trade and growth, but also between growth and poverty reduction. They also find that this association is tempered by the presence of domestic policy distortions, thus emphasising the conclusion that removing domestic constraints arising from policy distortions brought about by political economy is a crucial step for maximising the benefits from trade liberalisation.

Individual country studies also support the findings of cross country studies. For example, studies of China and India, in which an overwhelming majority of the world's poor live, show that both experienced faster growth and greater poverty reduction only after both opened their economies significantly to foreign trade and investment (in China 1978; and in India, in the mid-1980s, in a limited manner, and then more systemically and broadly after 1991).

A very recent study of 13 countries (eight Asian and five African), finds unsurprisingly that countries that undertook domestic reforms along with trade reforms succeeded most in poverty reduction; and wherever, *domestic reforms of dysfunctional land and labour market policies, as well as reductions in support to capital intensive-industries, did not accompany trade liberalisation sufficiently, the resulting poverty reduction was limited. Thus the findings of cross country and individual country case studies strongly support the conclusion that if trade reform is to be effective in reducing poverty, it has to be part of the broader package of reforms that relax domestic constraints.* This has the further implication that the focus of poverty alleviation policies and programmes has to be broad and go beyond helping developing countries in integrating themselves with world markets and building a global partnership for this limited purpose, into the arena of domestic political economy and reform.

Development Problems and Country Groupings

The paper also examines whether groupings of countries into LDCs, LLDCs, SIDS and SVS has the rationale that countries in each group share some common characteristics and face some common problems that are not only distinct from those faced by other groups, but also relevant for formulating some common solutions for addressing them. The criteria that have been used in defining these groups (other than their being land-locked and / or remote from the 'centre of gravity' of world trade and finance) do not appear to be founded on such a rationale. Instead they are based on *observed outcomes*, such as low gross national income, weak human assets and high economic vulnerability.

Such outcomes are the *joint effects* of two sets of factors: those that are exogenous being beyond the control of policy-makers (e.g. endowments such as land, minerals and climate) and those that are endogenous and within their control (e.g. social and economic institutions, and resources such as human and physical capital endowments and technology choice).

It is crucial for policy analysis, not only whether a country is put in a particular group largely because of exogenous factors or because of endogenous factors that are under its control, but also whether for countries in each group there is a substantial degree of commonality among such factors (exogenous and endogenous). Based on observed outcomes only, it is hard to distinguish empirically whether exogenous or endogenous factors were largely determining a country being put in a group. The required methodology is complex and the results are not very robust.

For this reason, conclusions such as that a country's small size or being an island or landlocked per se are inhibiting factors in accelerating growth through global integration, or that classical theory of comparative advantage being a fundamental determinant of trade patterns is not valid for them and so on have to be re-examined taking into account the fact that such country groupings classified through outcomes-based criteria are analytically unsound. The literature on LDCs reviewed in this paper, first seems to confound the exogenous and the endogenous factors that are relevant in determining a country's LDC status.

Second, this confounding, compounded by the problem of robustly distinguishing between such factors from available methodology and data, presents a serious dilemma for the rest of the world in the formulation of policies, particularly of resource transfers, to help LDCs. Should the rest of the world or should it not impose conditionalities so that the recipient countries do not put the resources transferred to uses other than for mutually agreed purposes?

Third, in the literature on small and vulnerable countries there is a tension between *theoretical* studies that point to the sub-optimality of small size for sustained growth and development, because their structural disadvantages of small size and remoteness outweigh their advantages, and *empirical* studies that do not find any strong evidence for disadvantages of small size. This suggests that countries are able to more than offset any disadvantages of their small size by suitably designing and effectively implementing policies that foster growth.

Fourth, reminiscent of the early development literature which argues that the institutions and problems of developing countries are so vastly different from those of the developed ones that the same economic theory cannot be used for analysing both, there are contemporary arguments that claim that trade patterns of SIDS cannot be explained by conventional trade theory based on comparative advantage. These arguments appear to be just as invalid as those of early development literature.

Fifth and last, the literature indicates that the tendency to focus on trade preferences and protection as the preferred means for offsetting permanent or temporary cost disadvantages of SIDS in particular, or LDCs in general, seems unwarranted.

Proposals for cooperation between developed and developing countries for strengthening the trade-growth-poverty links have to recognise several facts. First, not all such links, direct and indirect, need to be unidirectional. Second, there is enormous heterogeneity across countries on the presence or absence of specific links and their strength where and when present. Third, given this heterogeneity, a 'one-size-fits-all' approach to strengthening the links is infeasible and even if feasible, would be inappropriate. Fourth, an essential prerequisite for cooperation is an understanding by both groups of countries of the efficacy of the links, and their operation in a manner that is beneficial to both.

However, there are growing doubts in developed countries, particularly in the US and some members of the EU of the traditional belief that *international trade is one of mutually beneficial exchange*, and about the feasibility and efficacy of addressing distributional conflicts (from trade liberalisation) through *domestic* policy instruments. If unaddressed, these doubts will undermine any efforts to foster cooperation between developed and developing countries.

This paper documents the historical ambivalence of developing countries, which constitute an overwhelming majority of WTO membership, towards the General Agreement on Tariffs and Trade (GATT)/WTO and the process of trade liberalisation. It contends that many developing countries did not participate in this process during most of the GATT era (1947-1995) and in accelerating the growth of their trade, mainly because they were driven by the then dominant faith in inward-oriented, import-substituting industrialisation as the appropriate development strategy. They erected and maintained relatively high barriers to foreign trade. Of the eight rounds of multilateral trade negotiations under the auspices of GATT, up to the conclusion of the sixth (the Tokyo Round, concluded in 1979), many developing countries perceived that GATT promoted the interests of developed and industrialised countries and that it had frustrated several their attempts to have their concerns addressed.

'Concessions' granted to developing countries, such as the inclusion of Part IV on trade and development and the Tokyo Round's enabling clause on special and differential treatment, were mostly rhetorical, and others, such as the Generalised System of Preferences (GSP), were always heavily qualified, and their benefits small. In sum, from the perspective of many developing countries, the GATT was unfriendly, if not actively hostile, to their interests. It is debatable whether or not the frustrating experience of developing countries in seeking greater access to the markets of developed countries was a consequence of their relentless, but misguided, pursuit of the import-substitution strategy of development, and their opting out of the GATT.

Had they participated fully, vigorously and on equal terms with the developed countries in the GATT, and had they adopted an outward-oriented development strategy, they could have achieved far faster and better-distributed growth. The experience of East Asian countries that adopted outward-oriented strategies of development from the mid-1960s onward, and also that of China and India since the mid-1980s supports this assessment.

However, even when developing countries actively participated with cohesion, as they did in the Tokyo Round (1973-79), the outcomes were not in their long-term interests, primarily because their demands continued to be driven by the import-substitution ideology. Their special, differential and more favourable treatment – including not being required to reciprocate tariff 'concessions' by the developed countries – was triply damaging: once directly, through enabling them to continue their costly import-substitution strategies; a second time by allowing the developed countries to retain their own GATT-inconsistent barriers (in textiles) against imports from developing countries; and a third time by allowing the industrialised countries to keep higher than average MFN tariffs on goods of export interest to developing countries.

Nonetheless, there has been a significant and welcomed shift on the part of developing countries away from ambivalence, towards a more receptive attitude towards trade openness and a rule-based trading system, since the conclusion of the Uruguay Round and the establishment of the WTO. This is in part due to the success of China and India in accelerating their growth and reducing their poverty after they began seriously integrating their economies into the world economy. Yet some vestiges of the past, such as the demand for non-reciprocity and for relaxation, if not a complete waiver, of rules applicable to all other members of the WTO persist.

Reviewing the recent experience of LDCs, the paper finds that their annual percentage growth in per capita gross domestic product (GDP) nearly tripled from 1.1 during 1990-2000 to 3 in 2002-04. However, the extent of this improvement that is sustainable in the long-term because of improvements underlying fundamentals, such as total factor productivity growth, and the extent of it that is not sustainable because of reversible short-term favourable factors such as, for example, the improvement in terms of trade of commodity exporters, has yet to be explored.

Nearly 65 percent of total LDC exports during 2000-03 consisted of primary commodity exports, of which fuel exports alone constituted 25 percent. Price indices for primary commodities, such as food, agricultural raw materials and minerals have also shown substantial increases during 2002-04. Thus, increases in prices of commodity exports during 2002-04 must have contributed significantly to the short-term growth performance and further price increases since 2002-04 will also help sustain growth. This conclusion is reinforced by the fact that gross domestic capital formation and savings as a proportion of GDP did not change much or decline (savings rate) between 2000 and 2004. Clearly, there is evidence of short-term favourable, but reversible, factors in improved growth performance; however, there is no evidence of the problem of long-term sustainability of growth of LDCs either disappearing altogether or even declining in its severity.

The LDCs, particularly small countries, are deemed to have little voice in the international organisations of which they are members and have no influence in their decision-making processes. However, voice and influence depend not only on characteristics of members (such as the size of their population and economy), but also on rules of membership and decision-making in the organisations themselves. International organisations vary significantly in both respects. The geopolitical and economic configuration of the globe has changed vastly since the approval of the UN charter in 1945.

Yet newly-emerging powers, such as Brazil, India and also Japan have had little success in achieving their aspirations for permanent membership of the Security Council. This is deplorable, though understandable: no state would voluntarily agree to its perceived power being reduced. In the World Bank and the IMF, which also date back to the end of the Second World War, there is weighted voting with the weight (i.e. quota in the parlance of the two organisations) of each member roughly corresponding to its economic size at the date of the last revision of quotas. Here again, although the relative economic sizes of its members have been changing, the process of revision of quotas has been a contentious issue, though some revisions have taken place periodically, most recently in April 2008.

Thus far, a convention has been followed that decisions of consequence in the GATT/WTO have to be made by consensus, so that in effect every member has a veto in such decisions. In principle, LDC members of the WTO, therefore, have a strong voice in its decisions if they choose to exercise it. However, there are many practical constraints in doing so. Historically, collective action by groups of developing countries in GATT/WTO has not been particularly effective mainly because their share in world trade was small when GATT was signed in 1948, and has not grown enough since. Although the shares in world trade of some countries of East Asia have grown significantly since they opened their economies in the mid-1960s, and China's share has grown spectacularly since it opening in 1978, still such growth has not been enough to offset the declines in the shares of Africa and South and Central America.

The dominant constraint in acquiring a voice is what is usually termed 'inadequate capacity', a broad term that covers a range of inadequacies: small size, meagre resources, lack of knowledge (and difficulty in acquiring such knowledge) about negotiating issues, lack of skilled personnel and so on. The ongoing Doha Round, like all such negotiations, involves complex issues and the negotiating positions of members and also the process of negotiations is labrynthian. The trade-offs involved are difficult to evaluate, even for a very well-informed and skilled individual. A small and poor developing country member is severely handicapped in such negotiations. The need for capacity building is recognised in the WTO, and several rich countries have contributed resources for this effort. Much more can be done, and this is an area in which developed countries, as well as better-placed developing countries, can contribute.

There are several programmes of action for helping the LDCs, of which the three prominent ones are: the Integrated Framework (IF) for Trade Related Technical Assistance (TRTA) to LDCs, the Programme of Assistance (PoA) of the United Nations Conference on Trade and Development (UNCTAD) and the AfT of the WTO. The paper briefly reviews the experience of each, although those of the PoA and AfT are much too short to come to definitive judgements about their efficacy. The IF has been evaluated twice, and the report of the second evaluation was published in 2003 following six years of its operations. Yet this evaluation concluded that it could not achieve its purpose of an assessment of the results of the IF, primarily because that it was still *too early* to look for measurable results. Instead it confined itself to an analysis of alternative processes for the operation of IF and making recommendations on them. An IF manual was published after the evaluation in 2005.

The non-availability of any measurable results did not deter the Development Committee of the World Bank and the IF to decide in September 2005 that the IF should be enhanced, provided with additional resources and that a task force on enhanced IF should be established. The task force reported in June 2006, concluding that the IF has failed to 'mainstream' trade into the Poverty Reduction Strategy Papers (PRSPs) process in large part because of its weak country 'ownership', and that the response of the donor community had been inadequate. It came up with predictable recommendations: strengthen country ownership, assign responsibility for implementation and increase funding and make it predictable.

In 2007, an independent scholar reviewed the trade and diagnostic studies carried out in 11 LDCs through the donor-funded IF to assess the effectiveness of IF in addressing trade related needs, with the objective of poverty reduction as the centre of the analysis. He found that although these studies present much of use to the countries in promoting export development, they neglect key areas of significance to poverty reduction efforts.

All these negative findings on the performance of the IF should not be surprising for three reasons. First, the primary objective of IF is vague: the 'mainstreaming' of trade into development plans has little *operational content* and even less of any identifiable and measurable links to development goals. Although technical assistance (TA) and its co-ordinated delivery as goals could be made operational, unless the IF itself has clear and well defined objectives, TA in support of it cannot be made operational.

Second, the phrase 'country ownership' unnecessarily confuses the conventional (but increasingly irrelevant) concept of 'sovereignty', meaning that a sovereign country is one which has complete control over its *domestic affairs*, with a country having control over how *externally provided resources*, are to be utilised for *development* and *poverty reduction*. It is not so much country ownership of a programme of external aid that matters, but whether or not the programme is well defined to deliver the objectives that the country itself wishes to achieve with the resources, regardless of who designed the programme. The aid and TA under the IF are *funded* by donors: it makes no sense to exclude them from having a say in the objectives that aid to a recipient is meant to achieve, and how the aid funds are to be used for this purpose. However, it is reasonable to insist that donors and recipients *jointly decide* on the intended uses of aid and on ways to monitor the process of actual use. Calling this joint decision-making 'country ownership' is counterproductive.

Third, the most serious and almost fatal defect of the IF is a failure to understand that development and poverty reduction are complex tasks. Greater integration of a country with the world economy, while it certainly will contribute significantly to both, is not the only determinant of either. Moreover, the constraints on development, poverty reduction and the use of greater integration with the world economy for helping with both, involves *consideration of domestic political economy*. Unless this is clearly understood, redesigning the IF at the margin is unlikely to help this programme deliver greater integration or poverty reduction to any significant extent.

In 2006, UNCTAD comprehensively reviewed the state of development of the LDCs and also the achievement of its PoA. It reached the disturbing finding that:

- *Only six out of the 46 LDCs* for which data were available met or exceeded the PoA target of growth of seven percent per annum between 2001 and 2004. *10 out of 35* LDCs met the investment target of 25 percent of GDP during 2001-2004.

- 18 *out of the 46* LDCs were unable to achieve per capita growth rates of more than 1.0 percent per annum during the period 2001-2004, which is far too low to have a serious effect on the extreme poverty in which about half the population of LDCs live. Moreover, progress towards human development goals is very mixed.
- Although the recent improved growth performance in some LDCs noted above is certainly encouraging a closer analysis shows that out of 40 LDCs, only seven have experienced steadily sustained growth. All the other LDCs have experienced economic contractions of varying duration and severity since achieving political independence. Of the 33 LDCs which have experienced economic crises with major output losses, there are only 12 whose real GDP per capita is now higher than it was at its peak in the 1970s or early 1980s.
- Capital formation was still only 22 percent of GDP in the LDCs as a group in 1999-2003, and domestic private investment was particularly weak. Actual rates of human capital formation in the LDCs in the 1990s were slower than in other developing countries. The inadequate rates of capital formation reflect weaknesses both in domestic resource mobilisation and in the way in which external capital inflows are supporting domestic processes of capital accumulation.
- For the LDCs as a group, there has been little structural change since the early 1980s, though there are significant differences among LDCs.
- The productivity gap is widening. Labour productivity in the LDCs as a group in 2000-2003 was just 12 percent higher than in 1980-1983, whilst it increased by 55 percent on average in other developing countries.
- The goods and services which the LDCs can supply competitively to world markets are ultimately limited by the goods and services which they can produce and how efficient they are in producing them. Limits on productive capacity and efficiency, rather than external barriers to their exports, are the basic sources of the marginalisation of the LDCs in world trade.
- The most important way in which labour has found productive work within LDCs over the last 25 years has been through agricultural land expansion. However, this is becoming more and more circumscribed.

This assessment by UNCTAD is highly unlikely to be changed in any significant respects by the experience of LDCs after 2004. It leaves no doubt that the task of development of LDCs (and of developing countries more generally) is a daunting one. A narrow focus on one or a few of the many contributory factors to development, be it trade, physical and human capital accumulation, or correction of market failures, dysfunctional governance, insurgencies and ethnic conflicts and related political economy issues, would be inappropriate. Of course, not all problems could be effectively addressed at the same time. A prioritisation among them, based on an understanding of the development process heterogeneity among countries, is essential. In such an exercise, the removal of domestic constraints is most likely to emerge as the task of highest priority.

The brief history of AfT launched at the Hong Kong Ministerial meeting of the WTO in December is not very encouraging. AfT was meant in large part to address two related concerns. One is the assistance that some WTO members will need to help them implement the results of current multilateral trade negotiations, and to cope with certain adjustment costs that may be incurred. The second, broader set of concerns is the insufficiency of trade related capacity in many WTO members to allow them to benefit from the opportunities the multilateral system creates. AfT was reviewed in 2007 and a road map for it was approved by the WTO Committee on Trade Development in early 2008. However, the road map was short on concrete and specific actions and long on general actions.

The basic premise of AfT is that successfully completing the Doha Development Agenda, though *necessary*, is not *sufficient* for increasing trade opportunities of developing countries and LDCs. Put differently, to avail of the opportunities that a successful completion opens up would require relaxing the constraints that these countries face in doing so. This, in turn, would require not only identification in *specific country contexts* what these constraints are, but equally important what actions those countries and other WTO members could take in relaxing them. The constraints so identified (e.g. general capacity constraints) would be critical, not only for availing of trade opportunities, but also for development (and its overarching goal of poverty reduction) in general. If this is the case, for AfT to be a complement to official development assistance (ODA), it would have to be targeted at relaxing those constraints that are inhibiting availing of trade opportunities *only*, and not any that constrain development as well, since these would be the targets of ODA.

However, whether doing so is a cost-effective use of AfT resources is a separate issue. After all, availing of trade opportunities has only an *instrumental* value, and not an *intrinsic* value, as development and poverty reduction do. It is possible, therefore, that use of general purpose aid such as ODA, rather than AfT linked to trade, could achieve the relaxation of constraints that limit development as well as availing of trade opportunities more cost effectively. In addition, credible commitment from concerned officials is essential to undertake the actions needed and to provide incentives for the private sector to take complementary actions (and to *avoid* actions that limit the efficacy of public-sector actions) for expanding trade related investment and production.

It is possible that AfT has the potential to realise its objectives, but not only is this potential yet to be set out in realistic and concrete terms, but few specific actions to achieve the potential are described in the large and accumulating literature on AfT.

The ministerial declaration of November 14, 2001 that launched the Doha Round of multilateral trade negotiations referred to small economies and LDCs and their influences in several paragraphs. The Doha Agenda and Work Programme of the WTO spelled out the goals of the negotiations from the perspectives of developing countries and LDCs, with respect to each item of the negotiating agenda. The items of the agenda, other than provisions for TA and capacity building, could be divided into two broad categories. The first can be described as exhortations and good faith efforts urged on developed countries. Almost all of these items are essentially voluntary. Without minimising the value of exhortations, moral persuasion and ongoing voluntary efforts, it has to be recognised that it is impossible to set time limits for their fulfillment, let alone set punishments for not fulfilling them.

The second category, which constitutes a majority of agenda items, consists of special and differential treatment of developing countries in general and in particular, LDCs, small economies and other groups. These items included, for example, lower rates of required reduction of bound tariffs by developing countries, or exempting LDCs altogether from any reduction, or a longer time schedule for meeting commitments and so on. All these items respond to the demands of developing countries and LDCs for concessions and non-reciprocal commitments.

This paper takes the view that giving developing countries a reasonably longer time for meeting *the same commitments* as developed countries, is an entirely appropriate way of taking into account their being at a lower stage of development. However, allowing them to retain higher barriers to trade until the subsequent Round of negotiations, with no commitment whatever to reducing them or reducing them to a lesser extent than is required of developed countries, is not in their interests in any way. It sustains developing countries' mistaken belief that trade restrictions and trade policies are effective instruments for achieving non-trade related and broader goals of development. This is not to deny that poor countries, particularly if they happen to be poorer than others because of factors beyond their control, could benefit from some unconditional resource transfers, mostly in the form of grants.

Nonetheless, the WTO is not a resource-transforming agency. By agreeing to demands of developing countries for 'concessions' in the commitments and obligations with which they are to comply, developed countries are able to avoid making any resource transfer commitments. This is counterproductive.

The Doha negotiations have dragged on for more than six years. A set of revised negotiating texts, with their modalities for agricultural and non-agricultural products, were circulated on May 19, 2008. These were rejected by India and other developing countries as inadequate. An informal meeting of the Trade Negotiating Committee (TNC) opened on July 21, 2008 to consider the latest (July 2008 package) negotiating texts. As of July 25, 2008, on some of the key issues positions are yet to converge. The WTO Director General, Pascal Lamy, saw the situation as 'critical, edging between success and failure' (WTO News). The negotiations collapsed on July 29, 2008.

Although the proximate reason for the collapse was the irreconcilable difference in the positions of China and India on one side and the US on the other on the special safeguard mechanism (SSM) for developing countries on agricultural imports, it was evident that there were significant gaps among WTO members in other areas that would have made it difficult to arrive at final modalities even had there been agreement on SSM. As is to be expected, negotiators blamed each other for the collapse while claiming their commitment to conclude the Doha Round.

The prospects for a resumption of negotiations and concluding the Round soon seem unlikely. The presidential elections in the US are to be held on November 04, 2008. Parliamentary elections in India have to be held before the end of May 2009. A new European Commission (EC) will take office in Spring 2009. If the Republican Party administration in the US is succeeded by a democratic Party administration, going by the rhetoric of Barack Obama, the presumptive Democratic presidential candidate, it seems unlikely he would push for resumption of the Doha negotiations. Even if he did, he would insist on inclusion of labour and environmental standards, which have so far been kept out to WTO agreements, as part of the final Doha agreement.

The coalition government led by Prime Minister Manmohan Singh of India, an ardent trade liberaliser, could be replaced by another that could be far less enthusiastic about further opening of India's markets. The new EC could be more responsive to protectionist forces, particularly in agriculture in France and Poland and some other member countries.

Be that as it may, the July 2008 package seems to go a long way in delivering much of what was promised in the Doha Declaration and agenda by way of special and differential treatment (S&DT) of developing countries, in general, and of LDCs, in particular. Whether this and any further improvements in the texts will lead to their 'enhanced and beneficial' participation in world trade will depend on what the basic constraints are in the first place that reduce effective participation. These constraints are mostly in the *domestic arena*, primarily of domestic political economy and society, and will not disappear even if the July 2008 texts are adopted.

Even with their adoption, dramatic improvements in trade performance cannot be expected. For example, WTO data show that even after the removal of systemic biases against trade and the dismantling of barriers since the mid-80s, India's share in world merchandise trade increased by only half of one percent over two decades, from 0.5 percent in 1983 to 1 percent in 2006.

Moreover, in 1948, soon after the conclusion of GATT, India's share was much higher at 2.2 percent. More generally, the total share of world merchandise trade for Mexico, South and Central America, the Middle East, Africa and Asia (excluding Japan, Australia and New Zealand), which together broadly cover the developing world, was 31.4 percent in 1948, 26.8 percent in 1983 and 35.4 percent in 2006. Interestingly, if we exclude South East Asia, which has been much more open since the 1960s, and China, which opened in 1978, the share of the remainder of this group was 27.1 percent in 1948, 19.8 percent in 1983 and

19.6 percent in 2006. World Bank data also broadly suggest a similar recent trend: the share of low- and middle-income countries in world merchandise exports increased from 19 percent in1995 to 30 percent in 2006.

However, excluding East Asia and the Pacific, the share of the remaining countries increased by less, from 12 percent in 1995 to 18 percent in 2006. It is clear that although the period after 1980 was one of growing integration of the developing world with world trade – certainly it resulted in halting the decline in, and has in fact raised, the export share of the developing world – the gain in export share has largely been in *China and South East Asia*. Africa and South and Central America have experienced a steady decline in their share of world trade ever since 1948. This suggests that other constraints restricted them from gaining export shares.

Conclusion

It is doubtful that a *meaningful* global partnership for development exists at present. The feasibility of even putting one together is very difficult, for several reasons, the primary one being that development is multi-dimensional. Reasonable people could, and often, disagree not only on its contents, but more importantly, on the relative importance of its many components for each of the many heterogeneous set of developing countries. Indeed one could go further and point out that the multi-dimensional character of development raises problems even in defining a developing country, since a country could be developed in some dimensions and not in others.

Even if there was universal agreement on the relevance and relative importance of a *sub-set of dimensions*, such agreement is very unlikely to extend to the actions that each partner should undertake in promoting them. It would seem that it is *futile* to talk about a hypothetical partnership for *development in all its aspects*. It is better to start from the reality that many, by no means all, developed and developing countries (more precisely the governments in power in them) have common interests *in some aspects of development*. So too have a whole host of multilateral institutions non-governmental organisations (national and transnational) of various political hues. While it is appropriate to exploit the existence of such common interests for furthering development, it would be far-fetched to the point of being meaningless to call this a 'global partnership for development'.

There is no denying, however, that often a large number of such interests come together in promoting particular aspects of development. If this is a reasonable approximation of ground-level reality, one has to focus on a considerably more modest objective of how to make existing groups interested in development (some cohesive enough to be called coalitions if not partnerships, and others much looser) more effective. Since such groups are likely to be issue-specific, it is impossible to make concrete recommendations for making them more effective.

The paper concludes with several recommendations. The World Bank should be reconstituted into a smaller institution that caters *only* to the needs of those among developing countries that do not have access to world capital markets. These countries would certainly include LDCs (other than those with petroleum and natural resources) and a few others. A large majority of these countries will be in sub-Saharan Africa (SSA). A similar reform of regional development banks, including the possibility of closing ones that have not been effective, if any, should be considered.

Certainly, the successes of the IMF in its forays into structural adjustment have been limited. Its current intrusion into poverty alleviation through requiring PRSPs as foundations for its involvement with a developing country is totally unwarranted. The role of the IMF should be confined to responsibility for the stability of the global financial system and for providing advice on macroeconomic, exchange-rate and financial sector policies to its members, through its mandated consultation with them under its Article IV. The weighted voting in the decision-making of the IMF and World Bank needs to be reformed beyond what was accomplished recently in April 2008. The outmoded convention that the US nominates the president of the World Bank and the EU nominates the managing director of the IMF should be abandoned in favour of a choice mechanism that results in the most qualified candidates being appointed.

The reform issues relating to the WTO are less complicated than those relating to the World Bank and the IMF. As long as the convention that its decisions will be made by consensus continues, with every member having an equal voice in principle in its important decisions, its advice potentially has greater credibility, provided that voice is exercised. However, exercising such a voice requires capacity in several dimensions, which LDCs in particular lack.

Capacity constraints in LDCs restrict not only their effective participation in the WTO, but also their interaction with other international institutions and the rest of the world. Capacity building is firmly on the agenda of the WTO, with several rich countries already contributing resources for the effort. Capacity building efforts have to be multi-dimensional and the assistance to such efforts has to be much broader based than in the WTO or World Bank only. Again, such assistance has to be co-ordinated, focused and flexible to respond appropriately to the enormous diversity of the LDCs.

The body that makes the rules of the WTO is the ministerial conference. Changes in existing rules emerge out of the agreements concluding each Round of multilateral trade negotiations. Not only are the rounds initiated after long intervals of time, but once initiated, each Round can take a long time to conclude. With no equivalent of a parliament or legislature that makes laws, amends them and repeals them where appropriate, WTO rules could remain on the books for a long time after they have become irrelevant or are in urgent need of amendment.

A way out of this, such as making the WTO Council (in which all members are represented) a legislative body and perhaps restricting the consensus convention only to such decisions that the Council deems appropriate should be considered. The ultra *legalistic* dispute settlement mechanism of the WTO was a drastic shift from the *political* one of GATT. The WTO legalistic system in effect penalises the poorer members of the WTO, which have limited capability to identify violation of commitments by others and argue their case before the panels and appellate bodies. Going back to the GATT system, although it has its own problems, may be better from the perspective of LDCs and other poor members of the WTO. This is worth considering.

The attempts to use multilateral trade agreements as devices to intrude into non-trade related domestic regulatory arenas began at the WTO Singapore Ministerial Conference of 1996. These domestic regulatory issues, since then known as 'Singapore Issues', include investment, competition policy and transparency in government procurement and trade facilitation. These issues should remain outside the WTO.

Regional and other PTAs have been suggested as a way for LDCs, particularly SIDS and SVS, to overcome constraints on their integration with world trade. It is claimed that contemporary PTAs go beyond trade liberalisation and involve 'deeper integration' of members in other areas, including in particular investment and technology transfer. The empirical evidence on the benefits from PTAs is contradictory – the conclusions depend on the empirical methodology, database used and the countries and time periods included in the analysis.

The ambiguous empirical evidence and the strong theoretical presumption in favour of multilateral, rather than preferential, trade liberalisation, together strongly suggest that LDCs should avoid getting into PTAs and Economic Partnership Agreements (EPAs). Rich countries of any global partnership for development should not offer such disabling PTAs and EPAs with non-trade provisions to the developing countries of the partnership and to persuade them not to enter into ones offered by others. The partnership should focus its efforts exclusively on *multilateral agreements* and work towards concluding the Doha Round satisfactorily and soon.

The WTO should remain an organisation whose members consist only of nation states (or groups of them) and independent customs areas within states (e.g. Hong Kong). The somewhat heated debate on the so-called 'democratic deficit' in WTO is fundamentally devoid of content. As long as universality of membership of the WTO is the goal, as in the UN, any state willing to undertake the obligations of membership in the WTO should be free to apply for membership. These obligations are mostly in the arena of trade, and arise from various agreements to which the members are parties. Extending the obligations to the *political arena* of *democratic participation* in each member state is inappropriate.

A concern has been expressed about preference erosion arising from the fact that preferential access by way of lower tariffs applicable to exports from developing countries has become less 'valuable' as tariff barriers in their export markets fall. The value of the preferences, such as the GSP, is vastly exaggerated. Given the dismal experience with GSP, retaining it and linking the levels of preferential access to tariff levels in export markets is counterproductive. It would blunt the incentives of developing countries to reduce the higher domestic costs that limit their exports. These high costs were the rationale for tariff preferences in the first place. Any global partnership should focus on reducing these costs permanently through effective support for capacity building efforts in the LDCs, rather than perpetuating the counterproductive, preferential access through GSP.

2

Mainstreaming Development in the WTO

– By Magda Shahin*

Introduction

The Doha Round is no longer recognisable. The Doha Development Agenda (DDA) has been totally disfigured and its developmental dimensions blemished. Three mini-conferences over the last three years have failed dismally to bring it back on track. The so-called stumbling blocks may have seemed to shift from one topic to the other, whereas they rarely extended beyond the bounds of agricultural negotiations and trade-offs. That the DDA has been literally hijacked by the agriculture negotiators gives the impression that the DDA is solely about agriculture. The impression is erroneous. The DDA is an all encompassing round where services, Intellectual Property Rights (IPRs) and the 'Implementation issues' are no less important than or inferior to the agricultural negotiations.

We must also acknowledge the Ministerial Conference in 2008 did not come at the most propitious time for striking a deal on trade. Politicians in both developed and developing countries at the time were understandably more concerned with the need to contend with the dual ogre of soaring energy and food prices that had reared its head over the world economy. In fact, against the backdrop of the current spike in food prices, the agricultural focus of DDA negotiations has done more harm to the Doha Round than ever before. It seemed that governments were less receptive to the director general's repeated plea that a timely and successful conclusion of the Doha Round would help curb food prices.

After all, his argument falls flat as far as the short and medium term are concerned since reductions in subsidies and tariff changes would not take effect until after the agreement is concluded, ratified by member states, and comes into force, a process that could take several years, after which there would be the inevitable fight over extending the transitional period. Moreover, many countries, especially the so-called net food importers, fear that a Doha package that includes

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reductions in domestic agricultural subsidies, export subsidies, and tariffs will actually raise food prices on global markets.

After having long resisted pressures to produce a credible compromise text, lest it be rejected, WTO Chief Pascal Lamy finally put one on the table in order to salvage the July Mini-ministerial and the Doha Round. Unfortunately, many regarded his text as less than satisfactory. In their view, the numerical compromises that ostensibly aimed to bridge positions deviated from the original development targets of the Doha Round as they seemed prejudicial to the transitional needs of some of the major emerging markets.

The paper attempts to address three central questions:

1. Is the current round of multilateral trade negotiations seeking to mainstream international trade and openness into the national development strategies of developing countries or to mainstream national development strategies in international trade in the DDA?
2. Why are we so distant from our original objective of better integrating developing countries in the multilateral trading system?
3. How do we stand with respect to the initial objective and pledges by developed countries that the DDA will introduce a new dynamic in the multilateral trading system that focus on linking trade with development and poverty reduction?

Regarding the first question, it is impossible to overstate the advantages of trade openness in terms of access to technology, increased investment, exposure to international markets and better competitiveness, higher wage rates, consumer benefit and other concerns. It is also true that developing nations have made it a key policy objective to shift towards more liberal trade regimes and mainstream trade in their national and regional development strategies because of the developmental benefits that can accrue from integrating better into the global trading system. Furthermore, developing countries pursue this policy with the full understanding that trade liberalisation, *per se*, is not a panacea. They are aware that improved market access will be of little consequence to them if it is not accompanied by a strengthened supply-side capacity and increased competitiveness so as to enable them to benefit from freer global trade.

It was, therefore, encouraging that the international community in the DDA recognised that trade liberalisation was not an end in itself but rather a means to accelerate growth and reduce poverty in developing countries, as was stated in paragraph 2 of the Doha Ministerial Declaration[1]. Developing countries bore this principle in mind as they approached the new round of multilateral trade negotiations. Accordingly, they were keen to contain any possible negative effects of trade liberalisation on their national development and simultaneously hoped to see a more adequate treatment of the supply-side constraints so as to enhance their ability to benefit from market access opportunities. Clearly then our focus, which we should not lose sight of, is to mainstream development in international trade. Unfortunately, this is the part that is being overlooked in the course of the havoc created by the negotiations on agriculture and non-agricultural market access (NAMA).

On the second question regarding why we have moved so far away from the original Doha objectives, it is worth recalling briefly the circumstances surrounding the launching of the DDA. Seven years ago, the notion was virtually a taboo. Most developing countries were averse to the very idea of beginning a new round of trade negotiations, having barely had the chance to catch their breath after the Uruguay Round. The gap persisted between developed countries supported by some major developing agricultural countries, on one hand, and such developing countries as Egypt, India, Pakistan, Malaysia, and a number of African countries, on the other.

Eventually, however, countries hoping to extract additional concessions from the EU for further liberalisation of its agricultural trade gained the upper hand in their advocacy of a comprehensive round of negotiations. The initial carrot offered to the opposing developing countries was forged under the name of the DDA. The illusory agenda of development was supported by some apparent concessions on the part of the developed countries. These included the declaration of 'Public Health and Trade Related Aspects of Intellectual Property Rights (TRIPs)' and making the so-called 'Implementation issues' an integral part of the new work programme. These issues are:

(a) Slow pace of developed countries in liberalising certain sectors, which are of export importance to the developing countries;
(b) Imbalance in rights and obligations;
(c) Failure to realise the benefits expected from the Uruguay Round Agreements leading to a higher rate of trade for developing countries[2]; and
(d) Failure to implement the principle of S&DT[3]. A number of S&DT provisions in various WTO agreements are of a 'declaratory' nature and, in the absence of modalities for implementation, they have been of no practical use to developing countries.

These major concessions made by developed countries to redress the balance in favour of development within the WTO were soon forgotten and barely addressed in the Doha work programme. The following are perhaps the most salient reasons for this:
(i) The concessions made by developed countries were mostly due to pressure from the US, which was desperate at that time to forge an international consensus in support of its war against terrorism (soon after Doha, the US itself reneged on major components of its agreement on 'Public Health and TRIPs');
(ii) The developing agricultural countries had their sights set on prying open the developed countries' markets for their agricultural products, a goal they pursued doggedly and with little regard to the other priorities agreed upon in Doha;
(iii) The countries that resisted a comprehensive round were content with their success in Doha but they failed to follow through in real negotiations.

Their quest for a development-friendly international trade regime to promote trade development and poverty linkages in developing countries met with strong opposition on the part of developed countries in the alleged absence of concrete proposal. Furthermore, the solidarity pledged by other fellow agricultural developing countries gradually dwindled.

(iv) The implementation issues were soon forgotten by the negotiators and a return to these issues is not in sight.

(v) So far, little more than lip service has been given to the need to deal with the supply-side constraints, a subject developing countries tried to resuscitate in the Hong Kong Declaration through the AfT initiative.

Regarding the third question as to where we stand today, it is obvious that we are moving further and further away from the original objective of the DDA. Rather than trying to rebalance the WTO towards greater equity in favour of developing countries, we are striving to minimise the damage or, as the director general put it, 'recalibrating the Doha Round objectives'. The mounting pressure exerted on developing countries in the July 2008 meeting to open up their markets in agriculture, NAMA and eventually in services, which was a discouraging sight. Nothing could be further from the spirit of the Doha development goals.

The July 2008 Mini conference and, specifically, the agricultural negotiations cast into relief sharp differences over the interpretation of the most basic concepts of development and protection, and over ways for applying these two concepts fairly and equitably. Regrettably negotiators are confronted with deeper and more difficult problems. And the majority of these are developing countries' issues, such as SSM, farm subsidies, preference erosion, tariff capping, cotton subsidies, as well as TRIPs-related issues such as the demand for disclosure norms to prevent bio-piracy in genetic materials. Also, questions regarding the efficacy of the implementation of the AfT initiative as a tool for capacity-building and easing adjustment costs remain largely unanswered. These problems extend far beyond the numbers debate and blame games we read of in most of the writings today.

A: The Special Safeguard Mechanism

In spite of the widely acknowledged reality that market access is not a panacea, developed countries, headed by the US, maintain that open markets, in themselves, will bring food security and promote livelihoods. This position sharply contradicts that of countries such as India and China which believe that promoting food security and livelihoods in their countries necessitates buffering farmers and markets against unforeseen circumstances, unmanageable liberalisation and uncontrollable openness of their economies. They have argued forcibly for an operational and effective safeguard mechanism to protect food security and livelihoods in the event of a surge in subsidised agricultural imports.

These two opposing views, which strike at the heart of how to manage development and liberalisation, triggered a heated dispute over the director general's compromise proposal on the 'SSM.' Basically Lamy's proposal would allow SSM remedies to exceed current tariff bindings by up to 15 percent (or percentage points), but only if import volumes rise by 40 percent. A further constraint is that SSM duties would only be allowed to breach current tariff ceilings for only 2.5 percent of tariff lines. The G-33 deemed the proposal insufficient. Along with the African, Caribbean and Pacific (ACP) and Small and Vulnerable Economies (SVEs) groups, the G-33 tabled an alternative proposal that would allow them to exceed current tariff bindings for seven percent of tariff lines (instead of 2.5 percent), with SSM remedies capped at 30 percent (or 30 percentage points) above current bound levels, triggered by volume increases starting at 10 percent.

The SSM debate also exposed cracks in South-South solidarity, with countries like Uruguay and Argentina siding, for reasons of their own, with the argument in favour of more deregulation and fewer safeguards. These countries feel that the request by the enlarged group of developing countries is exaggerated and will hurt their trade. They argue that the demand for a 10 percent trigger (as opposed to the 40 percent surge cited in the director general's compromise proposal) would subject about 82 percent of China's and 64 percent of India's food imports to safeguard duties.

B: Subsidies

In differences over the concept and implementation of protection mechanism we find a strong element of double standards. One is surprised by the US' and EU's push for maintaining subsidies to protect their farmers and their agriculture, as well as by Washington's request to extend the 'peace clause'[4], which expired in 2004, to protect its farmers from legal challenge in the WTO, while developing countries are denied the right to protect their farmers and agriculture through higher tariffs or safeguard measures in special circumstances. It should be borne in mind, here, that subsidies are not an alternative for developing nations, not only because they had not included them in their schedules of commitments at the time of the Uruguay Round but, more crucially, because they can not afford subsidies.

The development box is another case in point. Whereas the US and the EU continue to push the variegated amber, blue and green boxes[5] that can be ticked to maintain subsidy protection for their farmers and produce, as well as for the environment and other non-trade concerns, the notion of a "development box" to protect food security and rural livelihoods continues to meet stiff resistance. Proposed by Pakistan and other developing countries during the so-called development round, the "development box" is intended to promote better market access to developed countries' markets and binding commitments on technical assistance.

In other words, it was conceived as a way to concretise and put into effect S&DT provision, which has so far failed to deliver in agriculture liberalisation. According to some, however, the "development box" took S&DT beyond the Uruguay Round flexibility measures on time limits and differentiated tariff levels.

Yet, such flexibility measures, which are needed in order to offset the excessively declaratory nature of S&DT, were at the heart of the 'Implementation issues' agreed upon as an integral part of the Doha work programme.

C: Cotton Subsidies

Issues of direct interest to the developing countries are still pending and remain problematic. Cotton subsidies[6], for example, remain at a serious impasse. A solution remains out of reach as long as the US maintains that, in order to make a specific offer on cotton subsidy reduction for specifically four West African countries (Burkina Faso, Mali, Benin and Chad), it must know in advance what it stands to gain in broader agreements on agriculture and NAMA, particularly with regard to market access. Now why would countries like Argentina, China, India or even Brazil (which won its case through litigation against the US on cotton subsidies[7]) make additional concessions on NAMA in return for US cuts in cotton subsidies in favour of four African countries? As if the controversy of this supposed trade-off was not enough, the United States Trade Representative (USTR) suggested in the July meeting that the depth of cotton subsidy cuts would also be linked to the market access that US cotton gains elsewhere, particularly in China.

This negotiating tactic is astonishing and bizarre after the US lost outright the case on cotton subsidies brought against it by Brazil. But litigation is effectively a non-option for the African countries; they simply can not afford it. Would it not have been more appropriate in the context of a development round for the US to offer a sign of good faith in the ongoing multilateral trade negotiations? Surely the US must recognise that cotton is a strategic crop for development and poverty reduction in those four African countries (as well as in many other developing countries and LDCs) and, therefore, be disposed to help them within the framework of the Africa Growth and Opportunity Act (AGOA) by providing additional technical and financial assistance to enable them to diversify their farm production out of cotton[8]. The cotton subsidies have long been regarded as the litmus test for the ability of the Doha development round to deliver on development and poverty reduction. So far it has failed.

D: Geographical Indication

Another unrelated trade-off is being negotiated over extending geographical indication protection. The US is willing to drop its adamant opposition[9] to any extension beyond the already existing TRIPs protection granted to spirits and wines and to regional food names such as Roquefort cheese or Basmati rice in exchange for a 'peace clause' shielding its farm subsidies from litigation in the WTO. The US is particularly vulnerable to legal challenges due to its record of refusing to notify the WTO of its agricultural subsidies accurately and on time. Developing countries like Brazil, Peru and India would tolerate a peace clause in return for integrating a disclosure amendment into the WTO IPRs rules. The amendment is intended to forestall 'bio-piracy' and would require patent applicants to disclose biodiversity or traditional knowledge used in their products.

E: Preference Erosion

The concept of preference erosion precipitated its own share of controversy in the July Mini-ministerial. Most countries, both developed and developing, agree that trade preferences are important for poorer countries, and therefore should not be removed abruptly. The US has been particularly active on this matter, especially in regard to textiles and clothing (T&C), with regard to which it has been campaigning for extra grace periods. But this should not be mistaken for altruism. In proposing ten years, instead of five, to phase in cuts to high tariffs on T&C Washington is disguising its concern for domestic sensitivities behind a pretence of accommodating to poorer countries.

But it is generally realised that preferences will be eroded as tariffs are reduced and that countries enjoying preferential treatment will, therefore, need help to adjust. A truly South-South disagreement comes into play here. Whereas ACP countries argue that there is no reason for their preferences to cause concern because their exports account for only a small fraction of world trade, many Latin American and Asian countries question whether preferences are truly beneficial. They argue that preferences encourage small countries to remain dependent on a small number of uncompetitive products, discourage diversification and prevent other countries from supplying those products. They further maintain that countries currently dependent on preferences would be better off the major markets liberalise and eliminate subsidies.

The compromises that are being made to reach a Doha package are killing any chance for a successful development round. As it stands so far, the deal of July 2008 fails on nearly every count to reach the Doha Round's original goals. The reason is that efforts are focused on seeking numerical compromises rather than on formulating and endorsing a clear vision for trade system reform.

F: The Aid for Trade Initiative

In the sixth Ministerial Conference, held in December 2005 in Hong Kong, the "Trade Not Aid" slogan of the 1980s and 1990s that endorsed aggressive trade liberalisation was superseded by another slogan: "AfT". The slogan represented a desperate attempt to move towards the Doha goals.

Fearing that DDA targets would go down the drain, developing countries dug in their heels in the negotiations over paragraph 57 of the Hong Kong Ministerial Declaration. This paragraph stipulates that AfT should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade related infrastructure in order to implement and benefit from WTO agreements and, more broadly to expand their trade. The implementation of new WTO obligations emanating from the DDA has thus been made conditional on additional trade related technical and capacity-building assistance, stressing the supply-side needs of developing countries. This emphasis on the development dimension of the multilateral trading system was unprecedented in WTO discourse.

The AfT initiative was not intended as a 'best endeavour' clause but rather as a concrete and effective development mechanism. Focusing on behind-the-border constraints, the WTO Task Force on AfT has broadened the original Doha definition, which had confined aid to trade policy regulation and trade development, to embrace, as well, AfT-related infrastructure, building productive capacity, trade-related adjustment and other trade-related needs, if these needs are explicitly identified as trade-related priorities in the recipient countries' national development strategies. Accordingly, individual countries are responsible for defining the scope of their own AfT strategy and for asking donors to help them with it[10].

It is not apparent, however, that all donor and every recipient countries are currently ready to implement the AfT initiative on similar terms. Waiting for consensus to emerge is probably impractical. We, therefore, feel that countries should be encouraged to forge ahead, individually or collectively, to promote the use of the initiative and maximise its benefits[11].

Conclusion

The Doha Round should be concluded on its own merit. We should refrain from attempting to enhance its profile with the claim that it will help solve the current food and energy crisis.

In principle, I am not for a new model of trade negotiations as an alternative path to the Doha Round, as some might advocate. A new model would not offer a guarantee that better attention would be given to development in the agenda in the absence of 'political will' and an agreed upon view on how to achieve development. Furthermore, the excessive focus on agriculture has been a disincentive to many developing countries, which saw – rightly – nothing of interest to them in the package.

What is needed, therefore, is not a new model for negotiations but a more balanced approach to the Doha work programme. Above all, no topics should remain relegated to the backburner. Implementation issues and other issues of concern to developing countries (such as the external debt crisis, the transfer of advanced technology, the technical assistance programme of developing countries and LDCs, and AfT, which developing countries had succeeded in incorporating into the work programme of the organisation) should receive as much attention as agriculture, NAMA and eventually services. Hence, implementation issues and other issues of concern to developing countries were the real trade-offs for a comprehensive Doha Round and should neither be neglected nor intentionally suppressed. Developing countries are primarily responsible for reinitiating the topics of interest to them and defending them as vigorously as possible.

Though the role of the WTO as a negotiating forum is certainly expected to diminish in view of its failure to achieve a multilateral consensus combined with the growing trend toward deeper regional integration and progressive negotiations on liberalisation, I firmly believe that the WTO remains a credible institution that should be supported. The WTO is far from dead, as some would like to assume. It can and will continue to serve as a useful forum for trade issues and dispute resolution. Developed and developing countries alike have chosen to play by the WTO trade rules and respect them. Clear evidence of this is to be found in the more than 350 disputes that have been settled in the framework of the WTO Dispute Settlement Understanding (DSU). Access to WTO DSU will always be available to developing countries as a fair and balanced multilateral mechanism, even as developed countries push for regional dispute mechanisms under the pretext of shortening the period of settlement and dealing more adequately with the disputes specific to the region.

Lastly, it is worth noting that major weaknesses and internal problems in developing countries, notably the lack of collaboration between the government and the private sector, the absence of channels and encouragement for the latter to provide input, and the general lack of awareness among the different stakeholders, severely handicap the ability of many developing countries to advance their interests in the trade negotiations.

Endnotes

1 Doha Ministerial Declaration (November 2001) 2nd Paragraph:
Paragraph [2]: International trade can play a major role in the promotion of economic development and the alleviation of poverty. We recognise the need for all our peoples to benefit from the increased opportunities and welfare gains that the multilateral trading system generates. The majority of WTO members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration. Recalling the Preamble to the Marrakech Agreement, we shall continue to make positive efforts designed to ensure that developing countries, and especially the least-developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development. In this context, enhanced market access, balanced rules, and well targeted, sustainably financed technical assistance and capacity-building programmes have important roles to play.

2 The Uruguay Round was expected to raise the level of welfare, which was estimated at between US$212bn and US$510bn, of which developing countries' share was to come to between US$86bn and US$122bn. Safadi and Laird (1996): "The Uruguay Round Agreements: Impact on Developing Countries", World Development Journal, Volume 24, No.7

3 Developing countries wanted to negotiate a much more objective 'S&DT' since, after the Uruguay Round, the concept was confined to providing developing and LDCs with longer grace periods. Developing countries sought to repurpose the non-reciprocity principle that prevailed under GATT, which meant that developing countries would not be obliged to grant concessions on an equal basis with the developed countries

4 The Peace Clause, under article 13 entitled 'Due Restraint' was included in the Uruguay Round mainly at the insistence of the EU and the US. This clause protected countries using agricultural subsidies from being challenged under other WTO Agreements, as long as the level of domestic support for a commodity remained at or below 1992 levels. It was terminated according to the Agreement on January 01, 2004. It is still not clear how else to regard negotiations over the extension or reinstatement of an expired provision other than an attempt by a party to renege on its obligations in the WTO

5 Under WTO complex rules for classifying farm subsidies, 'overall trade-distorting support' (OTDS) is made up of three components: 'amber box' payments (the most distorting kind), 'blue box' payments (less distorting), and '*de minimis*' (could be just like the amber box, but allowed up to a certain percentage of the value of agricultural production). The US new offer has left its proposed future cap on amber box payments untouched at US$7.6bn, which in principle is accepted. A ceiling of US$15bn for allowable OTDS would be well below the previous offer (US$22.5bn). It would also be within the US$13-16.4bn range for US OTDS in the draft text. However, it is considerably above the roughly US$7-8bn in OTDS that the US government paid to farmers in 2007. The distance between the proposed 'bound' ceiling and actual spending – what trade diplomats call "water" – has failed to impress officials from developing countries, suggesting that the offer gets closer to an OTDS cap of US$13bn. The additional US$2bn cut in allowable subsidies entailed by the US$15bn offer would come from Washington's blue box and '*de minimis*' spending entitlements. Experts opine that this could be well tolerated, as most of the price-sensitive payments are in the amber box. It is said that the US can even accept more subsidy reform if presented with enough new market access. (Source: BRIDGES Daily Update Issue 4, July 24, 2008)

6 The US was challenged and lost the case against Brazil regarding certain support payments for cotton producers under the 2002 farm bill and export credit guarantees that were contrary to its WTO obligations

7 US government subsidies to cotton producers have kept the world cotton prices artificially low. The Brazilians have charged that the US paid US$4bn in subsidies to farmers for their 2001-2002 cotton harvest which was worth only US$3bn. As a result Brazilian farmers lost over US$600mn in sales because US farmers could sell their cotton at artificially low prices. In 2005, Brazil and the cotton-producing countries of West Africa argued successfully before the WTO that US subsidies encouraged overproduction and depressed the world price

8 Marie-Antoinette springs to mind. When the Parisians cried for bread she suggested that they eat cake instead

9 The US is supported by a small group of WTO members, including Australia, Argentina, Canada, Chile, Mexico, New Zealand and South Africa. These countries argue that it would hurt producers to prohibit them from using product names such as 'Parma ham'. Supporters like Switzerland and the EU in addition to more than 100 developing and developed countries believe that expanded GI protection could win their farmers price premiums that would soften the blow of subsidy and tariff cuts

10 Richard Carey, Director of the Development Cooperation of the OECD, addressing the CTD meeting on May 18, 2007; CTD First Session on AfT

11 The areas of focus of AfT as stipulated in the 'Recommendations' paper issued by the WTO Task Force are: Trade policy and regulations, Trade development, Trade-related infrastructure, Building productive capacity, Trade-related adjustment, Other trade-related needs

3

The Future of the Global Trading System

– By Professor Richard Higgott* and Andrew Roadnight*

Introduction

The short answers to the questions posed for this conference are as follows: Where do we stand? Answer: We stand at perhaps the most precarious juncture in the future of the global economy since the inter-war period of the 20th century. Where do we go? Answer: Unless remedial measures of major proportion are taken, into the unknown. Reform of both the global financial and trade regimes are essential. The prospects for that reform are constrained by a range of factors. This paper discusses some problems of the global trade regime within this wider context.

The year 2008 sees the global economy facing an unprecedented series of challenges. The financial crisis resulting from the collapse of the US sub-prime mortgage market and the shocks that have reverberated beyond the US confirm the irrevocable interdependence of the global marketplace. The sub-prime crisis has demonstrated that, unchecked and under-regulated, markets are susceptible to corporate greed, inadequate risk management and subsequent loss of confidence. The co-ordinated action taken by the US Federal Reserve and other central banks around the world has shown the limits of the system to regulate itself and reminded us that states, for all their limitations, remain the ultimate guarantors of economic stability and security. The case has never been clearer, since the end of the Cold War and the dramatic expansion of globalisation, that some degree of institutional control is a necessary prerequisite for rational economic management. There is little doubt that the institutions which manage the global economy need to show greater coherence and recover legitimacy in the eyes of both ordinary people and national governments.

Other global economic factors also contribute to the climate in which the International Trade System (ITS) operates. The emergence of Sovereign Wealth

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Funds (SWFs) has highlighted the shifting of economic power away from the traditional industrialised countries. Commentators also argue that the sustainability of the world economy as we have known it will be jeopardised by population growth and the increasing strength of some key developing nations.

It is in this context that the ITS, under-written by the WTO, finds itself in a malaise; we resist the word 'crisis'. The difficulties with concluding the DDA negotiations demonstrate not only the difficulties of conducting multilateral trade negotiations in the 21st century but also expose serious fault lines in the contemporary architecture of trade governance in particular and global economic governance more generally. This is particularly the case not only in relation to the inabilities of the WTO to bring to a close the actual negotiations of the DDA but also other issues such as how to determine the boundaries of its activities, address issues of justice and fairness in its deliberative processes and combat the rise of bilateral and regional preferentialism.

This paper argues that the answer to this malaise is not to by-pass or jettison the WTO as has been argued for some time across the political spectrum (from economic nationalists to radical de-globalisers) and increasingly in the wake of the recent, abortive, Geneva Mini-ministerial. Rather, the paper eschews rehearsing the reasons for failure in Geneva[1]. It makes the judgment that the halting of the multilateral discussions, disappointing and unfortunate as it is, does not presage a likely breakdown of continued trade liberalisation. Rather, the paper addresses what we might call the wider systemic implications for the multilateral system before thinking about the future regulatory role the WTO might play in it.

Even had a major negotiating break though come to pass in Geneva in July, it is clear that the ITS will need to be reformed if it is to continue to meet the aspirations of the global economy and to see off the challenges it faces. It is appreciated that the Geneva negotiations came close to agreement and it is understood that those members of the trade policy community with large amounts of professional, personal and emotional capital sunk in the Round are still in part focussed on what 'nearly was' and, with one final push 'what might be'.

As important as this might be, it is not the working assumption of this paper, and sad as it may be, the window of opportunity in the face of the absence of political will, especially generated by looming US and Indian elections, is closed (see Evenett, 2008). The future of the WTO demands that we also begin to think long-term about the future of the WTO irrespective of the DDA. The two issues are not, of course, discrete. Any discussions about how to improve the effectiveness and efficiency of the WTO as an agenda setting and decision-making body inevitably needs to address the relationship between the 'consensus problem' and its ability to 'negotiate liberalisation'.

In this context, the paper assumes that we should expect to see both continuity and considerable change in the politico-economic characteristics and institutional structure of the ITS over the coming decades. The paper examines the wider problems facing the global economy of which the ITS is part; considers some of the major problems affecting the ITS if it is to contribute to the achievement of MDG 8, which seeks to "develop a global partnership for development" and identifies some possible solutions to the challenges facing the ITS.

This paper unfolds in five sections. Section one identifies the broader global, politico-economic context in which any understanding of the contemporary trade system is embedded. Section two provides an overview of five major challenges facing the global trade regime in the opening decade of the 21st century. They are reflective not only of the failure to secure the DDA but also of wider systemic challenges for the trade regime. Sections three to five look in a little more detail at three of these challenges: (i) the shifting politico-economic landscape and the absence of leadership in the agenda setting process in the global trade regime; (ii) the need for greater institutional coherence in the relationship between trade and development and (iii) the challenge to the multilateral trade regime arising from the rise of preferentialism at the regional level.

The Global Economy: The Context for International Trade

The triumph of market capitalism in the Cold War provided the opportunity for the achievement of the historic goal of free trade. Between 1947 and 1994, the GATT oversaw significant reductions in tariffs imposed by Western European and North American nations on imported goods, which have fallen dramatically to average rates of four percent today. The collapse of the Union of Soviet Socialist Republics (USSR) allowed the US and its allies to determine the future shape of the global economy. Market capitalism took on a truly global character as the barriers to the movement of capital and goods tumbled (Bhagwati, 2004; Wolf, 2004).

The new dispensation, which included promises of access to the markets of the developed world for developing countries, still worked to the benefit of the powerful countries that had dominated the GATT. The emergence of the Asian newly industrialised countries (NICs), and latterly and most dramatically China, provided the industrialised nations with cheap manufactures and primary products while the major economies gained access to new markets for their services and high-value exports. To be sure, this new arrangement improved the lot of many people in the developing world but this was not (yet at least) at the expense of the political domination of the global economy by the rich countries of North America and Europe.

The new, globalised economy in the first wave of globalisation was, in some ways, no different from the series of national and regional economies it had succeeded. The western tradition of limited oversight meant that few checks were put in place to control the corporations and individuals who ran, and profited from, the new global marketplace. Over time the role of the international institutions changed.

While the International Monetary Fund lost its initial mission without fully securing a new role, the World Bank has probably adjusted better to the changing global economic environment; securing a more 'knowledge driven' role for itself (Stone, 2003). More promisingly, the WTO emerged out of the GATT with a mandate to extend and embed the global marketplace, not least through the integration of developing countries (see Narlkar, 2005 for a basic introduction).

In the initial years following the end of the Cold War the system appeared to work well enough. In the industrialised world, corporations took advantage of the new sources of cheap labour in Asia (and increasingly Eastern Europe) to produce cheap consumer goods and high profits. The financial titans enjoyed a bonanza as new markets opened up, as new ways of making profits were discovered and as cheap credit fuelled the consumer boom which sustained western economies. Even the workforces in the industrialised countries benefited as real incomes rose and the transition from manufacturing to services-based economies took hold. True, there was resistance to change in some quarters but, by and large, workers saw their standards of living rise (for a discussion see Warwick Commission, 2007:18-21).

Economic growth in the west assisted in the emergence of new powerful economies in the South and East. Most obviously, the rapidly developing state-controlled capitalism of the Peoples' Republic of China fed the west with consumer goods while lifting 400 million people out of poverty (Lawrence, *n.d.* and Breslin, 2008). India, although it has not accepted the disciplines of the open market as willingly as China, has become a provider of technology-based and business services (Basu, *et al.* 2005 and Panagirya, 2008). Albeit with lesser global impact, Brazil's position as a powerful agricultural and commodity trader has consolidated.

However, the new dispensation has not been without its problems. Arguably, it replicates some of the 'boom and bust' features of the old national capitalist systems, at times on a grander scale. The first post Cold War shock to the system came with the Asian Financial Crisis of 1997-98 when the economies of Southeast Asia failed to cope, amongst other things, with the demands of rapidly liberalising capital market, the impact of new technology and inadequate institutional structures to ensure the proper management of those markets. The crisis exposed the gap between market perceptions of the strength of the *national economies* and the reality that they were less robust *political economies* than analysts thought.

The year 2000-01 saw the Dotcom collapse. Mainly, but not exclusively an industrialised economy phenomenon, it followed a lengthy period of hype surrounding the potential inherent in the Internet and personal computing revolution. Between 1995 and 2000, a period of irrational exuberance (Schiller, 2000), a speculative bubble built around Internet-based companies, appeared to defy the normal business models merely by increasing market share. With excess funds sloshing around in the world's financial markets, speculators piled into these companies until reason was re-established and stock values were corrected with wholesale bankruptcy ensuing. The consequence was a mild but lengthy recession in the developed world.

Although its full scale is not yet known, the current collapse in the financial system appears to be the most far-reaching of them all. Some commentators, *pace* George Soros, argue that it will prove to be the most serious economic crisis since the Second World War, possibly since the 1930s, and threatens the globalisation project itself. Born in the US, out of a further bout of irrational exuberance (Schiller, 2008) the crisis has the potential to destabilise the whole global economy and has brought home the consequence of the under-regulation of the financial sector. Without close supervision, the banks and other institutions of the financial system devised ever more arcane ways of manufacturing profits to line the pockets of their executives.

As we have seen, the collapse in the market for 'sub-prime' mortgages exposed the fragility of confidence in the system as banks stopped lending to each other. Bankers have run to regulators demanding to be protected from the consequences of their own folly, the very same people who have rejected state (or international) regulation in the past. It seems unarguable that the consequence of this failure of the market must include greater regulation in the future. The thought to hold for the conclusion of this paper is consideration of the prospects of cooperative global regulation in same context as the inability of the principal actors in the global economy to bring about a conclusion to the DDA. Both are questions about political will and leadership.

Sovereign Wealth Funds: The rise of SWFs is also viewed in some major OECD states, as a potential threat to open financial markets. SWFs have grown rapidly in the last 15 years and now excite concerns about their impact on orderly markets. In particular, analysts point to the lack of transparency in their operations, the growing power they exercise in the marketplace and, hence their name, the fact that they are government-controlled. At the extreme, observers worry that SWFs could be vehicles for the exercise of predatory foreign policy by newly wealthy global actors; provoking protectionism as a means of defence of investment targets.

Sovereign funds have existed at least since the 1950s, but their total size worldwide has increased dramatically over the past 10-15 years. In 1990, funds probably held, at most, US$500bn; the current total is an estimated US$2-3tr and based on the likely trajectory of current accounts, could reach US$10tr by 2012. Although they do not currently bear comparison with the economies of the major economic powers, SWFs, will be increasingly significant players in the global marketplace by the turn of the decade. Fears are accentuated by recent changes in investment strategies by SWFs, which have increasingly been moving into equities and away from bonds.

A less hysterical view of SWFs sees them as vehicles to recycle the huge trading surpluses amassed by countries like Russia, Brunei, Dubai, Singapore and China. China, for example, is setting up an SWF to manage some of its US$1,200bn in foreign reserves – the China Investment Corporation is expected soon to have a kitty of up to US$300bn (*Financial Times, May 24, 2007*). In this way, they unlock huge amounts of capital to help lubricate the global economic machine. They can also act as stabilisers in times of economic uncertainty; a lesson not lost on East Asians in their initiative to establish a regional liquidity fund (see Dieter and Higgott, 2003). As long-term investors, SWFs can also allow corporations to plan investment strategies with confidence. And, like other long-term investors, they can step in to markets when asset prices have fallen thus exercising a moderating influence on the world's financial system[2].

However, it is the transparency concerns about SWFs which are the main focus for attention at present. With notable exceptions, such as Norway's US$300bn Government Pension Fund, most SWFs publish scant information about their dealings and are able to lose themselves amongst day-to-day market activity. One of the largest funds, the Abu Dhabi Investment Authority, provides almost no information about its strategy and operations while others appear to be less well run, raising concerns about the way they manage risk.

Longer term governments that do not have SWFs are also worried about the extent to which the decisions of SWF managers are dictated by non-economic priorities. For the US and other OECD countries, although the potential size of Chinese funds is a longer term worry, it is Russian funds which are main contemporary worry. With concerns about the direction of Russian democracy a high priority, Moscow's decision to split its US$108bn stabilisation fund to create an SWF has aroused fears. German Chancellor Angela Merkel stopped Russia's Mischkonzerns Sistema from taking a bite of Deutsche Telekom in 2007, and put her foot down when Russia's VTB bank began nibbling at European Aeronautic Defence and Space (EADS), the Airbus and defence group *(November 29, 2007 http://www.telegraph.co.uk/money/main.jhtml?)* As a result of the activities of investment arms linked to overseas governments' SWFs, there is a growing debate about how to stop them from acquiring strategic assets.

Greater regulation is clearly a likely outcome. The EU is currently considering new legislation to control them and the US Administration has recently called on the IMF and the World Bank to develop best practice guidelines in order to protect stability in financial markets. Whilst acknowledging that SWFs had an important stabilising influence, Clay Lowery, the acting under-secretary for international affairs at the US Treasury, argued that a lack of transparency meant that SWFs' activities militated in favour of greater state scrutiny and regulation, especially where takeovers are concerned (*Financial Times, June 06, 2007*).

The international trade regime will clearly be affected by the fallout from the current wider economic and financial turmoil; as indeed, it, in turn, will affect the wider global economy by its failure to Round off the DDA. As part of the project to create a global economy, the multilateral trade system is threatened by the perception that globalisation has been tarnished by speculative investment and other excesses in financial markets seeking ever larger profits at the expense of sound business practice. The rise of SWFs, create protectionist sentiments with attendant risks for the open marketplace in times of uncertainty. The spill over into the growing opposition to trade liberalisation might be irrational, but as later sections of the paper argue, it is nevertheless real.

Sustainability of the Global Economy: The ITS faces other systemic challenges. It is clear that the multilateral trade system has had a positive impact on economic growth generally. The opening of markets does result in a more efficient allocation of resources worldwide. However, the overall sustainability of purely market-driven growth in the face of dramatic population growth and environmental degradation involving climate change and raw material consumption increasingly raises questions of global concern.

There is now near universal agreement that greenhouse gas emissions are causing global warming. More contentious, of course, is the question of how to reduce emissions in a way that is perceived to be fair. Of prime concern is the fact that historical responsibility for the emissions lies mainly with developed countries, which remain dependent on carbon-based fuel sources, while developing countries have only one realistic option if they are to pursue affordable development strategies and that is fossil fuel-based. Efforts to forge an acceptable international framework that reduces emissions in the face of competing demands from the developing world have not been successful and short run prospects are not good.

The Kyoto Protocols were rejected by the US, the world's largest polluter, and did not cover the growing economic powers, China and India. Negotiations on the treaty to replace the Kyoto Protocols, due to expire in 2012, began in December 2007 and look likely to be as, if not more, tortuous and politically toxic as any pervious rounds of multilateral trade negotiations. Failure to secure agreement at the July Mini-ministerial in Geneva can only be a negative demonstration effect of the current pusillanimity of global political leadership to act collectively.

If there are already concerns about the sustainability of the world economy with a global population of 6.2 billion, then longer term the future looks bleaker still. UK government projections envisage a global population of 9.5 billion by 2050 (*The Guardian*, *March 07, 2008*). Even at current levels of economic activity, and bearing in mind disparities between the developed world and the developing world, this prospect has enormous implications for policymakers. If we have difficulty in arriving at international agreements to control the waste we produce now, how difficult will this issue be in the near future? How will we accommodate 50 percent more consumers without reducing *per capita* consumption or increasing production dramatically?

The problem becomes even more complex if the developing world succeeds in creating wealthier societies through greater integration into the world economy, a key objective of the multilateral trade system. Even if the 2.5 billion people of China and India do not attain levels of wealth and consumption seen in the developed world, any significant economic development will mean increased pressure on resources. The possible impact of such development can already be seen in the rising prices of oil and foodstuffs, which have multiple causes including higher demand from developing countries. Over time similar effects will be seen in relation to other primary products, especially precious metals.

Pressure on resources and population growth pose challenges for the continued integration of the global economy generally, and for the trading system particularly. Not only is the future collective management of the global economy crucial to the environment in which trade governance exists, but it is also true that the architecture of the trade regime will need to accommodate the new stresses placed upon it by questions of sustainability and economic development. The avowedly normative position of this paper is that these issues can only be tackled if there is general agreement that more, not less, regulation of economic activity is desirable. We are certainly not arguing that the WTO, or the multilateral trade regime generally, can or should address all these issues.

However, it is apparent that in the increasingly interdependent world in which we find ourselves, trade policymakers cannot ignore either the context in which they operate or the need to contribute to the resolution of these challenges. Whether global institutions are capable of meeting this challenge is, of course, arguable. At the outset, these challenges raise major questions of institutional policy coherence.

Five Challenges Facing the International Trading System

We have suggested that the malaise which afflicts the system is suggested not only by the lack of conclusion to the deliberations of the DDA, but also by other symptoms in the contemporary global economy linked to the global trade agenda. Over a long term perspective, there is evidence that many of the lessons learned in the 20th century about the importance of multilateral institutions and the rules, norms and principles that underpin them, are in danger of being 'unlearned' in the 21st century.

To this longer term trend we must add the more immediate anti-globalisation protests that accompanied the full ministerial meetings of the WTO; near permanent rumblings of discontent by diverse groups of countries from within the organisation; and the turn to alternative forms of economic governance including bilateral and regional preferential trade agreements. Moreover, much of the trade liberalisation in developing countries that has occurred has done so on a unilateral basis (World Bank 2005).

A recent detailed examination the multilateral trade regime (Warwick Commission, 2007) identified five central challenges facing the world trading system and the dilemmas they pose for policymakers. Firstly, the Warwick

Commission noted a paradox between continued governmental liberalisation and internationalisation of their economies in major OECD countries on the one hand and an attendant marked reduction in popular support for open markets in significant sections of the populations of these countries on the other.

Concern about stagnant wages, job losses, growing income inequality and environmental degradation are now central to the political debate in most industrialised countries. Trade is seen as part of the problem rather than part of the solution by some large sections of their communities. The Commission also noted that this development was, ironically, occurring at the same time as support for economic liberalisation is growing (amongst the political and economic elites, at least) in many of the larger and faster-growing developing countries.

The second challenge facing policymakers was, and is, the need to ensure that the increasingly multi-polar, or even what we might call 'non-polar', nature of the global trading system does not itself become a source of stalemate and dysfunction. It is clear that a re-adjustment in power relations in the global economy is occurring; we are seeing a messy transition from one global economic equilibrium to another, as new voices and centres of politico-economic gravity emerge in the global order. In this context, careful thought and action is needed to ensure the sustained participation of all major groups of WTO members in its activities.

Specifically, we need to ensure that the fast-growing large emerging markets take up leadership roles in the global trading system while at the same time ensuring that the originally dominant economic actors, the US and the EU, do not disengage. We also need to ensure that the smallest and poorest WTO Members retain a valued stake in the system. This, rather than a decline in trade liberalisation, is perhaps the most serious consequence of a failed DDA. Tackling this challenge requires a revised *modus operandi* across the spectrum of negotiations, content, and form of WTO agreements.

The third distinct challenge facing policymakers identified by the Warwick Commission is the need to reconcile the sometimes competing objectives of the WTO. Accompanying their growing weight in the WTO, developing countries have rightly demanded that certain matters of particular importance (political as much as economic *pace* agriculture) to them be addressed. At the same time, many WTO Members want multilateral trade rules to keep up with commercial developments in the world economy. As the, at times, bitterly contested debate over 'Singapore Issues' in the early years of this century demonstrated, the very boundaries of the WTO agenda are contested. This raises important questions about the remit of the WTO.

For instance, should the WTO confine itself to a limited number of trade-related measures, assuming the latter term could be satisfactorily defined? If so, would such a WTO retain the interest of all of its membership? Alternatively, should the WTO gradually become the locus of economic regulation in an increasingly integrated global economy? These questions speak to the very purpose of the WTO and practical guidelines, founded in existing commercial, legal and political realities, need to be reasserted, or new ones determined.

The fourth challenge is the extent to which the issues of fairness and justice are addressed at the WTO. Decision-making processes in the WTO have come under scrutiny and not just for those concerned with issues of procedural fairness for its own sake – but because process also influences outcomes. Unfair processes can result in disengagement by members and a decline in the credibility of an organisation. The WTO gathers regular and fierce criticism from Non-governmental Organisations (NGOs) and numerous developing country governments, dissatisfied with what they see as the extremely limited, or qualified, legitimacy present in its negotiation, decision-making, and dispute settlement processes. These criticisms were brought to a head at the Seattle Ministerial meeting in 1999. On close empirical observation of the period since then, it would seem that the WTO is insufficiently credited for responding to this challenge. It has instituted several substantial reforms, especially in the direction of improving internal transparency and it is difficult not to argue that it is ahead of other international organisations in this regard.

Nevertheless, problems persist. The WTO needs to continue its efforts to build a more just multilateral trade system. This is a permanent reform process. WTO Members need to balance the potentially competing demands of efficiency, fairness, and legitimacy within the system in such a way as to keep the diverse membership of the WTO engaged. Fairness here typically means those procedures (often termed "procedural justice") used in the negotiation and decision-making process. They also include issues of fair representation, fair treatment, fair play, and transparency (see Albin, 2008 and Higgott and Erman, 2008).

The fifth major challenge facing the world trading system follows partly from the growing frustration with slow decision-making in the multilateral regime. As a consequence, policymakers are turning to other vehicles for trade reform – notably bilateral and regional trade agreements. To be sure, frustration with the multilateral system is not the only spur towards regional preferentialism; but experience shows that these alternative vehicles for reciprocal trade liberalisation have important knock-on effects for the multilateral trading system. Reconciling these approaches to trade reform is less a new challenge than an enduring one.

Identifying these important problems, and their potential consequences, currently bearing heavily upon the world trading system, is not to suggest that the system is irrevocably broken. Rather, it asks whether the rules, principles and processes that currently underpin the multilateral trade system can address the five challenges identified here during the first decades of the 21st century. The next section, drawing on the Warwick Report, identifies a number of concrete, practical, avowedly reformist rather than revolutionary, recommendations for considerations.

The Shifting Politico-Economic Landscape and the Absence of Leadership in the Global Trade Regime

Economic globalisation, especially enhanced trade liberalisation and financial deregulation, has brought national economies ever closer together. The contours of the global economy continue to exhibit far-reaching changes. Throughout the second half of the 20th century, economic clout in matters of global commerce was chiefly concentrated in the US, EU and Japan. In this new century, their collective economic dominance is giving way to a dispersal of economic power in a southerly and easterly direction as developing countries come to account for a growing share of global trade and investment. Such a share has increased by fully a quarter since early the early 1990s – up from 39 percent of global GDP in 1990 to 49 percent in 2006.

Along with the three traditional economic powers (and Russia) Brazil, India and China have become important centres of economic and political power in the world economy. Together, Brazil, China, India and Russia now account for 26.53 percent of global GDP. Their share of global exports has risen from 4.14 percent in 1990 to 14.66 percent in 2006 and, on the import side, their share has risen from 2.75 percent to 9.59 percent over the same period. Other larger developing countries such as South Korea, Mexico, Egypt, Turkey, and most recently Vietnam, have had similarly impressive growth rates in recent years. Major developing countries are increasingly the beneficiaries of globalisation and its shapers too (Warwick Commission, 2007: 13-21).

Accompanying their increasing global economic importance, China, India and Brazil have also become more active political and diplomatic players in many key international forums. More specifically, within the global trading system, India and Brazil have become increasingly powerful role in the negotiation processes, especially with the formation of the G-20 coalition in the WTO[3]. The importance of the G-20 coalition as a stable and fairly united coalition of developing countries has been both symbolically and practically significant. Despite the stalemate of the talks at the Cancún Ministerial Conference, India, China and Brazil demonstrated an ability, and future potential, to exercise collective influence on the negotiations. Indeed, India and Brazil have clearly established themselves as what we would call 'process drivers' in multilateral trade negotiations.

However, the changing role of the large developing countries has generated new challenges for the multilateral trade system. But, the transformation of the old Quad group (Canada, the EU, Japan and the US) into the G-4 (US, EU, India and Brazil) demonstrates the surprising flexibility and adaptability of the system, especially when contrasted with the rigidity to be found at the IMF and the World Bank. But the G-4 is not a club of like-minded countries, in the way of the old Quad, and what role it might play in the future still remains to be seen.

In sum, the bipolar multilateral trading system of old has given way to a multi-polar alternative. Moreover, large numbers of flexible, and sometimes fluid, coalitions of WTO Members have been formed to assert more effectively national commercial objectives (see Narlikar and Tussie, 2004). This has markedly added to the complexity of agenda formation and negotiation in the WTO and the consequences have so far been mixed. The greater participation of a broader range of WTO Members, and the vibrant deliberations that this has produced, are surely to be welcomed, especially at a time when disaffection with, and in some instances disengagement from, other international economic institutions is growing. Yet, at the same time, the difficulties experienced in concluding the DDA suggest that reaching collective accords will become increasingly, not less, challenging.

Emerging Trade Powers and Support for Openness in Developing Countries

Even though several developing countries have simultaneously emerged as leading trading powers, this does not imply that the national priorities and challenges facing policymakers in these countries are similar or that the growth trajectories undertaken by them, apart form a trend to openness, are comparable. Degrees of openness also vary by country and sector: China, for example, has opened up considerably both to trade and investment while India has been more reticent on both counts. By opening its economy, China has already become the world's third largest importer. China has accepted and implemented obligations that go much further than those of most developing countries. China has made strategic use of the multilateral trade system to advance its interests, but at the same time, has refrained from making any explicit attempt to change the regime.

By contrast, and notwithstanding that it still sees itself as a country whose overall development challenges prevent it from more fully opening its markets to foreign competition, India plays an increasingly important role in the negotiation processes as a member of the G4. India's economic growth, like that of China and many other emerging economies, has been increasing dramatically. This must partly explain China's low profile in the Doha negotiations and India's reluctance to offer reciprocal concessions on what they perceive as 'small deals' from the US and EU. The basic point is that for India and China the gains to be had from the liberalisation on offer in the DDA are small when compared to the gains from their own unilateral growth trajectories and it should be noted, when played in to the domestic political mileage that is to be gained by standing firm, against the US especially, in the negotiations.

This is not to suggest that China's role in the WTO to date has been negative. By and large, its policies have been supportive of a rules-based multilateral trading order and it has used this current Round of multilateral trade negotiations as a "listening and learning" exercise. But China has shown little interest so far in promoting reform of the WTO and the multilateral trade system. Although China has been present in the Doha negotiations, it has yet to develop a leadership role akin to that of Brazil or India.

Hence, it is clear that there remains a misalignment between the new roles of China and India in the global economy and their ability, regardless of desire, to shape its institutions. But it is this diffusion of global economic power to the major developing countries that has changed the nature of the power equation in the contemporary international economic order. The developing majors now have a role, a veto power even, in the contemporary era that they did not previously possess. The political symbolism of this, and its implications for the future, should not be under-estimated.

This position is also not a little ironic. In contrast to growing public fears about globalisation in industrialised countries, many citizens in the developing countries and, especially, the political elites of East and South Asia are coming to the conclusion that open borders are, on balance, positive for their regions. Polling evidence shows that 71 percent of Africans thought that globalisation was good for their own countries. In the Asia Pacific, 52 percent of those surveyed had a positive perception of globalisation, with only five percent viewing it as negative (2006 Gallup Poll). However, this level of support in the developing world for worldwide economic change has yet to manifest itself in the unfettered commitment towards policies aimed at strengthening the multilateral trade regime by the emerging players.

The Waning Popularity of Globalisation in Industrialised Countries

Globalisation has come under increasing criticism in the early years of the 21st century from the public in industrialised countries. Increased trade growth and trade liberalisation, along with financial deregulation, have informed a better understanding of globalisation. Evidence from opinion polls suggests that the public support for globalisation in OECD economies grows when workers achieve higher wage levels and deteriorates when labour markets perform badly, when labour remuneration is stagnant or unemployment rising.

The same polling that showed strong support for open borders in the developing world also indicated that support for globalisation was weak in OECD countries. Responding to the question about whether globalisation was a good thing or a bad thing for one's country, only 26 percent of North Americans considered it 'a good thing', whilst almost as many, 24 percent, thought globalisation a 'bad thing'. Figures for Western Europe (28 percent positive, 22 percent negative) were similar (2006 Gallup Poll).

In the US, for decades the world's strongest force for globalisation, the gilded age of strong economic growth and ample opportunity for all Americans is widely thought to have ended. Although globalisation is not the cause of the problems in the American economy, it has revealed underlying weaknesses and structural faults such as unprecedented levels of governmental and international debt, a deteriorating public education network, the ever weaker social security provision for health care and unemployment. All this is accompanied by a growing concentration of wealth and power at the same time as top earners have been the prime beneficiaries of recently enacted tax cuts.

The uneven distribution of welfare gains from international trade – both among and within states – is a major issue affecting the long-term political support for the multilateral trading regime. Trade liberalisation in the past has been based on the assumption that benefits from trade are realised in all the countries that participate in the process of multilateral liberalisation. Whilst it has always been clear that some sectors of an economy may suffer from increased foreign competition, the expectation has been that national aggregate economic welfare overall would rise with trade liberalisation.

But today there is growing support for the view that the continuing division of labour brought about by the growth in the economies of major developing countries, such as China and India, is having negative consequences for the major economies, especially the US and EU. Although workers still enjoy the benefits of cheap developing country, especially Chinese, imports their real wages are no longer rising. In the US between 2000 and 2006, for example, more than 96 percent of all workers saw no increase in their real earnings and, in some cases, a decline. At the same time, earnings have risen sharply for the small elite of highly qualified people and corporate executives (Rothkopf, 2008).

Over the past two decades, labour has become increasingly global. Population growth, and the integration of China, India, and countries from the former Eastern bloc into the world economy, has led to an estimated fourfold increase in the effective global labour force. According to the IMF, the latter could more than double again by 2050. The bigger labour pool is being accessed by industrialised countries through imports of final products, off-shoring of the production of intermediate including services, and immigration. This ongoing globalisation of the labour market has drawn increasing attention from policymakers and the media, particularly in the industrialised economies. The most common concern is whether the unprecedented addition of such a large pool of workers from emerging markets and developing countries is adversely affecting compensation and employment in the industrialised economies.

The evidence is that the share of income accruing to labour, as opposed to capital, in industrialised economies has fallen by about seven percentage points on average since the early 1980s, with the largest drop in Europe and Japan. It is this type of decline that fuels concerns that globalisation and two of its most important vectors, trade and investment liberalisation, rank among the chief culprits. Yet, rapid technological change, that is 'skill-biased technological change', has had a larger negative impact on the share of income going to labour than the globalisation of labour *per se*. Technological change is reducing the share of income going to unskilled labour, and growth in total real labour compensation in unskilled sectors has hence been sluggish. Not surprisingly, globalisation tends to be equated with rising job insecurity, often prompting calls to halt or reconsider policies of engagement towards the world economy.

It is in this difficult political context for globalisation in OECD countries, and perhaps most notably in the US, that some prominent economists and policymakers have begun to question its ultimate benefits for the American economy. These are not the voices usually critical of globalisation. For example, Nobel Laureate, Paul Samuelson (2004), questioned whether globalisation would continue to be beneficial for all economies. Productivity gains in one country could, under certain circumstances, benefit just one country and hurt the others. Mainstream trade economists, Samuelson argues, have for too long, ignored the adverse effects of globalisation on incomes in the US. He challenged the widely held view that, overall, industrialised economies benefited from liberalisation even if the short term effects, due to the transfer of production to cheaper locations, were negative.

Alan Blinder, another respected American economist, recently added to this debate. While acknowledging the benefits of free trade, he argued that America could be hit by a wave of job losses as a result of trade liberalisation. Blinder (2007) suggests that between 22 and 29 percent of jobs in the US at risk of being lost to 'off-shoring' with the impact no longer restricted to low-skill jobs but increasingly affecting high-skill services such as radiology, architecture and engineering. These themes were picked up by both Hillary Clinton and Barak Obama in their campaigns for the Democratic Presidential nomination.

The relevance of the above insights is that they alert us to the fact that whilst the principles that underlie trade liberalisation remain largely unchallenged, even in analytical circles traditionally supportive of globalisation, they are currently undergoing a process of qualification. The standard economic response to this dilemma – that liberalisation enhances aggregate welfare – might well be correct but it does not solve the political problem. It might be good economic theory but it is poor politics. Some objections to liberalisation are clearly just protectionism by another name.

Moreover, even where material compensatory mechanisms might be adequate, the destruction of domestic social arrangements can have deleterious outcomes of their own. But if knee-jerk nationalist responses are to be avoided in the early 21st century, then public policy must distinguish between politically inspired protectionism and legitimate welfare concerns. Securing domestic political support for the continued liberalisation of the global economy requires more than just the assertion of its economic virtue. It also requires political legitimacy.

Although the distribution of income and support for trade liberalisation are only weakly correlated, some of the legitimacy problems confronting the multilateral trade regime appear to result from a perception that growing income inequality is, in part at least, a product of trade liberalisation. Evidence is mounting that globalisation is starting to hurt skilled workers in OECD countries, exactly the groups that have to date been its main political supporters. Thus the benefits from globalisation have to be distributed more equally if we are not to see a rise of protectionism in OECD countries. The challenge for policymakers is to devise new forms of national and international collective action relating to international commerce that make it easier to secure support from the new players while at the same time minimising the effects of the negative public attitudes.

Justice and Fairness on the Global Trade Agenda

Trade governance is neither immune, nor separate, from wider notions of fairness and justice in the global community. Increased attention needs to be paid to the way that WTO agreements and procedures affect its members, particularly the weakest. WTO Members need to address the relationship between current trade rules and fairness, justice and development. 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. The reality is that, 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.

The WTO displays many of the attributes of a democratic and inclusive club. Its rules provide for consensus decision-making in agenda setting and the results of negotiations are applied on a MFN basis, thus ensuring that all members enjoy the same benefits. In this sense, the weakest WTO Members gain from being part of a rules-based organisation. The DDA has shown that decision-making can be paralysed by the need to achieve consensus not least because processes can be held to ransom by members which have no interest in the topic under consideration. Also, *realpolitik* dictates that weaker members' ability to use the Dispute Settlement Mechanism to seek redress are limited and the explosion of Preferential Trading Agreements (PTAs) means that weaker members are increasingly vulnerable to being marginalised and losing the benefits of MFN. The future of the global trading system, then, depends to a large extent on efficient decision-making in the WTO.

Quicker decision-making is essential to the continued relevance of the WTO-based governance arrangements or they will wither on the vine. With national political cycles of around four years and ever-shortening business cycles, the length of time it takes to conclude a Round is contributing to the rise of bilateralism and regionalism. Hence any new procedure would need to be not only conditional on the preservation of the principle of non-discrimination applying to all members but also reflecting the interests of all Members.

A core challenge is to shape the agenda in a way that both respects the interests of the entire membership while at the same time securing the continued commitment of all parties. In pursuit of this balance, the Warwick Commission recommends that consideration be given to the circumstances in which a "critical mass" approach to decision-making might apply; especially with regard to rules issues, that preserves both the rights and interests of smaller players while recognising the need to address issues of concern to a 'critical mass' of WTO Members.

The key implication of this approach is that not all members would necessarily be expected to make commitments in the policy area concerned. Clearly, to the degree that this runs across the consensus assumptions of WTO decision-making, this is a politically sensitive proposition especially for developing countries and extreme care would need to be taken to secure their interests in any criteria they would need to meet if such an approach were to be adopted – indeed it may prove to be a political bridge too far. Among the criteria for considering a critical mass approach to defining the agenda are the need to identify a positive global welfare benefit, to protect the principle of non-discrimination, and accommodating explicitly any income distribution effects of rule-making. But, given the difficulties faced in taking the WTO forward in the wake of the DDA the exploration of such an approach should be given consideration (see the Warwick Commission, 2007: 30-35).

Trade and Development: International Institutions and Policy Coherence

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, 2005: 406)

To move beyond this dichotomy 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) alluded to in the previous section; (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. For these recommendations to succeed the system of global governance going forward will depend to no small degree on the extent to which international institutions can work together. As the art of government becomes ever more complex, and the degree to which institutions in all walks of life need to become increasingly accountable to multiple stakeholders, the credibility of international institutions is much more dependent on the way in which they work together than was previously the case.

In the early 21st century, coherence in global governance is a must; not an optional extra. In order to illustrate the problems of institutional coherence at the global level, let us examine the position in relation to the trade and development agenda. In the late 20th and early 21st centuries, the Bretton Woods institutions and the WTO, as much by accident as design it sometimes appears, now meet on the ground of development. The role of the World Bank here has long been self-explanatory. The transformation from its role as a vehicle for European reconstruction to a vehicle for supporting developing countries had a natural logic to it in the era of decolonisation; as does its more recent emphasis on 'knowledge' (Stone, 2001) and 'governance' in the development process (Stone 2006).

The IMF, however, has for some considerable time been an institution in search of a new mission. Its desired role as the arbiter of global macro-economic rectitude, especially in the developing world, has largely disappeared in the wake of the financial crises of the late 20th century. The WTO's move into the development field in the Doha Round was as much by accident as design, occasioned as it was by the desire to kick start the current Round of multilateral trade negotiations. But once having been identified as a development Round, the rhetorical and political significance took on a dynamic of its own for many WTO Members.

The international institutions, if they are to be forces for good in the development process, need systemic policy coherence across their domains of competence: between balance of payments issues and financial crises (IMF); capital flows and official assistance (World Bank-IDA) and rules of the game in trade (WTO). Indeed, an important aspect of the WTO's mandate is to co-operate with the IMF, the World Bank and other multilateral institutions to achieve greater coherence in global economic policy-making. A separate Declaration was adopted at the Marrakesh Ministerial Meeting in April 1994 to underscore this objective and key WTO public documents regularly reaffirm this priority (WTO, *Annual Report*, 2007: 3).

In simple terms, organisations need to talk to each other. Institutional coherence is particularly important in the area of trade since many of the challenges of trade liberalisation are to be found outside of the immediate trade domain. Trade requires not only good rules to help advance its promotion. It also needs mechanisms to address concerns of those countries not as well prepared to benefit from a rules-based system as the more developed countries. Developing countries need assistance in the creation and enhancement of mechanisms to assist in their turn to trade liberalisation. It is here that institutional policy coherence can make a difference. Indeed, it becomes a, perhaps the, major test for international economic institutional coherence in the 21st century.

Given expectations of increased funding, aid from industrial countries to developing countries needs to be channelled more effectively[4]. Hence, the agencies undertaking these tasks need to be as one in their understanding of how to manage this resource. Agencies, donors and client countries need to manage these resources coherently if we are not to see problems from increasing aid flows, such as exchange rate problems and other distortions in domestic economies. We need proper regulatory institutions to prevent corruption and ensure good governance. In theory, the World Bank helps with institution building, while the WTO uses its intellectual and institutional influence to call for a proper 'AfT' relationship and the IMF ensures macro-economic stability is not compromised. There is, of course, often a disjuncture between theory and practice.

The WTO is not a development bank, an aid agency, or funding body; nor should become one. 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, suggests 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.

In similar vein, nor should we assume 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. Neither should we assume that attaining these ends can solely be a matter of implementing commitments made by nations at the WTO. Indeed, now-a-days 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.

This poses significant challenges for the WTO membership and for the very reputation of the WTO; challenges which the current AfT initiative have brought to the fore. Calls for greater co-ordination 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?

For the developing countries AfT is a potentially important vehicle for capacity building. However, there are a series of questions that need to be addressed. These concern factors such as the adequacy of donor commitments and whether donor promises will be met; the degree to which AfT will reflect developing country, rather than donor, priorities; the coherence and co-ordination of AfT amongst the six institutions that are currently party to its administration; and, perhaps most importantly, developing countries are concerned lest aid for trade should be linked to their negotiating positions in multilateral trade negotiations.

To the extent that the AfT initiative provides the impetus to eliminate duplications in aid programmes and to meet unfulfilled needs from developing countries, it 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 co-ordination among donors have often yielded little and it is not apparent why matters should be any different this time around. Concerns are particularly heightened by the, often muted, support given by industrial country aid ministries to seriously funding AfT initiatives and associated trade-related capacity building and technical assistance. Many of them are solely focused on poverty reduction agendas and act as if they perceive little positive contribution by trade to economic development. 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 is being provided.

The wider economic and geopolitical situation raises a number of serious concerns about the future of the globalisation project in general. The multilateral trade system, as a crucial element of the globalised economy, cannot operate set apart from these realities and is forced to accept their constraints. 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 Doha Round a "development" label. Care needs to be taken in deciding which institutions and policymakers are responsible for what; here accountability is the key.

The WTO is not responsible for meeting the aid-related promises made by individual 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; not to ensuring that WTO Members exploit any opportunities that are created. The consequences of not doing so and inadequately pursuing the current AfT initiative could be adverse for the WTO.

The Rise of Preferential Trading Agreements

If a more responsive system of justice is a necessity for the future of the world trading regime, then an absolute requirement is the re-invigoration of multilateralism in the face of the challenge of preferentialism. The recent trend amongst larger countries to go outside of the WTO to reach trade deals carries the risk of undermining the fabric of inclusive, fair and stable institutional arrangements that underpin international trade. The governments should not forget the lessons learned in the second half of the 20th century from the débacle of largely institution-free trading arrangements in the first half of the 20th century.

In the last two decades, significant trade liberalisation has been achieved outside the multilateral arena, with most tariff reductions coming from unilateral liberalisation. For some, growing recourse to bilateral and regional preferential agreements is simply an inferior policy choice that undermines multilateralism and should be avoided. Yet trade governance and liberalisation are not as simple as that. PTAs need not, in all circumstances, be counterproductive in terms of a wider multilateral trade agenda.

Moreover, such agreements, along with regional activity in other economic policy domains such as monetary relations, are increasingly a fact of life in contemporary international economic relations and they will not simply disappear. But poorly conceived regionalism carries many avoidable costs and tends to penalise the weaker and smaller members of the trade community. Even commentators favourably disposed towards PTAs as a vehicle of international cooperation recognise their downside from a more inclusive, multilateral perspective.

Bilateral preferential agreements often involve countries that are not geographically contiguous, for example those between the US and certain Middle Eastern and Latin American nations. Such agreements may have important economic implications for at least one party, but generally they are strongly motivated by political and strategic considerations. To the extent that such PTAs involve a large (developed) and one or more small (developing) countries, their global economic impact will not be very significant and one would need to look at more localised regional factors to understand their effects on third parties.

Second, large countries entering into such arrangements sometimes apply a standard policy template that embodies elements going beyond WTO provisions (the so-called "WTO-plus" provisions), either in terms of the areas covered or the depth of commitments. This may be seen as strategic behaviour, perhaps motivated more generally by foreign policy considerations. Alternatively, such PTAs could be part of a broader demonstration of the characteristics of international trade policy regimes sought by the large country concerned.

Smaller countries may also pursue these arrangements in part for strategic reasons, relating both to the search for stability and certainty in their trade relations with major partners and perhaps to a desire to define and tie in domestic policies in a manner that make them harder to change. Developing countries may be willing to accept WTO-plus provisions in exchange for these perceived benefits.

One could argue that as long as trade liberalisation occurs, as it does with unilateral liberalisation, it matters less whether it is at a bilateral, regional or multilateral level. In theory, preferential agreements can have significant benefits; for example, promoting technology and knowledge transfers, domestic reforms, productivity gains and improved developmental prospects. Critics of preferential agreements, however, would emphasise the negative effects, including the distortion in trade patterns between 'insiders' and 'outsiders' which undermine the welfare gains arising from expanded trade.

Critics also stress that the trade distortions create incentives for inefficient resource allocation. The institutional dimensions of rules also matter; especially the 'spaghetti bowl' effect of multiple agreements with separate rules of origin. The operational costs of meeting different requirements in different countries pose a major challenge, especially for small- and medium-sized enterprises. PTAs with these outcomes are clearly a second-best option compared to a multilateral agreement at the WTO with uniform rules applicable to all members.[5]

But we need a more systematic consideration of what motivates governments to enter into PTAs. In the past, unilateral liberalisation and preferential agreements co-existed with the development of multilateralism. It has been suggested that, at least during the first phase of regionalism after World War II, in the 1960s, these three dimensions complemented rather than competed with each other. The 1980s saw the launch of the Uruguay Round in 1986, major steps forward in European as well as North American integration as well as unilateral liberalisation. With the completion of the Uruguay Round in 1994, we saw both a remarkable achievement for multilateralism and some important preferential initiatives.

Thus, we could assume that there is little need to see a threat to the multilateral regime emerging from preferential agreements. There is, however, evidence to suggest that today's preferential agreements create a different environment which poses threats to the multilateral trading regime.

First, the US is actively pushing for PTAs. The country that helped shape and underwrite the post World War II non-discriminatory trading regime has been at the forefront of those emphasising the development of PTAs in recent years. Whilst the number of PTAs between the United States and other countries has been somewhat limited, in part due to the linking of trade and security policy, the continuing push for preferential agreements represents a break with US policies of the past. Similarly, the EU has long been actively pursuing PTAs although many of them have been with countries either on the European continent or with which the EU has enjoyed strong historical relations.

Third, Asian countries have joined the trend. Whilst important East Asian countries, Japan, South Korea and China, long refrained from negotiating preferential agreements these countries have been extremely actively in the push for PTAs since the turn of the century. Fourth, many PTAs are about much more than regulating trade. The US, for example, uses a template in its PTAs that also has the effect of shaping domestic regulation in the partner countries. The consequence is the creation of parallel regulatory spheres that, at least in some cases, make international trade more difficult than under the umbrella of the WTO. A plethora of competing and overlapping norms and regulations does not facilitate international trade.

Regionalism will not disappear, nor is the WTO necessarily well placed to achieve everything that governments seek to attain in terms of their international trade relations with other nations. But the explosion of regionalism in recent years has clearly been sub-optimal in systemic and political terms in a number of ways. Specifically, regionalism diverts attention from multilateral negotiations. The governments may believe, or be lulled politically into the conviction, that they can acquire all they need by way of trade policy through regional arrangements. This has led to, and is likely to continue to lead to, neglect of the relative costs and benefits, especially over time, of regional versus multilateral approaches to trade relations. The challenge, as we have been told by several scholars and practitioners recently is to multilateralise it (see Baldwin, 2006 and Baldwin, Evenett and Low, 2007).

This is a major challenge that needs to be addressed by the global trade policy community. Let us not forget, that one of the reasons why half of world trade is still conducted on a MFN basis, notwithstanding the existence of an even greater number of PTAs, is that the largest trading nations have so far desisted from negotiating PTAs among themselves. No such agreements exist, for example, among the US, the EU and Japan, although the US and the EU have signed a 'Framework for Advancing Transatlantic Economic Integration' in April 2007. Relatively few agreements exist between the three major players and major developing countries. None of the three have PTAs with China or Brazil, for example. However, other large developing country traders such as South Korea and Mexico do have PTAs with at least one of them.

If the WTO membership is to engage seriously in addressing what has clearly become a challenge to the coherence and stability of the trading system, the largest trading nations in the system should show leadership. They should be willing to underwrite the "public good" of non-discriminatory multilateral trade. In short, as suggested in the Report of the Warwick Commission (2007: 53), the major industrial countries, being mindful of the systemic implications of establishing additional PTAs with other large trading countries, should foreswear the establishment of PTAs among themselves. Such agreements would be seen by their signatories as a new template for redefining the multilateral trade regime. It is hard to imagine a more contentious and destructive scenario for international trade as the 21st century roles forward.

Conclusion

That the DDA has not been the focus of attention of paper is not to underestimate the importance, were it possible, of trying to rescue something from the seven years of negotiations before, as Peter Mandelson has put it, 'the caravans move on'. Rather, in the likely event that this turns out not to be feasible, the paper has focussed on a number of specific systemic challenges to the global trade regime that transcend issues specific to the DDA.

The global economy in general, and the multilateral trading system, in particular, is at crossroads. For those of a reformist persuasion in their approach towards the global trade regime there is a clear and pressing need we would argue to: (i) improve the management of agenda setting, decision-making and participation in global trade; and, (ii) define more tightly and precisely the relationship between trade and development; and (iii) understand, and respond to, the increasingly complex relationship between the multilateral system and the growing number of preferential trade relationships.

Support for an open, liberal trading system is neither consistent nor unambiguous. Trade liberalisation may well continue even without a completed multilateral Round. But, as we have suggested, other linked elements are important too. For many supporters of the WTO, especially some of the smaller countries whose participation in trade negotiations is unlikely to affect the size or shape of an agreement like the DDA, it is the other elements, especially principles and rules that are important.

The WTO gives voice and legitimacy to these rules. They have received little attention in the DDA. For that system to unravel for want of attention is a potential danger in an era of increasing non-cooperation. We are not predicting it, but in its darkest form this neglect could portend a return to beggar-thy-neighbour trade policies not seen since the inter-war years of the 20th century. This is something, at a time when other elements of the global economic order are suffering stresses in their own right that the world's population, can ill afford.

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Endnotes

1 A range of ‘who dunnit’ interpretations can be found in WTO blogosphere and the media for the period: July 30-August 04, 2008

2 The Rise of Sovereign Wealth Funds, *Finance & Development* Sept 2007 Volume 44, Number 3 http://www.imf.org/external/pubs/ft/fandd/2007/09/ straight.htm

3 Argentina, Bolivia, Brazil, Chile, China, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela, Zimbabwe

4 The July 2005 Gleneagles Agreement (in theory) promised additional commitments of between US$25-50bn by 2010

5 The critical literature on regionalism is now voluminous; see illustratively Bhagwati and Kreuger, 1995; Pomfret, 1997 and Bhagwati, 1998

4

Services Liberalisation and Domestic Regulation: Why it is important?

– By Ramesh Chaitoo*

Introduction

Domestic regulation is a very complex issue in services trade policy formulation but it is critical element in the liberalisation of services trade. On the one hand, it is necessary to ensure consumer protection, services standards and several other public interest objectives, and on the other, it can act as a very significant restriction and curtail the market access granted to foreign service suppliers in any trade agreement. In the WTO, negotiations on domestic regulation are limited to the development of disciplines on qualification requirements and procedures, technical standards and licensing requirements. While the GATS and all subsequent services trade agreements recognise the right of governments to regulate and introduce new regulations, discriminatory (and to some extent, non-discriminatory) domestic regulations remain the predominant barriers to trade in services. This is why negotiation of disciplines on domestic regulations is very important.

At the same time, regulatory deficiencies in developing countries and the resultant concerns regarding the potential negative impact of foreign competition, the need to ensure consumer protection and develop services standards, seriously limit the appetite for liberalisation of services trade by governments in the South. Nevertheless, developing countries have much to gain from improved multilateral disciplines on domestic regulations for two principal reasons. Firstly, such disciplines can be instrumental in promoting and consolidating domestic regulatory reform efforts (e.g., in telecommunications). Secondly, they can help services firms from developing countries to overcome barriers to their exports in foreign markets.

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This paper will examine various issues regarding services trade liberalisation and domestic regulations and their implications for effective market access with the aim of striking a balance between the potential gains from liberalisation and public interest concerns. It will first briefly review some of the key issues in the interface between services liberalisation and domestic regulation and examine the different perspectives from developing and developed countries.

Next, it will argue that notwithstanding the specific mandate of the multilateral services negotiations in the Doha Round, economic needs tests (ENTs) should be considered as domestic regulations and should be addressed in the current GATS negotiations. This is mainly due to the fact that ENTs proliferate in the services schedules of many countries and are very diverse in terms of their application; however they make market access unpredictable. In this regard, some examples from scheduled commitments in the WTO and in bilateral agreements will be analysed.

The paper will focus on the multilateral negotiations in Geneva and consider the evolving attempt to craft disciplines on qualification requirements and procedures, technical standards and licensing requirements. In critically examining the draft text of the Chair of the Working Party on Domestic Regulation of January 2008 and the various responses to it by different groups in the WTO and other commentators it proposes a final version to address domestic regulation issues in services negotiations.

Domestic Regulation and the Liberalisation of Services Markets

Regulation and Deregulation

There are 15 references to regulations or regulatory matters in the GATS but the term "domestic regulation" is not defined. Instead, WTO Members maintained the right to regulate and to introduce regulations. The Preamble to the GATS states:

> *Recognising the right of Members to regulate, and to introduce new regulations, on the supply of services within their territories in order to meet national policy objectives and, given asymmetries existing with respect to the degree of development of services regulations in different countries, the particular need of developing countries to exercise this right.*

As Suparnakar (2007) points out, "there is no universally agreed definition in the literature for the term "regulation", which is used without distinction to refer both to acts of governance as well as means of influencing the behaviour of firms and individuals in society, and not necessarily only in the economic realm". In principle, the purpose of regulations, whether for goods or services, is to manage risk through the use of standards or particular requirements. The first regulatory element in the case of goods is a gradual movement towards "science-based" policy and regulatory decision-making where scientific knowledge constitutes significant or effective inputs into the decision-making process. There is, therefore, in the WTO agreements on Technical Barriers to Trade (TBT) and on Sanitary and Phyto-sanitary Measures (SPS) a requirement that tolerable barriers to trade must be based on science and risk analysis.

A second element of an operational regulatory system for goods is the product or case approval process. Through this means, a product can be tested and if it meets specific criteria regarding technical standards or sanitary requirements it must be allowed into the importing WTO Member's territory. Unfortunately, it is not possible to do this in the case of services that cover a wide spectrum of economic and social activities and are in many instances, intangible.

Furthermore, there are few truly international standards or scientifically agreed regulations for services provision, except perhaps for medical services and a few other sectors. A third element of any regulatory system is that of compliance and enforcement. In the case of goods, science is used through an inspection function and in the determination of certification and best practices. This is difficult for many service sectors due to intangibility, information asymmetries, and other factors; but the diversity of procedures and requirements regarding qualification licensing, and the absence of internationally agreed practices creates tremendous problems for the global trade in services.

There is always a spatial or geographical dimension to regulatory compliance and enforcement and a set of choices as to how science or technical inspectors will function. This usually also falls within a specific legal jurisdiction. To some extent, governments have jurisdiction to administer regulations governing the "production, distribution, marketing, sale and delivery" of services. But the regulatory authority over many professional services, (and other services in some nations) is not controlled by governments but private associations, so regulatory control is diffuse; and governments can only persuade associations to adopt certain standards or approaches. This is particularly the case in developed countries, especially European states. Therefore, it seriously limits the extent to which multilateral or bilateral services liberalisation can ensure effective market access in some sectors. So, by and large, there is limited monitoring function by government.

In popular literature, as in the mass media, services liberalisation is often equated with deregulation. And "deregulation" is often seen as a negative process with bad potential social consequences in terms of consumer safety or interests, especially in statements by non-governmental organisations (NGOs)[1]. It is important to point out that liberalisation and deregulation is not the same thing. The former allows new entrants to a market (which nonetheless may have been closed to foreign competition through restrictive legislation or regulations); the latter suggests changes to the regulatory regime governing behaviour in a particular sector by firms and individuals (the do's and don'ts) and licensing, standards and other requirements regarding the production, marketing and distribution of any service. Whilst the liberalisation of trade and investment in services may often require changes to regulations, it does not mean the removal of regulations that protect the public interest. This is a point that is often confused in comments on this subject.

In fact, in many instances, the liberalisation of a market usually requires the introduction of new regulations to govern the sector or activity. A clear example is the liberalisation of the telecommunications market in many developing and developed countries in the past 10 years. The decision to liberalise resulted in the introduction of new telecommunications legislation and regulations which actually promoted consumer interests through new rules on competition, interconnection, cost-based pricing for services, independent regulators, among other things.

There is a related "chicken and egg" issue regarding which should come first – regulations or liberalisation of services markets. And most developing countries are advised (and they argue in the WTO context) that they should not open their services markets because their regulatory regimes are under-developed. In principle, it would be inadvisable to liberalise any services market if there are no domestic regulations in place. In reality, the reverse has occurred historically, especially in the case of new services. Formal liberalisation of market access in a particular sector is a clear signal that governments are prepared to revamp or introduce regulations in that sector.

As Overseas Development Institute (ODI) researchers point out, based on several case studies in finance, tourism, health, energy and Information and Communication Technology (ICT) services in various countries there are some risks to opening up the market in services. These may include:

1. crowding out domestic providers and repatriating profits;
2. excessive profits being made by private / foreign providers;
3. negative impact on access to services especially in utilities or infrastructure sectors; and
4. sector specific risks such as environmental degradation due to tourism, financial sector instability, brain drain due to mode 4 access for professionals.

But the findings of the research also reveal that liberalisation can still bring benefits in spite of the various risks as long as there is an appropriate regulatory environment[2]. This is particularly important in infrastructural services such as finance, telecommunications and energy. A strong example of the positive benefits of liberalisation of financial services in a developing country is South Africa in the 1990's. As Hodge (1999) pointed out:

> In banking, foreign entrants have secured five percent of the market but concentrated on commercial / syndicated loans, corporate finance advisory services, foreign exchange dealings, trade finance and securities trading. They have pioneered the introduction of new products which help firms manage risk and lower the cost of capital. They have improved industry

regulation through strong support for initiatives from the regulatory authority *(18)* and provided easier access to international capital.

In the insurance industry, foreign participation has focused on individual and corporate short-term insurance, creditor insurance and reinsurance. Their entry has resulted in increased price competition forcing local companies to respond. New products have been introduced, such as alternative risk transfer, which have helped corporates manage risk better.

Market expansion in all financial services has expanded employment in South Africa significantly. In addition, foreign entrants across all segments of the market have played an important part in growing South Africa as a regional financial centre. This it has developed partly because of their use of South Africa as a regional base, but also because their entry has improved the competitiveness of the financial services market through cutting prices, expanding the range of products and improving service[3].

(18) For example, more stringent money laundering regulation

In more recent studies of services liberalisation in Bangladesh, the Gambia, India, Jamaica, Kenya and Zambia in a range of sectors the benefits of market opening were also catalogued. As one commentator noted:

The common factor that has spurred growth in the service sector is economic liberalisation and reforms, including trade and investment liberalisation, deregulation of commodity and factor markets, and privatisation of state-owned enterprises, often in the context of structural adjustment programmes. In particular, as highlighted in several of the studies, the deregulation of key service sub-sectors such as telecommunications and financial services has helped drive the high growth rates in the service sector of most of these economies. In India it is the erstwhile government monopoly services such as telecommunications that have exhibited the highest rates of growth within the service sector, following the phasing out of government monopoly, and opening up of the sector to foreign and domestic private participation.

As argued by the authors of the Bangladesh country study, the rapid growth in communication services is mainly triggered by liberalisation and reforms, which has created demand for new products, led to the entry of foreign telecommunications operators in segments such as mobile telephony, and enhanced competition. There has been a similar experience with financial services in Bangladesh which too have undergone deregulation and increased competition from private players.

The scenario is similar for Zambia where the most significant service sub-sectors and those which have also experienced higher growth rates, are those of trade and distribution, communication, and financial services. The reasons advanced are similar to those for the other countries, namely, those of liberalisation, privatisation, and economic reforms. In Jamaica, growth in services is mainly attributed to the telecommunications, transport, tourism, trade and distribution, and financial services sub-sectors, again reflecting a mix of unilaterally initiated liberalisation and regulatory reform measures as well as external developments[4].

Nevertheless, some analysts point out that many developing countries and most LDCs are hesitant to make services commitments in the WTO because they are unable to establish regulatory regimes in many areas. This is an area that should be addressed by aid for trade initiatives. The administrative capacity requirements for the development of a strong regulatory framework (and its enforcement) are often substantial, perhaps beyond the reach of some developing countries, so there is great scope for donors to assist in this process. However, while donors may already support regulatory reform programmes, such initiatives do not always explicitly consider the impact of regulation on services trade. Thus, a more coherent approach to assistance in this area should be developed[5].

How to Deal with Regulatory Diversity?

The nature and complexity of domestic regulations in any country depends on a range of factors, the most important of which is the age or maturity of the particular society. So, developed European countries have regulations that have evolved for hundreds of years and a sort of "acquis" or institutional experience in crafting and implementing regulations exits. On the other hand, developing societies in Africa and Asia and Latin America and the Caribbean have fewer regulations in every sector of the 160 services sector that are included in the Services Sectoral Classification List that is used as the basis of GATS negotiations[6].

Since the barriers to trade in services are mainly regulatory, developing countries with less regulations are inherently at a disadvantage in services negotiations. It can be generally argued that once a developing country opens a particular service sector it is easier for foreign suppliers from developed economies to enter the market to provide services through any mode of supply while the reverse is not true for developed countries who open the same service sector. Service suppliers from the developing world have more "barriers" to face in terms of number and complexity of regulations in developed country markets, whether those regulatory barriers are discriminatory or non-discriminatory. This is apart from capacity constraints faced by the mainly small services firms in many developing countries.

In the case of professional and business services, most sectors are closely regulated, often self-regulated, usually through their trade associations which to a large extent seek to exclude rather than include or receive new foreign entrants. Professional associations (such as in legal, accounting, engineering or architectural services) ensure standards (apprenticeship or training), decide the conditions for entry into the profession (licensing requirements or procedures), grant exclusive rights to carry out certain activities but make sure it is not easy for outsiders who are not familiar to the club to enter the profession. These usually also govern matters such as the conduct of members of the profession, and (often) the organisational structure of professional firms. And all their requirements are not necessarily transparent or easy to find. Unless disciplined, these regulations have the potential to become insurmountable market access barriers and undermine effective liberalisation of internationally traded services. But some professional services associations are more standardised than others. Entry requirements are usually based on standards set in educational qualifications and experience, and in norms relating to licensing requirements and procedures. The problem is that even in such cases the diversity of approaches and criteria can hamper the cross-border supply of services.

In a more modern sector such as the IT industry, the conditions for entry are usually less complicated and are mainly based on technical training. Most occupations in information and communications technology are not regulated in developed or developing countries. Therefore, employment is subject to demand, and qualification requirements are set by individual employers who may require certification or training in specific software and hardware. And there may be a higher level of fungibility of the technical skills in the IT sector. So it is not surprising that a programmer trained in a common computer language in any developing country can easily work in the US or any developed country[7].

In the competitive world of computer and related services, technical efficiency and productivity concerns are the most important priorities rather than licensing and codes of conduct. A similar level of fungibility of skills and training applies to the accounting profession but there are myriad qualifications, certification or licensing regulations governing or restricting the ability to practice in each country. The question remains why?

One could assume that due to the sensitive nature of accounting it is important to have special "initiation" into the profession to guard against risk or ensure competence and integrity; but this is not an adequate reason. One may contend on the other hand that IT specialists do not interface directly with the public so that there may be a perception of less risk which in turn implies the absence of need to have similar levels of regulatory procedures and requirements. But many traditional accountancy associations in developed and developing countries have convoluted procedures and requirements that really make them "old boys clubs" rather than modern bodies seeking to ensure the integrity and efficiency of their service activity. This stems from the culture in the particular country and it is what makes the traditional professions "traditional" compared to a modern profession such as information technology. It is therefore interesting that multilaterally agreed rules on the accountancy sector were agreed in 1998. Nevertheless, these are still merely guidelines and have not formally been brought under the GATS regime.

Negotiations on Domestic Regulations and the GATS

What is the Fuss about Domestic Regulations?

The potential of domestic regulations to act as barriers to services trade in sectors in which countries have made commitments has been discussed by numerous commentators. (See Delimatsis, 2007; Karmakar, 2007; Kox et al, 2007; Mattoo and Sauve, 2003; Schwellnus, 2007). The most restrictive regulations are actually usually scheduled in market access (Article XVI) or national treatment (Article XVII) limitations and consist primarily of residency and/or nationality requirements, restrictions on legal form, quotas, among others; but the Doha negotiations do not include disciplines on limitations that are scheduled. Appendix II to this paper contains a wide range of regulatory barriers reported by WTO Members. It is not surprising that many of the measures listed in these contributions appear to be subject to scheduling under Articles XVI or XVII. Nevertheless, some of the measures submitted by members seem to be covered by Articles VI:1 or VI:2, are not really VI:4 measures. While possibly non-discriminatory domestic regulatory measures, they do not seem to fit in the Article VI:4 requirement of being a licensing requirement or procedure, a qualification requirement or procedure, or a technical standard.

In summary, the main barriers or trade-related issues regarding qualification requirements and procedures or licensing are:

1. Qualification requirements and procedures often are not transparent, objective, pre-established, or publicly available.

2. Professional experience which results in exemplary competence is not considered as a substitute for certain educational requirements.

3. Where the verification process finds the qualifications of service suppliers inadequate they are not told the additional requirements relating to course work, training or work experience service that they must fulfil to meet the qualification required to supply the service. Furthermore, service suppliers are not allowed to fulfil these additional requirements through examinations, course work, practical training or professional experience. And in instances in which this is possible, service suppliers are not allowed to fulfil such additional requirements in their home country or in third countries. Indeed, sometimes residency or work experience in the host country is a condition for eligibility for such examinations.

4. Fees charged for licensing or qualifications have little regard to administrative costs and are an impediment in them to foreign service suppliers.

5. Service suppliers are not given an opportunity for review of decisions relating to fulfilment of qualification requirements; and in case of rejection, they are not given an opportunity to resubmit applications and related documents.

In principle, a necessity test could be used to encourage the adoption of economically efficient policy choices in remedying market failures and pursuing non-economic objectives. For instance, in the case of professional licensing, a requirement to re-qualify could be deemed unnecessarily burdensome, since the problem (inadequate information about whether an individual possesses the required skills) could be solved by a less burdensome test of competence. Indeed, this should be the main rationale of professional licensing regimes in a world of increasing economic integration and trade in professional services.

But the problem of licensing is not limited to temporary service suppliers. Many professionals from developing countries who emigrate to North America and the EU find that they are unable to practice their profession unless they re-qualify. And this often takes at least a year of university training and other requirements, usually work experience in the new jurisdiction which immigrant professionals cannot obtain because experience is a requirement by most employers for recruitment anyway! This problem is particularly acute in the case of Canada in which many professionals with several years of experience end up working in lower level categories of jobs than those for which they are qualified and have practiced, or working in totally unrelated fields[8].

A further issue is that one of the fundamental difficulties faced by service suppliers, especially small and medium-sized enterprises (SMEs), in taking advantage of market access in services is the complexity, length and legal uncertainty of administrative procedures[9]. In this regard, the rationale for the initiatives undertaken by the EC in the development of the European Single Market for services is pertinent. The EC Services Directive was intended to "eliminate the delays, costs and dissuasive effects which arise from unnecessary or excessively complex and burdensome procedures, the duplication of procedures, red tape involved in submitting documents, arbitrary and non-transparent use of powers by competent authorities and fees that appear to be exorbitant and have no relationship to the cost of the administrative process"[10]. There should be a similar ambition and approach in bilateral and multilateral negotiating forums since in spite of services commitments in the WTO and in various bilateral free trade agreements (FTAs) domestic administrative and regulatory processes can still easily frustrate attempts at taking advantage of *de jure* market opening.

The GATS and Domestic Regulations

In principle, developing countries have much to gain from appropriate and effective multilateral disciplines on domestic regulation. First, the development of such disciplines can play a significant role in promoting and consolidating domestic regulatory reform efforts. Second, such disciplines can help developing countries address potential regulatory barriers to their services exports in foreign markets. The main dilemma for developing countries is thus how best to use multilateral rule-making efforts in the WTO to promote sound regulatory institutions and practices at the national level. While the greatest barriers to services trade are regulations, the multilateral rules on domestic regulations are not particularly rigorous. GATS Article VI on domestic regulation is somewhat modest; it is really a framework on which more substance is supposed be developed over time.

The general obligation is that: "In sectors where specific commitments are undertaken, each Member shall ensure that all measures of general application affecting trade in services are administered in a reasonable, objective and impartial manner". But the negotiations on domestic regulations have a limited or specific focus in GATS Article VI:4:

> 4. With a view to ensuring that measures relating to qualification requirements and procedures, technical standards and licensing requirements do not constitute unnecessary barriers to trade in services, the Council for Trade in Services shall, through appropriate bodies it may establish, develop any necessary disciplines. Such disciplines shall aim to ensure that such requirements are, *inter alia*:
>
> (a) based on objective and transparent criteria, such as competence and the ability to supply the service;
>
> (b) not more burdensome than necessary to ensure the quality of the service; and
>
> (c) in the case of licensing procedures, not in themselves a restriction on the supply of the service.
>
> 5. (a) In sectors in which a Member has undertaken specific commitments, pending the entry into force of disciplines developed in these sectors pursuant to paragraph 4, the Member shall not apply licensing and qualification requirements and technical standards that nullify or impair such specific commitments in a manner which:
>
> (i) does not comply with the criteria outlined in subparagraphs 4(a), (b) or (c); and
>
> (ii) could not reasonably have been expected of that Member at the time the specific commitments in those sectors were made.
>
> (b) In determining whether a Member is in conformity with the obligation under paragraph 5(a), account shall be taken of international standards of relevant international organisations[11] applied by that Member.
>
> 6. In sectors where specific commitments regarding professional services are undertaken, each Member shall provide for adequate procedures to verify the competence of professionals of any other Member.

More than 13 years after the GATS entered into force, it is not clear whether all WTO Members have implemented the obligations under Article VI. The main active negotiating issue in GATS Article VI is nevertheless the obligation to develop disciplines to ensure that "qualification requirements and procedures, technical standards and licensing requirements do not constitute unnecessary barriers to trade in services". We must recognise that this is a very limited aspect of the universe of domestic regulations that can act as barriers to trade; but it is the key part of multilateral deliberations for the past seven years with no consensus on disciplines in sight.

The GATS seeks to discipline the use of measures by governments that restrict trade in services only in sectors in which commitments are made. Regulatory measures are considered to be any kind of action by a WTO Member since 'measure' "means any measure by a Member, whether in the form of a law, regulation, rule, procedure, decision, administrative action, or any other form".

And Article I.3 indicates that the obligation reaches to all levels of government:

> For the purposes of this Agreement:
>
> (a) "measures by Members" means measures taken by:
>
> (i) central, regional or local governments and authorities; and
> (ii) non-governmental bodies in the exercise of powers delegated by central, regional or local governments or authorities.
>
> In fulfilling its obligations and commitments under the Agreement, each Member shall take such reasonable measures as may be available to it to ensure their observance by regional and local governments and authorities and non-governmental bodies within its territory.

In spite of these provisions, the differences in regulations at the sub-national level in federal states remain a major barrier to trade in services. This can cause very significant unpredictability about the regulatory barriers that constrain foreign service suppliers from contesting the market in countries in which any particular sectors are liberalised. And this problem even extends to bilateral FTAs. For instance, in the trade agreement between the US and Central American countries (CAFTA) and in both the US-Chile FTA and US-Dominican Republic FTA the US scheduled a horizontal reservation (which includes all regulations) that can act as a major barrier to market access in all sectors of services trade.

It states that "the US reserves all existing non-conforming measures of all states of the US, the District of Columbia and Puerto Rico with respect to three obligations: National Treatment, MFN Treatment and Local Presence". On the other hand, the services obligation in the recently concluded EPA between the EU and CARIFORUM states apply to all measures at all levels of government as in the GATS.

There is some level of discipline in Article III.3 which requires transparency regarding new regulations:

> Each Member shall promptly and at least annually inform the Council for Trade in Services of the introduction of any new, or any changes to existing, laws, regulations or administrative guidelines which significantly affect trade in services covered by its specific commitments under this Agreement.

Perhaps the broadest latitude for governments to pursue regulatory measures that restrict services trade or investment is contained in the General Exceptions in Article XIV, albeit with some firm conditions:

> Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where like conditions prevail, or a disguised restriction on trade in services, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any Member of measures:
>
> (a) necessary to protect public morals or to maintain public order;[12]
> (b) necessary to protect human, animal or plant life or health;
> (c) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement including those relating to:
> (i) the prevention of deceptive and fraudulent practices or to deal with the effects of a default on services contracts;
> (ii) the protection of the privacy of individuals in relation to the processing and dissemination of personal data and the protection of confidentiality of individual records and accounts; and
> (iii) safety.

However, it is highly unlikely that a government could justify denying the recognition of professional qualifications on the basis of a GATS exception.

Regulations regarding professional services have as their primary objective the need to ensure and maintain a certain quality of the service, and hence to protect consumers. The potential impact of regulatory measures on competition and hence on market access and national treatment of foreign professionals under the GATS would need to be assessed carefully against this regulatory objective.

Typical market access limitations would include restrictions on the form of commercial presence (only natural persons or partnerships allowed), often in joint operation or joint venture with local professionals. For natural persons, entry may be subject to ENTs, or nationality requirements. Market access of foreign suppliers may be limited to projects of above a certain amount. National treatment limitations could include residency requirements and requirements to use local services or to employ local professionals. But even the non-discriminatory domestic regulations can disadvantage foreign suppliers.

While regulatory harmonisation is not a practical goal, and perhaps regulatory convergence is more feasible, the diversity of regulations for any professional service varies tremendously among WTO Members. And it is unlikely that new disciplines on licensing and qualification procedures and requirements will significantly improve effective market access. To illustrate, the differences in complexity of regulation regarding access to and practice of a traditional profession let us consider the case of engineering in a developed and developing country.

Case Example – Engineering Services

A comparison of the regulatory process for practicing engineering in Canada with that of Trinidad and Tobago illustrates the difference between developed and developing countries in terms of a "regulatory divide" in domestic regulation and hence the potential imbalance in terms of trade in professional services.

The Canadian Regulatory Regime for Engineering

Licensing and Qualification Requirements

A professional engineering association exists under provincial and territorial legislation in each of the ten Canadian provinces and three territories. These associations have the necessary responsibility and authority to govern the profession and its practitioners within their jurisdiction. The provincial and territorial legislation is similar in terms of the key elements but conditions and requirements vary among some jurisdictions. In Canada, the title "P. Eng." designates the status of a Professional Engineer. Approximately 160,000 professional engineers are registered. It is illegal for non-licensed engineers to approve engineering drawings or reports, use the title "Professional Engineer" or any variation of it, or offer engineering services to the public. Most other technical work may be performed by non-licensed engineers without restriction[13].

To be eligible for a licence, candidates must graduate from an accredited Canadian university programme or recognised engineering programme, have fours years of engineering experience (three in Quebec) with at least one year in Canada, pass a professional practice examination and be proficient in English and / or French. In addition, many associations also have mandatory continuing competence or practice review requirements[14].

Each province requires anyone practicing engineering to be a registered Professional Engineer, whether the work is performed as an employee for industry or government or is provided as a consultant to the public. In some jurisdictions, there are additional registration requirements beyond the Professional Engineer for certain categories of work. Professional registration is available to those individuals who have met the requirements with respect to academic qualification, language competency, satisfactory experience and knowledge of professional practice and ethics, and who are of good character. A number of provinces maintain residency and local presence requirements for practice under a permanent licence. All provinces have procedures for temporary licensing of foreign non-resident engineers that are valid for one year and are renewable. This may facilitate trade in engineering services. In Ontario, temporary licences require qualifications equivalent to Canadian licence requirements or 10 years experience in the field for which the licence is requested; written verification of registration with a professional engineering board; collaboration with a licensed member of the professional engineers of Ontario; proof of liability insurance; and academic transcripts.

Market Access for Foreigners

Canada's GATS Schedule sets out commitments in this area, including some limitations on market access and national treatment by certain provinces. In engineering and integrated engineering services, market access for modes 1, 2 and 4 is limited in British Columbia, Newfoundland, Alberta, Ontario and New Brunswick by the requirement for engineers to be permanent residents for accreditation purposes. In Manitoba, consulting engineers are required (for modes 1 and 2) to establish a commercial presence for accreditation. There are also certain limitations on market access and on national treatment by certain provinces.

Apart from the clear market access barriers in Canada's GATS schedule, it is not easy to deal with non-discriminatory domestic regulations either. If an engineer is trained in Canada and has experience there it is a relatively straightforward process to meet the licensing requirements but if one's credentials are foreign it is extremely difficult. In fact, a survey of over 1,000 immigrants with engineering backgrounds drawn from 73 countries revealed that less than five percent of immigrants with engineering backgrounds actually become licensed and even fewer are able to practice as professional engineers in Canada. This epitomises the problems posed by qualification requirements at all levels, much more for traders or service suppliers[15].

Regulation of Engineering in Trinidad and Tobago

The Engineering Profession Act, No. 34 of 1985 regulates the profession in Trinidad and Tobago and provides for mandatory registration of persons and firms providing engineering services to the public. There is no licensing requirement. A person is qualified to be registered as a registered engineer if: (i) he has been awarded a degree, diploma or other qualification in engineering granted by a University or School of engineering that in the opinion of the Board, is evidence of satisfactory training in engineering; and (ii) he has had not less than four years experience in the practice of engineering and has acquired such standard of proficiency as may be approved by the Board. The basic academic training or qualification requirement for engineering is a three-year degree[16].

The Association of Professional Engineers of Trinidad and Tobago and subsequently the Board of Engineering of Trinidad and Tobago (BOETT), in the past kept a listing of engineers in private consulting practice. Individuals and firms who met criteria as stated were included in the list. This list of consultants eventually became the Association of Consulting Engineers of Trinidad and Tobago (ACETT), and access to membership is by voluntary application.

The fairly limited regulatory regime for engineering in Trinidad and Tobago makes if easy for foreign engineers who work on projects there to practise since they do not need to obtain a licence. Indeed foreign engineers have been working in many industrial projects without much difficulty for years. But it is practically impossible for an engineer from Trinidad and Tobago to work on projects in any province in Canada (or other OECD countries) even on a temporary basis without meeting all the licensing and certification requirements exerted by the engineering association in Canada (or other OECD states). In this regard, it should be noted that the Canadian authorities will not issue a work permit if a foreign worker does not meet certification and licensing requirements for regulated occupations in Canada (e.g. doctors, engineers and tradespersons).

Therefore, while bilateral trade negotiations are expected to start soon between Canada and the Caribbean Community (CARICOM) countries, Caribbean engineers feel that any market access granted by Canada will not be of much practical benefit to them since they will not be able to take advantage of the opportunity. On the other hand, any access granted by CARICOM states can be utilised by Canadian engineers.

Is Mutual Recognition an Alternative?

Some analysts have argued that mutual recognition of qualifications is perhaps the best means of addressing regulatory divergences across countries and in recent years various attempts have been made to negotiate mutual recognition agreements (MRAs) in the context of bilateral trade agreements (BTAs). Under the North America Free Trade Agreement (NAFTA) a MRA for temporary and permanent licensing of engineers, recognising professional qualification was signed by Canadian and Mexican federal authorities after ten years of discussions (in 2003).

In the process, Mexico restructured its regulatory regime regarding how engineers are trained and accredited from the old regime of government control of the process to a system largely run by the industry. This trilateral agreement provides mutual recognition for engineers from signatory partners; but the MRA remains to be ratified by all US states except Texas, as well as the important Canadian provincial jurisdictions of Ontario and Quebec[17]. With only Texas having ratified the MRA it is clear that the US engineering bodies do not support mutual recognition across the NAFTA countries for one reason or the other.

The NAFTA experience with engineering services raises the question that if it is so difficult for three contiguous economies with a fully-fledged FTA to agree on mutual recognition of qualifications for engineers, is it realistic to expect generic multilateral disciplines on qualification requirements and procedures for a range of professional services among 153 countries to do anything of significance to actually reduce barriers to trade? Consider further, for instance, that many LDCs in the WTO do not even have registration or licensing requirements for professionals. They will not be willing to subject themselves to disciplines crafted by larger, more developed countries with sophisticated professional services bodies or associations and very complicated regulatory regimes.

Economic Needs Tests

While the negotiations on domestic regulation in the GATS context has a relatively limited mandate, qualification and licensing requirements and procedures are not the most significant barriers to mode 4 access of service suppliers. A major constraint to actual market access for services is the regulatory requirement or condition of ENTs or labour market tests or labour certification tests. There are numerous indications of these in the market access schedules of developed and developing WTO Members. In 1999, UNCTAD pointed out that:

> Of 134 WTO members, 67 have used ENTs to regulate trade flows in one or more modes and all or selected services sectors. Economic needs tests have qualified commitments on market access in all sectors in a few countries, but others may also apply them since no mechanism exists in GATS to limit the scope of their application. Some countries have identified categories of persons that are likely to be subject to needs tests in their horizontal commitments, but this does not mean that these and other countries would not apply needs tests to categories of persons not included in the schedules of commitments.
>
> A few countries have also referred to the economic needs tests as qualifying their national treatment commitments. The GATS, however, includes economic needs tests among the market access barriers listed in Article XVI (Market Access)[18].

ENTs are unfortunately not defined in the GATS. Article XVI:2(d) and the Scheduling Guidelines set out the rules on ENTs in mode 4. They should either: (i) not be applied to the categories of persons covered by a Member's commitments on mode 4; or (ii) if they are applied they must be included in a Member's schedule of commitments. The Scheduling Guidelines also stipulate that if a Member schedules an ENT it should describe the criteria in the market access column of the schedule. Nevertheless, the lack of clarity or grey area regarding ENTs or labour market tests in schedules is widespread and it certainly restricts market access in a very tangible manner since services supplier do not know the rules of engagement in many countries. As the WTO Secretariat pointed out:

> Of the 253 entries, 96 provide no guidance concerning the criteria on which the test is based. Of the 157 entries that provide criteria on which the tests are based, very few have described these criteria as set out in the Scheduling Guidelines. The 39 horizontal entries in mode 4 establish as the sole criterion for the admission of a service supplier the non-availability of qualified personnel in the local market. Other entries provide minimal indications on the objectives and criteria applied in the test. ENTs containing criteria are frequently phrased in a way that nevertheless leaves wide discretion as to their application. Typical formulations are "criteria include" or the relevant agency "shall have regard to, *inter alia*, the following criteria". Work from UNCTAD and the OECD has pointed out that the absence of a definition of ENTs in the GATS has led to scheduling inconsistencies and a lack of transparency as to the operation of ENTs"[19].

And ENTs are not limited to multilateral agreements. For example, in its commitments on temporary entry for contractual service suppliers (CSS) and independent professionals (IPs) in the EPA between the EU and the CARIFORUM countries the EC included ENTs for several of its members in a wide range of service activities[20]. While the overall commitments in many sectors are GATS-plus and there are no economic ceilings or quotas, the ENTs create a sense of uncertainty or unpredictability of effective market access for Caribbean service suppliers. The actual procedure for conducting the ENT most likely will vary from one EU state to the next. The criteria indicated for the ENTs are as follow:

> In those sectors where economic needs tests are applied, their main criteria will be the assessment of the relevant market situation in the Member State or the region where the service is to be provided, including with respect to the number of, and the impact on, existing services suppliers[21].

While this description is an improvement on language in some GATS schedules, it is still vague and open to all kinds of interpretation at the national level. EC negotiators argued that since there are 27 member states and no quotas for the 29 sectors in which commitments on CSS and IP were made, it was too difficult to get full commitments from their member states without the comfort of ENTs. But service suppliers will have little or no information on how the assessment of the market situation will actually be done and how long that process will take if they get a contract[22]. This certainly reduces the value of the market access commitment for mode 4 in those countries which scheduled ENTs.

In comparison, the commitments on temporary entry or mode 4 in the NAFTA do not include ENTs and neither are there economic ceilings or quotas in the sectors which the three countries liberalised. The provisions relevant to labour mobility in NAFTA are contained in Chapter 16 on temporary entry for business persons. It provides for the entry of four categories of workers and business people from Mexico, Canada and the US: business visitors; traders and investors; intra-company transferees; and professionals. They are facilitated by the removal of prior approval procedures or labour certification tests for individuals requesting entry, provided they comply with immigration requirements applicable to temporary entry (public health, security issues).

In most countries, the entry of temporary workers is subject to controls through which domestic authorities evaluate domestic labour market needs before authorising the entry of foreign workers. In Canada, this approval procedure is called the confirmation process and is performed by the federal department responsible for Human Resources. In this process, HRSDC "assesses offers of employment made by Canadian employers to foreign workers and develops an opinion on the likely effect of the employment of the foreign national on the labour market in Canada[23] ". The facilitated procedure for the temporary entry of business persons under NAFTA differs from the usual process with the absence of the confirmation process.

NAFTA's labour mobility provisions also remove the labour market test for professionals included in the list of 63 professions covered by the agreement[24]. To qualify, a professional must be able to show a contract or a letter of offer from an employer in the country to which she / he is seeking entry and to prove her / his professional-level qualifications (in most cases a bachelor's degree). Self-employed professionals are excluded from these provisions. This category of visa stands out from the others included in Chapter 16, which are clearly aimed at facilitating international trade and investment.

The NAFTA example makes it clear that for significant trade in professional and other services supplied through mode 4 to take place governments have to relinquish much of their intervention or rigid control. And they must eliminate economic needs tests if they are serious about allowing their economies to benefit from efficiencies to be gained from greater competition. This is particularly important in a rapidly integrating global services market in particular sectors. Perhaps the traditional professions may never become "globalised" and will remain segmented into national markets but the scale economies and efficiency gains that benefit an economy from effective liberalisation in other sectors also are relevant in the case of professional services.

The Draft Disciplines on Domestic Regulations in the WTO

In trying to craft generic disciplines on domestic regulations for a range of sectors, delegations in Geneva focused their attention initially on the principles and approaches in the Disciplines on Domestic Regulation in the Accountancy Sector (document S / L / 64), approved by the Services Council in December 1998. The relevant Council Decision (document S / L / 63) provides that the "accountancy disciplines" are applicable only to members who have scheduled specific commitments on accountancy. The accountancy disciplines are to be integrated into the GATS, together with any new results the Working Party on Domestic Regulation (WPDR) may achieve in the interim, at the end of the current Round. A core feature of the disciplines is their focus on (non-discriminatory) regulations that are not subject to scheduling under GATS Articles XVI and XVII.

In January 2008, after much discussion over the years in the WPDR, the Chair produced a revised draft text regarding Disciplines on Domestic Regulations on his own initiative[25]. It was intended to capture the areas of consensus regarding positions expressed by the delegations in Geneva. It is interesting to note that the WPDR itself could not arrive at a text after more than five years of discussions due to the wide differences among countries in terms of the positions regarding disciplines on requirements and procedures for licensing and qualification and on technical standards.

Not surprisingly, the Chair's text although quite relevant and appropriate in many respects, was met with mixed reactions among the WTO membership; some delegations thought it had gone too far, others thought that it had not gone far enough. Developing countries and developed countries had different positions on the proposed disciplines; and the group of small and vulnerable economies (SVEs) argued for special provisions to address their needs. But the fastidious positions of some members seem to suggest that there is no real interest in crafting disciplines on domestic regulations.

The protracted and tedious negotiations on domestic regulations in the WTO seem to indicate a lack of political will by members to complete the work on disciplines on domestic regulation. Over the past five years, the chairs of the WPDR have consulted extensively with many delegations. Nevertheless, the Chairman of the Council for Trade in Services reiterated in his latest report before the WTO mini-ministerial meeting in July 2008:

> In accordance with paragraph 5 of Annex C of the Hong Kong Ministerial Declaration, Members are called upon to develop disciplines on domestic regulation pursuant to the mandate under Article VI:4 of the GATS before the end of the current Round of negotiations. Members welcome the progress achieved since the Hong Kong Ministerial Conference and, in particular, that the negotiations have moved into a text-based phase. In light of the extensive and constructive discussions that have taken place, Members call upon the Working Party on Domestic Regulation to intensify its work and finalize text for adoption. Members invite the Chairman to continue to consult on drafting revisions, with a view to developing and adopting text before the end of the negotiations[26].

In addressing the various concerns raised about the restrictive effect of varied domestic regulations governing licensing and qualification across the WTO membership we have made slight revisions to the Chair's draft disciplines from January 2008 and it is presented as Appendix I to this paper. The revisions were based on careful consideration of the issues and the various negotiating positions of countries that submitted comments since the first draft in April 2007. It is a constructive compromise, but it is rooted in the reality that disciplines on domestic regulation must be established sooner than later if the effective barriers to trade in a range of professional services are to be reduced.

The recommended Annex on Domestic Regulations proposed in Appendix I is a balance between the overly fastidious positions of some delegations and economy in terms of the level of detail and clarity to be included in the Annex. As in the drafts by the chairs of the WPDR in the past two years, its main focus is on qualification and licensing issues and less on technical standards. The proposed Annex should be adopted by the WTO Members.

Conclusion

In conclusion, domestic regulation is very critical to services trade liberalisation both from a market access perspective (ensuring that commitments are not undermined by regulations) and from a public interest concern (to ensure that when foreign firms supply services consumers are protected). As this paper has shown, the negotiations on domestic regulation in the Doha Round will have limited impact on a broad range of market access limitations since they do not cover items scheduled in the market access limitations in the schedules of many WTO Members.

If one accepts that the actual situation regarding domestic regulations governing licensing and qualification requirements and procedures are such that developing countries are at a disadvantage since the regulatory regimes in developed countries are the most developed and complicated, then perhaps the approach should be to address the concerns of developing countries in the WTO. The disciplines proposed in the attached Annex on Domestic Regulations should achieve that balance. However, it is equally important for the WTO membership to start addressing the larger problem of ENTs or labour market tests which proliferate in GATS schedules and which make the conditions of market access granted in schedules rather unclear.

Appendix I
Annex on Disciplines on Domestic Regulation

I. Introduction

1. Pursuant to Article VI:4 of the GATS, Members have agreed to the following disciplines on domestic regulation.
2. The purpose of these disciplines is to facilitate trade in services by ensuring that measures relating to licensing requirements and procedures, qualification requirements and procedures, and technical standards are based on objective and transparent criteria, such as competence and the ability to supply the service, and do not constitute disguised restrictions on trade in services.
3. Members recognise the right to regulate, and to introduce new regulations, on the supply of services within their territories in order to meet national policy objectives[27] and, given asymmetries existing with respect to the degree of development of services regulations in different countries, the particular need of developing countries to exercise this right.
4. Members recognise the difficulties which may be faced by individual developing country Members in implementing disciplines on domestic regulation, particularly difficulties relating to level of development, size of the economy, and regulatory and institutional capacity. Members recognise the difficulties which may be faced by service suppliers, particularly those of developing country Members, in complying with measures relating to licensing requirements and procedures, qualification requirements and procedures, and technical standards of other Members.

II. Definitions

5. "Licensing requirements" are substantive requirements, other than qualification requirements, with which a natural or a juridical person is required to comply in order to obtain, amend or renew authorization to supply a service.
6. "Licensing procedures" are administrative or procedural rules that a natural or a juridical person, seeking authorisation to supply a service, including the amendment or renewal of a licence, must adhere to in order to demonstrate compliance with licensing requirements.
7. "Qualification requirements" are substantive requirements relating to the competence of a natural person to supply a service, and which are required to be demonstrated for the purpose of obtaining authorisation to supply a service.
8. "Qualification procedures" are administrative or procedural rules that a natural person must adhere to in order to demonstrate compliance with qualification requirements, for the purpose of obtaining authorisation to supply a service.
9. "Technical standards" are measures that lay down the characteristics of a service or the manner in which it is supplied. Technical standards also include the procedures relating to the enforcement of such standards.

III. General Provisions

10. These disciplines apply to measures by Members relating to licensing requirements and procedures, qualification requirements and procedures, and technical standards affecting trade in services in sectors where specific commitments are undertaken. They do not apply to measures to the extent that they constitute limitations subject to scheduling under Article XVI or XVII.
11. Measures relating to licensing requirements and procedures, qualification requirements and procedures, and technical standards shall be pre-established, based on objective and transparent criteria and relevant to the supply of the services to which they apply.
12. Nothing in these disciplines prevents Members from exercising the right to introduce or maintain regulations in order to ensure provision of universal service, in a manner consistent with their obligations and commitments under the GATS.

IV. Transparency

13. Each Member shall promptly publish through printed or electronic means, or otherwise, measures of general application relating to licensing requirements and procedures, qualification requirements and procedures, and technical standards, as well as detailed information regarding these measures. This information shall include, *inter alia*:
    - (a) whether any authorisation, including application and / or renewal where applicable, is required for the supply of services;
    - (b) the official titles, addresses and contact information of relevant competent authorities;
    - (c) applicable licensing requirements and criteria, terms and conditions of licences, and licensing procedures and fees;
    - (d) applicable qualification requirements, criteria and procedures for verification and assessment of qualifications including fees;
    - (e) applicable technical standards;
    - (f) procedures relating to appeals or reviews of applications;
    - (g) monitoring, compliance or enforcement procedures including notification procedures for non-compliance;
    - (h) where applicable, how public involvement in the licensing process, such as hearings and opportunity for comment, is provided for;
    - (i) exceptions, derogations or changes to measures relating to licensing requirements and procedures, qualification requirements and procedures, and technical standards; and
    - (j) the normal timeframe for processing of an application.

    Where publication is not practicable, such information shall be made otherwise publicly available.
14. Each Member shall maintain or establish appropriate mechanisms for responding to enquiries from any service suppliers regarding any measures relating to licensing requirements and procedures, qualification requirements and procedures, and technical standards. Such enquiries may be addressed through the enquiry and contact points established

under Articles III and IV of the GATS or any other mechanisms as appropriate.

15. Each Member shall endeavour to ensure that any measures of general application it proposes to adopt in relation to matters falling within the scope of these disciplines are published in advance. Each Member should endeavour to provide reasonable opportunities for service suppliers to comment on such proposed measures. Each Member should also endeavour to address collectively in writing substantive issues raised in comments received from service suppliers with respect to the proposed measures.

V. Licensing Requirements

16. Where residency requirements for licensing not subject to scheduling under Article XVII of the GATS exist, each Member shall consider whether less trade restrictive means could be employed to achieve the purposes for which these requirements were established.

VI. Licensing Procedures

17. Each Member shall ensure that licensing procedure, including application procedures and, where applicable, renewal procedures, are as simple as possible and do not in themselves constitute a restriction on the supply of services.
18. Each Member shall ensure that the procedures used by, and the decisions of, the competent authority in the licensing process are impartial with respect to all applicants. The competent authority should be operationally independent of and not accountable to any supplier of the services for which the licence is required.
19. An applicant shall, in principle, not be required to approach more than one competent authority in connection with an application for a licence.
20. An applicant should be permitted to submit an application at any time, except where licences are limited in numbers, including in public tendering. Where specific time periods for applications exist, an applicant shall be allowed a reasonable period for the submission of an application. The competent authority shall initiate the processing of an application without undue delay. Where possible, applications should be accepted in electronic format under the same conditions of authenticity as paper submissions.
21. The competent authority shall, within a reasonable period of time after receipt of an application which it considers incomplete, inform the applicants, to the extent feasible identify the additional information required to complete the application, and provide the opportunity to correct deficiencies.
22. Authenticated copies should be accepted, where possible, in place of original documents.
23. If an application for a licence is rejected by the competent authority, the applicant shall be informed in writing and without undue delay. In principle, the applicant shall, upon request, also be informed of the reasons for rejection of the application and of the timeframe for an appeal against the decision. An applicant should be permitted, within reasonable time limits, to resubmit an application.

24. Each Member shall ensure that the processing of an application for a licence, including reaching a final decision, is completed within a reasonable timeframe from the submission of a complete application. Each Member shall endeavour to establish the normal timeframe for processing of an application.
25. Each Member shall ensure that a licence, once granted, enters into effect without undue delay in accordance with the terms and conditions specified therein.
26. Each Member shall ensure that any licensing fees[28] are commensurate with the costs incurred by the competent authorities and do not in themselves restrict the supply of the service.

VII. Qualification Requirements

27. Where a Member imposes qualification requirements for the supply of a service, it shall ensure that adequate procedures exist for the verification and assessment of qualifications held by service suppliers of other Members. In verifying and assessing qualifications, the competent authority shall give due consideration to relevant professional experience of the applicant as a complement to educational qualifications. Where membership in a relevant professional association in the territory of another Member is indicative of the level of competence or extent of experience of the applicant, such membership shall also be given due consideration.
28. Provided an applicant has presented all necessary supporting evidence of qualifications, the competent authority, in verifying and assessing qualifications, shall identify any deficiency and inform the applicant of requirements to meet the deficiency. Such requirements may include *inter alia* course work, examinations, training, and work experience. Where appropriate, each Member shall endeavour to provide the possibility for applicants to fulfil such requirements in the home, host or any third jurisdiction.
29. Residency requirements, other than those subject to scheduling under Article XVII of the GATS, shall not be a pre-requisite for assessing and verifying the competence of a service supplier of another Member.
30. Once qualification requirements and any applicable licensing requirements have been fulfilled, each Member shall ensure that a service supplier is allowed to supply the service without undue delay.

VIII. Qualification Procedures

31. Each Member shall ensure that qualification procedures are as simple as possible and do not in themselves constitute a restriction on the supply of services. Once qualification requirements have been fulfilled and, where applicable, licences have been granted, each Member shall ensure that a supplier is allowed to supply the service without undue delay in accordance with the terms and conditions specified in the licence.
32. An applicant shall, in principle, not be required to approach more than one competent authority for qualification procedures. In instances in which it is necessary for applicants to deal with more than one competent authority Members shall ensure that there is clear detail on the exact responsibility

of each competent authority and the exact timeframe within which each must consider the application and provide its comments or make a decision.

33. An applicant should, where feasible, be permitted to submit an application for assessment of his or her qualifications at any time. The competent authority shall initiate the processing of an application without undue delay.
34. Where examinations are required, each Member shall ensure that they are scheduled at reasonably frequent intervals. Applicants for examinations shall be allowed a reasonable period to submit applications.
35. The competent authority shall, within a reasonable period of time after receipt of an application, which it considers incomplete, inform the applicants, to the extent feasible, identify the additional information required to complete the application, and provide the opportunity to correct deficiencies.
36. Authenticated copies should be accepted, where possible, in place of original documents.
37. If an application for verification and assessment of qualification is rejected by the competent authority, the applicant shall be informed in writing and without undue delay. In principle, the applicant shall, upon request, also be informed of the reasons for rejection of the application and of the timeframe for an appeal against the decision. An applicant should be permitted, within reasonable time limits, to resubmit an application.
38. Each Member shall ensure that the processing of an application, including verification and assessment of a qualification, is completed within a reasonable timeframe from the submission of a complete application. Each Member shall endeavour to establish the normal timeframe for processing of an application.
39. Each Member shall ensure that any fees relating to qualification procedures are commensurate with the costs incurred by the competent authorities and do not in themselves restrict the supply of the service.

IX. Technical Standards

40. Members are encouraged to ensure maximum transparency of relevant processes relating to the development and application of domestic and international standards by non-governmental bodies.
41. Where technical standards are required and relevant international standards[29] exist or their completion is imminent, Members should take them or the relevant parts of them into account in formulating their technical standards, except when such international standards or relevant parts would be an ineffective or inappropriate means for the fulfilment of national policy objectives.

X. Development

42. A developing country Member shall not be required to apply these disciplines for a period of three years from their date of entry into force. Before the end of this transitional time period, upon request by a developing country Member, the Council for Trade in Services may extend the time period to implement these disciplines, based on that Member's level of

development, size of the economy, and regulatory and institutional capacity.

43. A Member may accord reduced administrative fees to service suppliers from developing country Members.
44. Where circumstances allow for the phased introduction of new licensing requirements and procedures, qualification requirements and procedures, and technical standards, Members shall consider longer phase-in periods for such measures in service sectors and modes of supply of export interest to developing country Members.
45. Developed country Members, and to the extent possible other Members, shall provide technical assistance to developing country Members and in particular LDC Members, upon their request and on mutually agreed terms and conditions. Technical assistance shall be aimed, *inter alia* at:
    (a) developing and strengthening institutional and regulatory capacities to regulate the supply of services and to implement these disciplines;
    (b) assisting developing country and in particular LDC service suppliers to meet the relevant requirements and procedures in export markets;
    (c) facilitating the establishment of technical standards and participation of developing country Members and in particular LDCs facing resource constraints in the relevant international organisations; and
    (d) assisting through public or private bodies and relevant international organisations, service suppliers of developing country Members in building their supply capacity and in complying with domestic regulation in their markets. Such assistance may also be provided directly to the respective service suppliers.
46. LDCs shall not be required to apply these disciplines. LDCs are nonetheless encouraged to apply these disciplines, to the extent compatible with their special economic situation and their development, trade and financial needs.

XI. Institutional Provisions

47. The Council for Trade in Services shall establish a Committee on Domestic Regulation to oversee the implementation of these disciplines and the operation of Article VI of the GATS including any further work under Article VI:4 of the GATS.
48. The Council for Trade in Services shall, upon request from any Member, review the operation of these disciplines and make recommendations as appropriate.

Appendix II

Examples of Barriers Due to Qualification Requirements and Procedures, Technical Standards and Licensing Requirements (Indicated By WTO Members)[30]

A. **{All Sectors}** These examples appear to meet the requirements set by Members, i.e. specific measures not already covered by the *Accountancy Disciplines*, which are also not GATS Article XVI or XVII measures:

Transparency

1. Lack of opportunity for interested non-governmental market participants to meet with government officials to discuss the impact of new or proposed regulations.
2. Inadequate information available or information not readily available, to non-governmental market participants about new or proposed regulations affecting their interests.

Licensing Requirements

1. Restrictive regulations relating to zoning and operating hours, to protect small stores.
2. Federal and sub-federal licensing and qualification requirements and procedures are different, making a licence or qualification recognition obtained in one state not valid in other states.
3. Too many licences required in order to operate a business.
4. Overly burdensome licensing requirements (e.g. minimum age required for a physiotherapist is 25 years old).
5. Lengthy censorship procedures; too many censoring agencies with different criteria.
6. Overly large capital asset or office-size requirements for establishment or registration (road transportation, construction, and distribution).
7. Minimum requirements for number of vessels (maritime).
8. Pre-condition for providing / maintaining licence is a two-year working period, but a two-year working visa is difficult to obtain (construction).
9. Minimum paid-in capital requirements: to apply for a Fixed Network Business, the applicant shall subscribe to the applicable minimum paid-in capital (telecommunication services).
10. Minimum build-out requirements: to apply for an Integrated Network Business, the applicant shall, within the effective period of the Network Construction Permit (i.e. six years), construct a local network possessing the minimum capacity requirements (telecommunication services).
11. [Subject to Members' interpretation]. The requirement that foreign agents, brokers, and adjusters for insurance services who apply for establishing commercial presence in the host Member shall employ at least one individual who has secured a domestic agent, broker, or adjuster (insurance services).

Licensing Procedures

12. It is necessary to obtain / renew the same licence in every regional government.
13. All the important papers necessary to establish business operation have to be certified by the Public Notary which can take a long time to process with no other alternative available.
14. The effective period of licensing is very short.
15. Authorisation may not be handled through a single point.
16. Inability of applicants to file complaints regarding review of their applications.

Qualification Requirements

1. Only persons who have specific certification from a government agency can take up managerial posts (e.g. managers of an insurance company must have certification from the insurance agency in that country).
2. Requirement for fluency in language of the host country which in some cases is not relevant to ensure the quality of service.
3. Different sub-federal regulations for recognition of qualifications.
4. Minimum requirements for local hiring (accountancy).
5. Qualification procedures
6. A large number of documents are required (application procedures).
7. Need for in-country experience before sitting examinations (accountancy).
8. The chairperson of the board and the general manager of an engineering consulting firm are both required to be licensed professional engineers of the host Member (engineering services).
9. At least half of all the directors or shareholders who are actually conducting the business of an engineering consulting firm shall be licensed professional engineers (engineering services).
10. At least one third of the directors should be medical professionals (hospital services).

Qualification Procedures

1. In a certain sector, prior approval is required by the competent authority for the employment of managers, assistant managers and supervisors of certain departments as designated by the authority (banking services).

Technical Standards

1. Unreasonable environmental and safety standards (maritime transport).
2. Local standards requirements: in some federal system Members, the sub-federal governments maintain different technical standards from one another, which has constituted severe impediments to foreign construction firms contracting projects.
3. The required minimum paid-in capital is adjusted in accordance with the domestic inflation rate every year (banking services).
4. The internal documents of a foreign establishment have to be written in a local official language (banking services).

5. When producing the financial statement, firms are required to follow the headings and codes specified by the local competent authority, rather than those of international practices (banking services).

B. **{Non-Accountancy Sectors}** The following measures also appear to meet the requirements set by Members – provided they apply to sectors other than accountancy (otherwise they seem to already be covered by the *Accountancy Disciplines*):

Transparency

1. Regulatory changes without adequate prior notice, making the applicants not eligible to apply or have to find new supporting documents within a short period of time.
2. Non-transparent regulatory environment (architecture, postal and courier, audiovisual, distribution, education, energy, environmental, sporting, and tourism services).
3. Domestic laws and regulations are unclear and administered in an unfair manner; subsidies for higher and adult education and training are not made known in a clear and transparent manner.
4. A lack of transparency in domestic town planning regulations that might prejudice decisions on the location of installations to provide such services through commercial presence (distribution services).
5. Long delays when government approval is required, and, if approval is denied, no reasons or information given on what must be done to obtain approval in the future (postal and courier services).
6. Domestic regulations contain ambiguous criteria and conditions for service suppliers to observe (e.g. when applying to form an establishment, the applicant should have an "adequate asset base as well as appropriate management and support staff and be unlikely to disturb the local economy") (banking services).
7. Lack of transparent regulations or standards for a company's risk management (banking services).

Licensing Requirements

1. Absence of pre-determined, clear criteria for licensing requirements (including postal and courier, and distribution services).
2. Unreasonable restrictions on licensing (legal services).
3. Restrictive licensing practices (tourism).
4. Unclear licensing and approval requirements (energy services).
5. Unspecified approval and licensing requirements (environmental, financial and tourism services).
6. Irrelevant requirements to obtain licence (e.g. jewellery artists must obtain a permit or licence from the National Bank).
7. Too many steps for business registration and such registration must be renewed relatively frequently (e.g. every two years) at a considerable time and expense.

8. Non-transparent registration procedures; unpredictable timeframe for registering process.
9. Restrictions on registration (e.g. residency requirements), which prevent foreign engineers from signing off on drawings and managing projects.
10. Unduly burdensome requirements.
11. Onerous licensing requirements (consulting, engineering, construction, and distribution services).
12. As licences can be difficult or impossible to obtain, forwarders often have to resort to intermediaries or form partnerships (other transport services).
13. Registration is required both at the central and local governments (or local commercial courts); the procedures at the local level are often not transparent and take a long time without adequate explanation for the delay.
14. Residency requirements (including computer, telecommunications, audiovisual, construction, distribution, energy, financial, sporting, and tourism services).
15. Residency requirements for advertising production professionals filming in some countries and / or for employees of the advertising firm.
16. Mandatory membership of a Chamber of Commerce or a local association required as a pre-condition to operate business in local areas.
17. To be licensed as a professional, there is a requirement or pre-requirement to be a member of an affiliate organisation. This organisation has no regulatory authority over the profession (i.e. union, country club). To be a member of this organisation, the licensee must be a resident of the territory or have lived in the territory for the past six months.
18. Requirement to have numerous different legal entities as a pre-condition to apply for a business operation licence.
19. Applicant must possess indemnity insurance or be bonded prior to licensing.
20. Licensing fees that are considered as expensive by international standards.
21. Registration / approval is required in order to provide services.
22. Special registration requirements for firms to operate in individual countries (construction service).
23. Authorization requirements are cumbersome: e.g. a permit is required for every single project.
24. Residency requirements: architects or other registered professional must stay in the host regions for a long period of time and in case of no fulfilment of such requirements, licence will be lifted.

Licensing Procedures

1. Work history and letters of reference from all previous employers unrelated to the authorisation sought.
2. Documented proof of physical and mental well-being.
3. Overly complicated licensing procedures (e.g. have to go through many steps in many agencies in order to obtain a licence).
4. Excessive, vexatious formalities, lacking in transparency, for professional licensing purposes, etc.
5. Only original documents will be accepted.

6. Only documents translated or authenticated by that country's embassy will be accepted, causing unnecessary delays and expenses (especially if additional documents for an application are required at short notice).
7. Delays in receiving an application.
8. Delays in informing the applicant of the decision (unreasonable time).
9. Where government approval is required but denied, no reasons are given for denial, and no information is given on what must be done to gain approval in the future.
10. No possibility for the applicant of correcting minor errors in its application form.
11. No possibility of resubmitting applications for licensing after a first rejection.
12. Delays in implementing the terms of the licence
13. Lack of transparency.
14. The period of time required for the processing of a licence application is not very clear.
15. The processing period for a licence application is long.
16. A great deal of documents must be submitted throughout several stages in order to obtain authorisation.
17. Excessive application and processing fees (including postal and courier, distribution, and educational services).
18. Authorisation procedures are costly.
19. Authorisation procedures take up a considerable amount of time.

Qualification Requirements

1. Residency requirements.
2. The scope of examinations of qualification requirements goes beyond subjects relevant to the activities for which authorisation is sought.
3. Requirements needed for eligibility to take exams are more burdensome than necessary and not relevant to ensure the quality of service (e.g. must stay in that country at least three years to be eligible to take exam).
4. Qualification requirements other than education, examinations, practical training, experience and language skills.
5. Examinations that do not appear to be directly related to the concerned qualifications are required.
6. Educational background in certain countries / regions is the pre-requisite for granting of licences, while the academic background of foreign professionals is not recognised.
7. Requirements of previous working experiences in host markets: Natural persons applying for professional licences should have certain years of working experiences in the host markets.

Qualification Procedures

1. Long delays in the verification of an applicant's qualifications acquired in the territory of another Member.
2. Lack of a legal framework for accepting professionals with foreign qualifications, or lack of internal consistencies of such a framework.

3. Non-recognition of foreign qualifications (including engineering, construction, financial and sporting services).
4. Limited or no recognition of foreign qualifications (architecture, legal services).
5. Non-recognition of qualifications obtained in country of origin (e.g. not accepting cooking certificate from a government institute) and refusal to consider past working experiences and / or apprenticeship in country of origin.
6. Common exclusion of developing countries from mutual recognition agreements
7. Unreasonable intervals for examination of applications.
8. Limited openness of process (all eligible applicants do not benefit from the same level of openness).
9. Unreasonable period of time for the submission of applications.
10. Excessive administrative costs that do not reflect fees charged.
11. Residency requirements for sitting examinations (not subject to Article XVII).

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1 Note most of the publications by Oxfam, Council of Canadians, Gould (2005), etc.

2 See Cali, Massimiliano, K. Ellis and D. W. te Velde. The Contribution of Services to Development and the Role of Trade Liberalisation and Regulation. London: Overseas Development Institute, June 2008 (forthcoming)

3 James Hodge, "Examining the Cost of Services Protection in a Developing Country: The Case of South Africa", Paper prepared for the World Services Congress, 1999, p. 12

4 Rupa Chanda. Services Trade and Domestic Regulation: A Cross-Country Synthesis. Paper prepared for CUTS and the Commonwealth Secretariat, March 2008, pp. 4-5

5 Massimiliano Cali, et al (2008)

6 WTO Secretariat document - MTN.GNS/W/120, 10 July 1991

7 Note for instance that Canada, the US, the UK and other states have had special programs for temporary movement of IT workers from developing countries for several years

8 In recent years, the federal human resources department has been studying this issue but since accreditation is controlled by professional associations of engineers, lawyers, doctors, dentists, accountants, etc., it is very difficult to resolve

9 For instance, in its services commitments in the EPA between the EU and Caribbean countries Italy scheduled a horizontal reservation which states: "Access to industrial, commercial and artisanal activities is subject to a residence permit and specific authorisation to pursue the activity". This simple statement must refer to a very broad range of domestic regulatory measures or requirements in a range of economic activities, both large scale and small scale. And most likely it will include licensing requirements. But there is no clear mechanism for a service supplier or government to find out the meaning of this broad reservation which can seriously constrain market access

10 Proposal for a Directive of the European Parliament and the Council on Services in the Internal Market (presented by the Commission), Brussels, 5.3.2004, COM (2004) 2 final/3, paragraph 22

11 The term "relevant international organisations" refers to international bodies whose membership is open to the relevant bodies of at least all Members of the WTO

12 The public order exception may be invoked only where a genuine and sufficiently serious threat is posed to one of the fundamental interests of society

13 See www.engineerscanada.ca. The Canadian Council of Professional Engineers (CCPE) was renamed Engineers Canada in February 2007

14 For comparison, in the United Kingdom, the title "Chartered Engineer" is similar to "Professional Engineer." The Engineering Council (UK) maintains the register of Chartered Engineers. Candidates must be members of an engineering institution, such as the IEE, which is licensed to assess and admit individuals for CEng to the register. The United Kingdom does not require licensing to practice engineering before the public. To become a CEng, candidates must meet educational standards and undergo formative professional development to acquire the competence required of CEngs, which typically takes four years. Candidates also have to produce a portfolio of their capabilities. The Professional Review is the final step before registration. This is a peer assessment and in-depth interview by two Chartered Engineers familiar with the candidate's engineering field. Candidates also are required to demonstrate a commitment to professional conduct and continuing professional development (www.ieee.org)

15 See details at http://www.capeinfo.ca/eng_in_canada.php#can_become_lic.

16 See http://rgd.legalaffairs.gov.tt/laws/Ch.%2090/90.01/90.01%20aos.htm and www.boett.org/ACETT.htm

17 WTO Trade Policy Review: Canada. Report by the Secretariat. WT/TPR/S/179, February 14, 2007, p. 131

18 UNCTAD, Lists of Economic Needs Tests in the GATS Schedules of Specific Commitments. UNCTAD/ITCD/TSB/8, September 06, 1999, pp. 3-5

19 WTO. Economic Needs Tests: Note by the Secretariat. (S/CSS/W/118), 30 November 2001, pp. 3-4

20 The ENTs were listed mainly for the new members of the EU, (EC-10 and Bulgaria and Romania) but there were also ENTs by a few other more developed economies in some service sectors. Commitments on CSS were made in 29 sectors and on IPs in 11 sectors by all EU states, except for Belgium in the case of Entertainment services

21 There is an overall total of 469 ENTs listed by individual EU states in a total of 31 sectors in which commitments were made on either CSS or IP. See cover note to Annex IV.D on Reservations on Contractual Services Suppliers and Independent Professionals. The EPA and Annexes can be found at - www.crnm.org

22 The period for temporary entry for CSS and independent professionals in the EPA is a maximum of six months or the term of the service contract

23 The labour market opinion is based on several criteria. 1) Is the work likely to result in direct job creation or job retention for Canadians? 2) Is the work likely to result in skills and knowledge creation or transfer for the benefit of Canadians? 3) Is the work likely to fill a labour shortage? 4) Are the wages and conditions offered sufficient to attract Canadians to, and retain them in, that work? 5) Has the employer made reasonable efforts to hire or train Canadians? 6) Is the employment of the foreign national likely to affect the settlement of any labour dispute in progress or the employment of any person involved in the dispute? Human Resources and Social Development Canada (www.hrsdc.gc.ca)

24 Note that there are no limits on the length of stay of these professionals.

25 See WPDR Room Document, Disciplines on Domestic Regulation Pursuant to Article VI.4: Informal Note by the Chairman, January 23, 2008. The earlier draft of April 18, 2007 had been …… less ambitious

26 Council for Trade in Services, Special Session. Elements Required for the Completion of the Services Negotiations: Note by the Chairman. JOB (08)/79, July 17, 2008

27 National policy objectives include objectives identified at both national and sub-national levels. This interpretation of the term is without prejudice to how "national policy objectives" is used in the GATS or the WTO Agreements

28 Licensing fees do not include payments for auction, tendering or other non-discriminatory means of awarding concessions, or mandated contributions to universal service provision

29 International standards are those developed by international bodies whose membership is open to the relevant bodies of at least all Members of the WTO

30 Taken from "Examples of Measures to be Addressed by Disciplines Under GATS Article VI:4", Informal Note by the Secretariat. JOB(02)/20/Rev.7, September 22, 2003

5

Operationalising Aid for Trade: Who is (should) doing (do) what?

– By Chris Milner*

Introduction

There has been growing academic and policy interest in recent years in whether and how to give additional support for developing countries to adjust to trade reform and greater international integration. The aim of this paper is to review the arguments and issues surrounding the 'AfT' debate, specifically to review and assess:

- the nature of the adjustment issues arising out of trade reform / liberalisation and associated adjustment costs, in particular in a developing country context (and the relationship to the broader development agenda).
- the evidence of the likely extent of these adjustment costs, (comparing the evidence for industrial and developing countries).
- the types of policies / measures, institutional and infrastructure developments, human and policy capacity enhancements required to support and increase the effectiveness of trade policy reform.
- the existing provision (type of support and funding) of trade adjustment support by the bilateral donors and multilateral agencies, and its relationship to national and regional efforts.
- the adequacy of existing provision and the appropriateness of the current distribution of provision and responsibilities across agencies.
- the extent of the need for increasing funding and improving provision, and the appropriate means of enhancing national, regional and international assistance for adjustment.

Particular focus has been given to 'AfT' by the current Doha Round of WTO negotiations, which had been heralded as a development Round. Developing, in particular LDCs have expected and sought greater commitments from

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industrial countries to increase support to build their trade capacity and adjust to trade reforms to take advantage of improved export market access and be competitive in liberalised and internationally integrated domestic and export markets. The Hong Kong Ministerial Meeting during the Doha negotiations mandated the WTO's General Council to establish an 'AfT' Task Force to give substance to the concept and draw up recommendations.

The report of the AfT Task Force (July 2006) highlighted a number of trade-related assistance headings (trade policy capacity, trade development institutions, trade-related infrastructure, productive capacity, trade adjustment). We return in section 6 of this paper to AfT and the developments within this particular institutional framework since 2006. However, this paper deliberately starts off reviewing the issues outside of the existing institutional framework to evaluate whether the broad philosophy and approach is appropriate.

This paper is structured as follows. Section 2 considers the nature of adjustment and its costs, and section 3 reviews the available evidence on these. The types of policies and measures required to support adjustment to trade reform and trade development are considered in section 4. The current sources and mechanisms of adjustment support are outlined in section 5, with particular focus on 'AfT' developments within the WTO (section 6). Section 7 investigates the relationship between development assistance in general and aid for trade, with an assessment of the adequacy of the current arrangements overall in section 8. Finally, the conclusions and recommendations of the paper are set out in section 9.

The Nature of Adjustment to Trade Reform

As with other policies or external sources of change, trade policy reform requires economies to adjust. Indeed the more smoothly and quickly adjustment occurs, the more quickly countries gain in income, productivity and overall growth terms. There is now a large volume of evidence from cross country comparisons to suggest that differences in initial policy and economic conditions affect countries ability to cope and adapt to increased globalisation and openness.[1] These differences in turn account for the inter-country differences in the income and growth responses to liberalisation and increased openness.

Even though adjustment is necessary and developing countries should be encouraged to become more adaptable to change, the less smooth and more costly is adjustment the greater the internal pressures on policy makers in developing countries to resist the lowering of their trade barriers and the opening up of their economies to greater international competition[2]. The opening up process brings opportunities to increase access to capital goods which embody better technologies and to more competitive intermediate goods. It also provides a stimulus to increase productivity and improves resource allocation and increase exports, and of course gives local producers and consumer's access to less expensive and higher quality goods from abroad. But with these greater opportunities come greater challenges; the challenges associated with adjustment.

The text book model of adjustment to trade liberalisation often abstracts from or down plays the rigidities, especially in developing countries, that slow down adjustment and increase its costs. In the stylised representation of adjustment, import liberalisation encourages restructuring of the import-competing sector which smoothly allows the release of resources (capital and labour) for the expansion of the export sector. Restructuring in the import-competing sector is likely in practice to mean factory closure and unemployment.

Even for those businesses that do not close, redundancies and reorganisation may well be needed to increase efficiency and productivity. New working and managerial methods and new skills and technologies are required in both the contracting and expanding sectors. These changes, in turn, require investment in physical and human capital. Indeed this will generally involve new or additional investments for developing capital poor countries. The existing capital (including private investment in production and public investment in infrastructure) in the import-competing sector is unlikely to be transferable to other sectors[3].

The recent theoretical (e.g. Eaton and Kortum, 1996) and empirical (e.g. Pavcnik, 2002 for Chile) modelling of firm-level adjustment to trade liberalisation now recognises that the capacity of firms within the same sector is likely to vary. More technologically advanced firms, and those firms in regions where the business environment and flexible labour markets are conducive to change and risk-taking are more likely to be willing and able to adapt and increase productivity. Some research on India's liberalisation experience (Aghion et al., 2005) shows that the response of manufacturing firms even within the same industry can be very heterogeneous. Although they find that trade liberalisation was associated with increasing growth and productivity overall, the response and performance differed considerably between registered and unregistered firms (with the latter responding more slowly than the former).

Even if there is a capacity to expand production in the export sector and a demand for additional workers in this sector, it does not mean that the contraction of employment in the import sector will be smooth. The new jobs may be in distant locations and require new skills (again 'distant' from the skills that workers have). But the capacity of the export sector to expand may be constrained by a variety of domestic and external bottlenecks – shortage of capital, infrastructure deficiencies, bureaucratic or institutional hindrances and technical barriers to export market access. We consider these export supply issues further below. The point to note here is that adjustment is likely to be smoother and quicker where the export sector can expand more quickly. In many developing countries with high dependence on traditional exports, the smallness and undiversified nature of their export sector may limit the capacity for rapid expansion of export supply.

Let us explore these adjustment issues in a little more detail (see also Milner, 2006), and consider how the nature of the adjustment problem and extent of the specific adjustment costs arising from trade reform will vary across developing countries, given their heterogeneity in terms of size, economic structure and prevailing policy and economic conditions.

Production and Employment Adjustment

Where a liberalising country has a production capability some displacement of domestic production and employment in import-competing sectors is to be expected post-trade policy reform. As indicated above, reallocation of displaced resources from current activities to export sectors can equally not be expected to be immediate and smooth. The issue of the best means giving adjustment support is not uncontroversial, but many industrialised countries themselves have had schemes of assistance relating to trade-induced adjustment experienced by workers (compensation for unemployment, support for relocation and re-training) and by firms (closure, production line restructuring etc).

The extent of the displacement of domestic production (and the resulting dislocation of workers) following the liberalisation of imports in any developing country will depend upon a range of factors. It will of course be fashioned by the speed of the lowering of tariffs and by the extent to which sensitive sectors are excluded (temporarily or permanently) from the liberalisation. It will also depend on the scale of the domestic tradeables or import-competing sector; the larger and more diversified is this sector the greater the potential dislocation of production and employment. It is probably unwise for governments to seek to directly compensate all factors of production (owners of capital and workers) for all shocks (irrespective of whether they are caused by policy change or by exogenous factors). There are a lot of potential sources of such need for adjustment, and the existence of mechanisms of compensation is likely to encourage a general resistance by governments to policy change. It is rather greater capacity to change and adjust that all economies need to develop, especially in a more open and globalised world.

Further it would be rather unfair to develop adjustment assistance schemes that are directed at compensating dislocation or assisting relocation from only one specific source; i.e. trade adjustment assistance at the expense of developing adjustment assistance in general. The experience of trade adjustment assistance schemes in the developed countries (e.g. in the US and Sweden) has been mixed at best, with limited evidence of facilitating adjustment and cost effectiveness (e.g. Trebilcock, Chandler and Howse, 1990). What should be encouraged rather is the development of schemes and programmes that increase the willingness to adjust (e.g. through the provision of social safety needs for all dislocated workers or improved employment services) and to be mobile (e.g. through support with re-training or skills upgrading).

Skills Development and Productivity Enhancement

The costs of adjustment (contraction of import-substitution activities and expansion of export sectors) are reduced over time and scope for dynamic benefits from export development are increased over time by increasing productivity levels in developing countries. Increasing competitiveness and productivity levels in preparation for the full implementation of trade reform requires support; through the enhancement of workers' skills, the improvement of firm's organisation and management structures and through the development of supportive economic policies and infrastructures.

The opening of the developing countries to more intense competition from foreign producers increases both the pressures to increase competitiveness in existing areas of production and shift resources towards new areas of production. Increasing competitiveness of existing production is likely to require increases in productivity; improvements in the organisation of production processes, better utilisation of capital and labour, innovation in product design and characteristics, improvements in management, financial and marketing methods, and enhancements in human capital and skills. The shift of resources is likely to require new employment skills and the entry of new businesses into these markets.

Enhancement of public and private sector capacity to deliver training for workers and managers and to induce greater private sector involvement in training and the innovation process is required if more open domestic markets are to bring the benefits of increased growth. Again this is a multi-faceted aspect of the adjustment process, and capacity and conditions will vary considerably across developing countries.

Trade Facilitation and Export Diversification

If the benefits of reallocating resources (capital, labour, skills and land) away from import-competing towards new export activities (under the stimulus of greater competition on the home market) are to be reaped, actual and potential exporters in developing countries need support for developing export products and gaining knowledge about export market opportunities. Accumulated experience of exporting across a wide range of export products is usually viewed as indicating that countries have institutions (private and public sector) and an infrastructure that are conducive to exporting.

Many developing countries have an undiversified export structure, having acquired experience and understanding of exporting in only a narrow range of traditional exports (from natural resources or land-based activities). The diversification of exports into non-traditional manufacturing activities may require knowledge of different markets (new commercial contacts etc.) and market access conditions (e.g. product standard requirements), and require improved customs procedures (e.g. to speed up access to intermediate inputs) and changes in transport facilities (e.g. refrigeration facilitates at airports). The actual requirements will vary across countries as the pattern of comparative advantage and export potential and initial conditions vary.

It should be emphasised that what is required is a much broader view of trade facilitation than the narrow view of the speed and efficiency of border / customs procedures that is adopted within the WTO. Major infrastructure developments to improve transportation systems may require much larger and more comprehensive trade facilitation programmes.

Other Adjustment Issues

In addition to the direct economic and financial adjustment costs that fall on individuals and private and public sector organisations in developing countries as result of trade reform, many developing countries need support in the process of negotiating and implementing trade reform; especially in regard to understanding the implications of legislative reform and administrative change, and need created for public and private sector training and communication / engagement.

Finally, there may be a tax revenue or fiscal adjustment issue arising out of trade reform for many, in particular low income developing countries. In order to replace any tariff revenue losses associated with trade reform a developing country will need to either revise or reform the structure of taxation from non-trade tax sources in order to increase revenue from these alternative sources. The amount of direct fiscal loss for any specific country resulting from the lowering of tariffs on imports will depend on a range of factors. These will include the pattern (average and spread) of current tariffs on imports and the amount of imports prior to the tariff reforms[4].

However, it needs to be recognised that it is not the revenue effect itself that captures the cost of fiscal adjustment. The decline in customs revenue is a domestic redistribution from the government to consumers of imported goods. For the governments of some countries any decline in customs revenue can be relatively easily offset by increasing tax collection from other sources (e.g. sales and income taxes). For others the absence or under-development of the tax regime makes this switch of revenue generation more difficult and more costly to resolve. The adjustment costs may be associated with a range of legislative and administrative changes, hiring and retraining costs, or infrastructure developments required in order to extend or develop tax revenue generating capacity in the non-trade tax domain.

The Need for a Broad and Overall Concept of Adjustment

The key messages that come out of this review of the nature of adjustment, especially in a LDC context, are twofold. One is that adjustment to trade reform is a much broader concept than the traditional one, it is much more than simply the movement of factors of production from import-competing to export-oriented sectors. Where the existing export sector is relatively small and undiversified the ability and capacity to adjust is likely to be constrained by a whole gamut of factors; investment shortages and production capacity, skills and know how, infrastructure limitations and institutional gaps.

Lowering or eliminating one or some constraints may well therefore not increase the capacity to adjust if other constraints remain. Therein lies the second key message. Trade-related assistance needs to be viewed as a whole. The creation of separate pillars or elements of assistance risks coordination failures and reduced effectiveness. The AfT Task Force report's explicit separation of traditional trade related assistance from a broader range of trade related risks such as fragmentation and reduced effectiveness, however, ultimately shares a broadness of approach as argued for here.

Some Evidence on Adjustment and Its Costs

In the previous section the concept of adjustment was deliberately broad, given the often undiversified and underdeveloped nature of economic and institutional structures in developing countries. But the empirical literature on adjustment costs tends to adopt a narrower (one more appropriate to an industrial country context); namely the costs of moving resources (labour in particular) from import-competing sectors or firms to other sectors or firms in the post trade reform or shock period.

As mentioned in the previous section, data limitations mean there is little or no systematic cross country analysis of production and employment adjustment to trade liberalisation in developing countries. There is some case study evidence for specific countries, but the information available from them does not lend itself to easy comparison of quantitative effects (in particular on an economy-wide basis). The available reviews of direct empirical evidence for developing countries (Turrini, 2004; Matusz and Tarr, 1999) do not however establish general major contractions in manufacturing employment following trade liberalisation. The picture is quite mixed, but there again the actual amounts of liberalisation in a specific sector (typically it is manufacturing or specific industry employment information that is examined) has been quite mixed across developing countries.

Further looking at net employment effects may substantially understate the extent and costs of adjustment. We now know from industrial country research (e.g. Davidson and Matusz, 2004) that the gross relocation of jobs can be large for relatively small net changes in employment, and that these gross relocation effects are affected by international trade (and other aspects of increased globalisation).

The fact that adjustment needs and costs are induced by technological and organisational changes and other sources of policy change, which gives rise to an important issue of whether to concentrate only on the trade-induced adjustment costs. Bacchetta and Jansen (2003) argue for separately identifying adjustment costs associated with specific trade agreements. Rama (2003), by contrast, feels that it is undesirable and unfeasible to decompose adjustment costs in this manner. The constraint on decomposition is not difficult to defend, and although it may be desirable for analytical purposes it is not appropriate for policy purposes to separate the sources of adjustment costs. Adjustment policies should be designed to facilitate adjustment and ease adjustment costs irrespective of source or cause of adjustment.

Aspects of Adjustment

The OECD has done a substantial amount of work on labour market adjustment in industrial countries (e.g. OECD, 2007). This work suggests that foreign competition has discernible impacts on sectoral employment and on the skill structure of labour demand, ones that are generally in line with the predictions of trade theory. But for the OECD countries there may be the scope to offset, some at least, of the negative impacts on employment through productivity benefits from the scope to offshore parts of the production process.

The size and international integration of firms in OECD countries may create opportunities from globalisation that may not be available (at least as yet) for many developing countries. In which case, one may legitimately argue that sector adjustment effects on trade liberalisation may be significantly larger in developing countries than those identified for industrial countries. This is especially so given that inter-industry and sectoral specialisation is more likely to be experienced than intra-industry specialisation in a developing country context. The *ex-ante* simulations of a potential Doha agreement using numerical general equilibrium modelling methods are consistent with this view of substantial sectoral adjustment following from multilateral liberalisation (see for example, Laird, Fernandez de Córdoba and Vanzetti, 2003).

In addition to sectoral employment adjustment effects of increased foreign competition, increased trade and other aspects of globalisation may increase the vulnerability of workers by increasing the responsiveness of employment and wages to economic shocks. This is hypothesised by Rodrik (1997), either because of increased competition in output markets or because of increased scope to substitute domestic labour with value-addition generated abroad (i.e. off-shoring through international production networks).

The earlier empirical evidence on this effect was mixed, but recent evidence (OECD, 2007) indicates that the elasticity of demand increased significantly in OECD countries over the period 1980-2002; with demand shocks leading to greater volatility in wages and employment. The OECD analysis finds that increased foreign competition makes jobs less stable, increasing the probability of voluntary and involuntary transitions into other jobs or into unemployment or early retirement. Of course the effects are heterogeneous, with low tenure and low skill workers more likely to move out of employment and higher skilled workers more likely to transit between jobs.

Alternative Concepts of Adjustment

There is a limited literature which aims to quantify the costs of adjustment, in general, and for developing countries, in particular. Further, there are alternative concepts of adjustment costs that might and have been used.

A narrow concept of labour market adjustment tended to be employed in the early *ex-post* analyses, which attempted to measure job losses, unemployment duration and wage changes associated with job loss or job change induced by increased trade competition. This is narrow, therefore, in the source of the adjustment and the type of adjustment involved; concentrating on one aspect of globalisation and labour adjustment in the context of already diversified economic and institutional structure existed (namely the US). Even in the context of labour adjustment one might want also to incorporate asset losses (e.g. pension losses and relocation costs) and other impacts of job loss (e.g. on health).

Magee (1972) estimates the labour adjustment costs to be 12 percent of the gains of liberalisation in the initial post-liberation period, while Baldwin, Mutti and Richardson (1980) estimated these labour plus capital adjustment costs to be four percent of the gains of liberalisation in the longer run. Given that net gains from trade are usually shown to be relatively small, these adjustment costs seem relatively small. It is known that the labour dislocation effects of trade are much higher when more disaggregated (individual and firm-level) data is used. This strand of the literature, like most of the *ex-ante* Computable General Equilibrium (CGE) modelling of trade policies is not well formulated to comprehensively capture labour adjustment, even in this narrow sense.

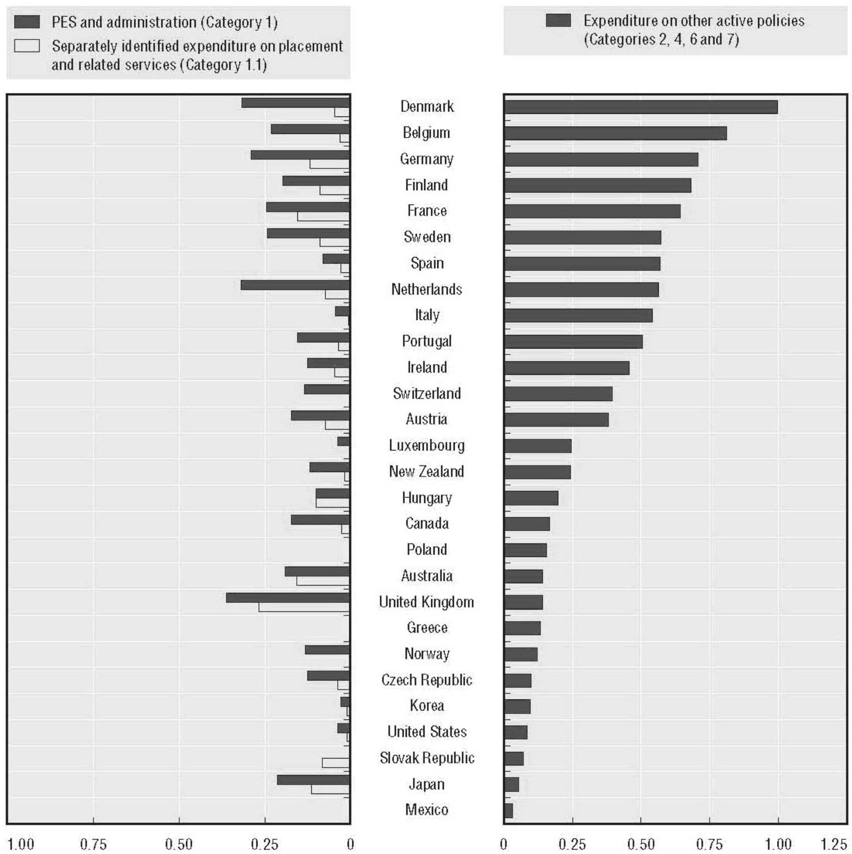
If one takes the view that policies are required to support labour adjustment, ease labour adjustment costs and increase the adaptability of economies irrespective of the source of the labour adjustment shock, then one is likely to take a quite different approach to identifying adjustment costs. Quality employment services to "activate" the unemployed, i.e. encourage job-seeking and improve chances of employability, are viewed as being required in OECD countries to achieve this (and to increase incentives not to do so associated with high unemployment benefits).

The OECD Database on Labour Market Programmes provides information of the direct budgetary costs of various elements of the OECD countries labour 'activation' programmes (with breakdown between the expenditure on a Public Employment Service and its administration and on other expenditures on active policies). The above breakdown for 2004 expressed as a percentage of GDP are reproduced from OECD (2007) in figure 1 below; up to 0.3 percent of GDP being spent on the Public Employment (UK) and up to one percent of GDP on other active policies (Denmark). Half of the OECD countries spent at least 0.5 percent of GDP in 2004 on public labour market programmes (excluding the costs unemployment and other social benefits)[5].

This broader concept cost of labour adjustment to globalisation or international trade is still narrow when viewed against the full range of adjustment issues identified in section 1 of this paper. There is no consideration of the skill enhancement, productivity improvement, fiscal adjustment or trade facilitation issues discussed there. In a developing country context, missing employment services are far from being the only constraint on the adjustment process. The development of new institutional, administrative, human capital and policy capacities are likely to be required. Indeed one might argue that a focus on compensation for the actual or expected adjustment costs of trade liberalisation is inappropriate. The 'compensable' costs (actual or expected) of adjustment are likely to be very difficult to quantify, and are in any case dependent on the pace of liberalisation and speed of adjustment and adaptability to the economy.

Figure 1. **Expenditure on labour market programmes, 2004**[a]

Percentages of GDP



a) Fiscal years in some cases: see the source for further technical notes.

Source: OECD (2006a), *OECD Employment Outlook*, Table H of the Statistical Annex, OECD, Paris.

StatLink http://dx.doi.org/10.1787/024302600024

What is required is the creation of a capacity to cope with and support adjustment from all sources, i.e. to set up and maintain adequate adjustment assistance and support capability. It was on these grounds that Milner (2005) sought to identify the type and scale of adjustment support programmes required by the ACP countries to cope with the liberalisation of EU imports in their markets in an EPA environment.

Policies, Institutions and Measures to Support Trade and Development

Measures to increase developing countries' capacity to adjust to trade openness and policies to increase export supply capability are not separable from each other. Creating new jobs in the export sector facilitates adjustment, while more adaptable economies are more likely to create new jobs. A policy agenda beyond adjustment policies is relevant and appropriate in the AfT debate. An integrated approach to trade and development, nationally and internationally, is required[6]. Pro-development measures not only help developing countries to cope up with the challenges of increased trade and international integration, but also allow them to take advantage of new opportunities. Pro-integration measures raise the effectiveness of measures that promote trade and international engagement. The extent and mix of measures will vary across developing countries widely, because developing countries vary substantially in size, location, economic structures, institutional arrangements and policies.

Pro-development Measures

To sustain development, greater openness to international competition and trade expansion, developing countries must be able to efficiently absorb capital and intermediate goods, new ideas and technologies, and to produce goods and services that can compete on price and quality in domestic and international markets. Developing these capacities requires greater accumulation of physical, human and organisational capital, and enhanced technological capacity.

Capital accumulation is important to enhancing productive capacity. This includes investment not only in machinery and equipment, but also in domestic infrastructure (e.g. roads, utilities). It covers investment both in and by the public and private sectors – and goes beyond material capital accumulation to investment in education, health and skills. Human capital accumulation is also central to productive capacity. The development of productive capacity requires investment funds being available for government, corporations and individuals. It also requires incentives for risk-taking and enterprise by ?rms and individuals. In part, this may be encouraged through the development of efficient domestic capital markets and by the promotion of FDI. It will also require additional development finance and reduced debt constraints.

Development requires social institutions to protect property rights and intellectual property and foster business formation, investment and risk-taking by individuals. Economic change and adjustment are vital to economic dynamism, but change is much less likely without institutions that manage change. Change has distributional effects, and resistance to policy adjustment is much more likely without effective legal, regulatory, social and political institutions to mediate these conditions.

Trade and its policy are important in capital accumulation and technological improvement. The expansion of exports alleviates the balance of payments constraint and permits greater importing of capital goods that embody technological improvements. Access to cheaper imported intermediate goods and increases in competition, resulting from increased openness, can raise returns on investment and increase incentives to invest. However, a range of other industrial, sectoral, public sector and microeconomic policies may also be required to make trade work for development.

How much and how fast trade works for development is affected by a country's level of development, production structure and trade composition. The poorest developing countries are likely to need more investment and technological change, while having more constraints on their capacity to absorb new technologies and ideas. They tend to suffer shortages in skills and natural resources, and to have inadequate infrastructure and institutional capacity. In many developing countries, many poor live in rural areas and work in agriculture, often with limited or no engagement with tradable goods sectors. Creating conditions under which trade can foster productive capacity, create jobs and boost incomes in agriculture and in new industrial activities is inevitably more challenging than in countries that already have such development linkages.

Pro-integration Measures

Using increased productive capacity and providing an incentive to increase that capacity requires that production can be sold in competitive export markets. The capacity of a country's producers and consumers to access supplies of imported goods efficiently and to deliver exports to foreign markets is not influenced by the trade policies of its trading partners. It is critically dependent on the country's import and export policies and procedures, the scale and quality of the infrastructure affecting its international transport and related services such as communications, the quality of its institutions supporting trade[7].

Many developing countries have significantly reformed their trade policies – reducing explicit or implicit export taxation, lowering quantitative import restrictions, and rationalising and reducing import taxes. For some, the need and scope for further trade policy reform (narrowly de?ned) may be limited. For others, further reform may be desirable, but should be phased in according to the development of productive and administrative capacity and related policy developments. It should be understood how trade policy reform should be coordinated and phased in alongside other macro-economic, exchange rate policies and fiscal reforms.

Trade policy reforms have been necessary to further integrate developing countries with the global economy, but they may well not be sufficient. For many countries the costs of imported goods and the competitiveness of their products in export markets depends more on international transport and other natural trade costs than on their own or other countries' trade policies. Some countries may be remote or landlocked, the quality of the transport infrastructure, competitiveness of transport services, and the relatively small scale of trade may be more important than the distance to markets or from suppliers[8].

There is growing recognition that trade policy, narrowly defined, has been over-emphasised at the expense of complementary trade-related measures[9]. Such measures include domestic and international transport policy reforms, national or regional infrastructure developments, or a wider range of services (e.g. insurance, banking) affecting the cost of international transactions. Manufacturing is transaction-intensive, and with the growing fragmentation of international production and creation of international production networks it is important that developing countries have access to competitive trade and trade-related services in order to be a part of such networks.

Viewed narrowly, trade facilitation enables the movement of goods and services across national barriers. Improving transport systems by investing in infrastructure or changing policies to increase competition and efficiency are broader facilitation measures. Others may include improving customs clearance procedures, supporting the capacity to meet the technical or health standards in export markets, and strengthening support for marketing export products. More broadly conceived, therefore, trade facilitation can extended to policy issues that affect the availability and efficiency of financial and other business services. The competitiveness of manufacturers is affected not only by their ability to control their own production costs, but also by the cost competitiveness of local service suppliers.

Uncompetitive local conditions and barriers to off-shoring may allow costly and lengthy administrative procedures to persist in service sectors. The cost of credit, including trade credits, and of working capital can be much higher in developing countries than countries with more developed and competitive service sectors. Many developing countries have made progress in reducing administrative procedures, bureaucracy and corruption. Changing the ethos of institutions and administrative systems and restoring confidence in them, however, is often difficult and slow. There is still much that can be done to improve the business environment in many developing countries and to reduce the costs of doing business in them.

Existing Sources and Mechanisms of Adjustment and Trade Development Support

It is difficult to separate in practice the sources of trade development support into that driven or supported by national development plans, bilateral donor support mechanisms, multilateral agencies (e.g. World Bank) and coordinated multilateral programmes (e.g. Integrated Framework for Trade-Related Assistance). Nonetheless, it is a useful separation for presentational purposes.

National Development Strategies

Irrespective of the aid transfer or assistance mechanism involved (and its effectiveness), the specific national issues and approaches relating to promoting and adjusting to trade expansion need to be clearly expressed within national development plans and strategies, (see also Hockman and Winters, 2004). Indeed this need has been recognised in recent years by the efforts of some developing countries (e.g. Tanzania and Uganda) to incorporate a trade policy pillar into their Poverty Eradication Action Plans (PEAP). However, these recent initiatives may well signal earlier failures to give sufficient attention to growth in general and specifically the productive sectors in national development plans. Indeed, the general consensus is that national strategies continue to give too little attention to trade concerns in general, including adjustment issues and trade-related investment needs (see Prowse, 2005). This may well be because at the national level trade-related investments compete with health and education investment needs.

Bilateral Donors

The prioritisation of the above strategies is no doubt affected by domestic factors, but it is also affected by the priorities of aid donors. Some have been more anxious to emphasise direct poverty alleviation issues than pro-integration and private sector development issues. Others, including the UK, have given increasing focus to 'AfT' issues; increasing commitment for 'AfT' up to 2010, including in its bilateral spending.

The US' Millennium Challenge Account (MCA), announced in 2003, also appears [like Department for International Development (DFID) in the UK] to lay more emphasis on trade and growth diagnostic assessments (associated with the Integrated Framework – discussed below), and to the need for assistance to fit in with a country's own development priorities (rather than pre-determined priorities identified by the donor). There are similar indications that the European Development Fund (EDF) might be used to support the adjustments associated with the implementation of EPAs which are being set up between the ACP countries and the EU.

Multilateral Agencies

The World Bank has played a pivotal role in the reform of trade policies in developing countries in recent decades. It has encouraged and supported reform of trade policies and the strengthening of institutions and infrastructure related to trade in most developing countries. Its own assessments (World Bank, 2006) indicate that 8.1 percent of its commitments (US$38bn) between 1987 and 2004 went to support trade reform and trade-related programmes in 117 countries. Over this period, the Bank's attention has shifted from the traditional trade policy agenda to wider policy issues (e.g. 'beyond the border' issues) and to integrating trade into national development strategies.

This shift of focus was not characterised up to 2004, as it acknowledges itself, by greater trade and trade-related lending, rather it has been a question of greater advocacy and more analytical and operational support for countries. More recently, there has been increased spending by the World Bank on infrastructure and trade facilitation (see joint note by the IMF and World Bank, 2005).

Over the same period, greater attention on trade-related issues at the IMF can be identified. The Trade Integration Mechanism (TIM) was announced by the IMF to help countries experiencing short-term balance of payments difficulties associated with trade liberalisation (e.g. export losses from preference erosion, higher import prices by net food importers). TIM is not an additional funding facility; operating as it does through existing IMF facilities. It does, however, seek to offer coherence to trade adjustment within the context of a country's overall macroeconomic framework.

Integrated Framework

The Integrated Framework for Trade-Related Technical Assistance to LDC, also known as the IF had its origins in 1997 when it was inaugurated by six multilateral agencies: IMF, World Bank, UNCTAD, United Nations Development Programme (UNDP), International Trade Centre (ITC) and the WTO. It seeks to bring together these multilateral agencies, with bilateral donors and with the national governments of the LDCs with the aim of establishing a process to:

(i) integrate trade into national development plans; and
(ii) assist in coordinated delivery of trade-related assistance (identified by the LDCs).

A (small) IF Secretariat is located at the WTO, with the IF Working Group responsible for its overall management (which includes monitoring and evaluating field resources and overseeing the IF Trust Fund). An IF Trust Fund was created in 2001, now with two funding instruments, Window I and Window II, by voluntary contributions of multilateral and bilateral donors. Window I finances the preparation of the Diagnostic Trade Integration Study (DTIS). Window II provides bridging money for small assistance or capacity-building activities that are part of the DTIS Action Matrix..

The WTO's website reports that, to date, 36 (of the 49) LDCs have become beneficiaries of the IF. Of these, 24 have completed the DTIS stage and are implementing their action plans, and the rest are preparing for the diagnostic stage. But, it has to be recognised, that to date, the funding directly under IF is quite limited. Only up to US$1mn is available for each country's DTIS (plus a small contribution towards the implementation of priority actions). To date, there have only been total allocations of US$27mn from the IF Trust Fund, out of contributions from multilateral and bilateral donors of US$50mn, though an indicative budget of US$400mn for an Enhanced IF has been identified for the next five years[10].

Aid for Trade and the WTO

As outlined earlier, the WTO has played an important role over the last decade in giving a renewed focus on trade adjustment and assistance issues in particular, and to mainstreaming trade and trade policy within the development agenda[11].

The WTO Task Force Report (tabled in July 2006 and approved by the WTO General Council in October 2006) has broad and ambitious objectives of assisting developing countries to:

- increase their exports of goods and services;
- integrate into the multilateral trading system;
- benefit from liberalised trade and improved market access;
- enhance their growth prospects; and
- reduce poverty.

It also stresses on the need for breadth and clarity of approach, combined with additional, predictive and effective financing. The emphasis on breadth reflects the diversity of developing country needs, but also as argued earlier in this paper the broad nature of what may be required to increase the capacity to adjustment and support actual adjustment. Clarity is called for in order to establish a separation or border between AfT and other aid for development. This is not necessarily an easy division, but is important if additionality of support is to be demonstrable and if the targeting and coordination of appropriate adjustment support is to be achieved.

Support Areas and Mechanisms

Besides the traditional trade adjustment issues, the Task Force Report also viewed AfT as involving the enhancing of productive capacity, the improving of trade-related infrastructure and institutions, and support to increase the capacity of developing countries to negotiate and implement trade agreements.

As argued earlier, the danger of separating the support into different heading and distinguishing between traditional trade adjustment assistance areas and trade-related infrastructure etc. is that the dependence on a comprehensive and coordinated approach for the effectiveness of the initiative is lost. Although the Report does recognise this implicitly when it identifies specific gaps in the prevailing arrangements from trade development support, for example the duplication and lack of coordination and effective monitoring across donors, the limited focus within national development planning, and limited support for and coordination of cross border and regional trade-related programmes. Key therefore to an Enhanced Integrated Facility would be:

- effective national coordination, with broad stakeholder participation and mainstreaming of trade and trade adjustment policies in national development strategies;
- appropriate needs assessments across countries and regions;
- effective targeting of funds and support measures with coordination across agencies and donors;
- strengthening of capacity to deliver and coordinate trade-related projects across countries and within regions; and
- improved information and analysis capacity of AfT measures and spending.

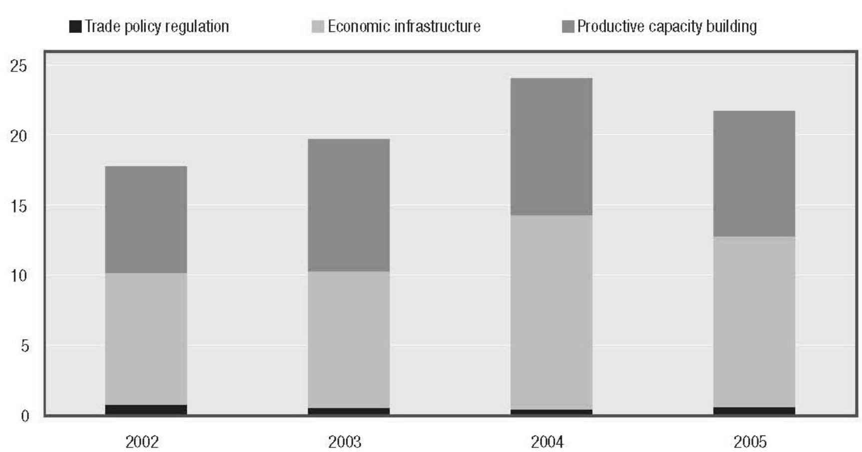
As identified in the previous section, needs or DTIS have been undertaken for about half of the LDCs. In addition, three Regional Reviews (Africa, Asia and the Pacific, and Latin America and the Caribbean regions) and a Global AfT Review was held at the WTO and brought together WTO members to take stock of what is happening on AfT (based on the regional reviews and a joint OECD-WTO stock taking report); identify what should happen next; improve the WTO's monitoring and evaluation role; and enhance the credibility of donors' commitment to increasing AfT. Though this is a long-term issue, the effectiveness of 'AfT' is incomplete and far from coordinated nature of national and bilateral donors 'AfT' strategies on the one hand, and the remaining limited nature of the

‘AfT’ strategies in many recipient countries on the other. Although there has been clear progress in developing regional strategies, it is evident that institutional / governance capacity and financing mechanisms continue to make it difficult to implement ‘aid for trade’ at the regional level.

Aid for Trade and Development Assistance

The Global Review (referred to in the previous section) reviewed donor commitments on trade-related aid for the period 2002-05. This data show that on average US$21bn of such aid had been committed on average; broken down as US$0.6bn for enhancing trade policy capacity, US$8.9bn for promoting productive capacity and US$11.2bn for infrastructure development. But this is most likely an upwardly biased estimate, since the infrastructure figure certainly covers more than trade-related infrastructure and the productive capacity figure may well cover more than productive capacity in tradeables sectors. There are some offsetting effects however since the measures exclude any general budget support under ODA definitions that goes to trade-related areas. Similarly, any non-ODA and other low concessional financing not covered by ODA definitions is also excluded.

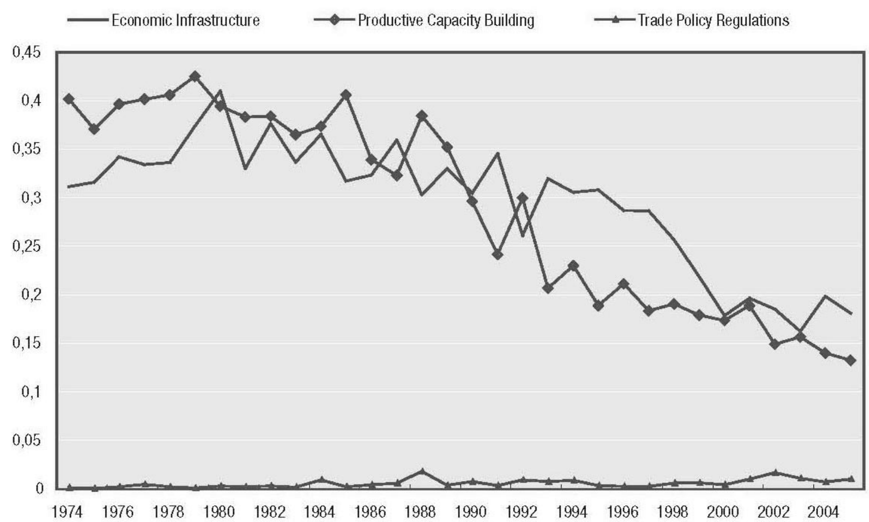
Figure 2. Aid for trade (bilateral and multilateral) by category (2002-05)
Commitments, USD billion (2005 constant prices)



Source: Aid for Trade at a Glance 2007, 1st Global Review, OECD-WTO.

There clearly is a need to enhance this data by also including information on disbursements and by focussing more closely on trade-related aid. But, even in a less than full information context, there are obvious questions to raise about whether ‘additionality’ means a greater share or greater absolute amount of trade-related aid and correspondingly more overall development assistance or less non-trade-related aid. The 2002-05 commitments represent a reversal at least of the apparent long term deadline in such aid (see figure 3 below).

Figure 3. Long term evolution of Aid for Trade Categories
Share of Sector Allocable ODA (in commitments)

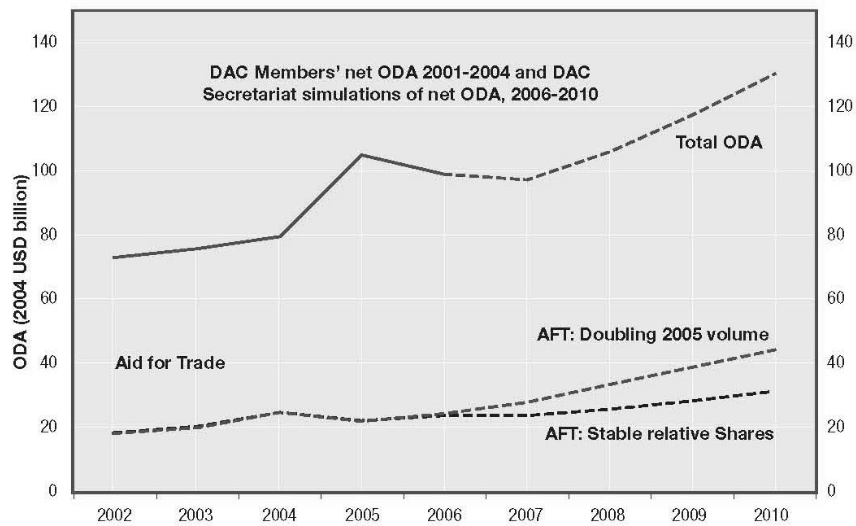


Source: Aid for Trade at a Glance 2007, 1st Global Review, OECD-WTO.

This growth is in the context of a growth in overall ODA since 2001; from 0.22 of gross national income (GNI) in 2001 to 0.33 in 2005; a trend that the World Bank forecasts to continue up to 2010 (to reach 0.36 of GNI). However, the bulk of the net increase (US$27bn) is net ODA disbursements (totalling US$106bn) by Development Assistance Committee (DAC) member countries which was an increase in debt-relief (and mainly to two countries – Iraq and Nigeria). The prospects for and implications of AfT additionality are not, therefore, so clear cut. However, the Global Review forecasts an increase in total ODA and a shift towards areas other than debt relief after 2007.

If all donor commitments are met, overall (net) ODA will increase by 2010 to US$130bn. As illustrated in figure 4, even without raising the share of AfT in this total, the absolute amount of AfT would rise by US$8.5bn to about US$30bn. (Warning: recall the earlier reservations expressed about what is being included in these AfT figures.)

Figure 4. OECD scenarios in aid for trade



Source: Aid for Trade at a Glance 2007, 1st Global Review, OECD-WTO.

Besides which, the scope for substantial additionality is constrained by the fact that the Doha Round negotiations are incomplete and there are lags in the adjusting of donors commitments. 'AfT' is seen to some degree at least as being contingent on further multilateral trade reform being agreed and implemented. This, combined with the feed through of existing priorities in donor commitments means that the best that can probably be hoped for in the next few years is a modest rise in trade-related aid in overall aid.

Adequacy of Existing Provision and Structures

As explained in the previous sections there are important elements of support for trade adjustment and development outside of the IF. Indeed, the overwhelmingly dominant source of aid comes and can be expected to come from outside the IF's direct facility. Therein, lies a major difficulty. It is difficult (perhaps impossible) both in principle and practice to draw a clear line between 'AfT' and general development aid. However, it is the Integrated Framework that offers the building blocks for the coordination of provision and the delivery of other multilateral and bilateral trade-related assistance, and for the coordination of efforts by national governments and development partners within the context of national development plans. In assessing the adequacy of the existing 'AfT' provision and organisational structures, we must explore both the narrow and broad content of aid for trade provision. Several (inter-related) questions are posed:

(i) Is the funding provision for 'aid for trade' overall and for the Integrated Framework adequate?

(ii) Are the organisational arrangements in general and the structure of the Integrated Framework in particular appropriate?
(iii) Should access to the IF be restricted to LDC?

Adequacy of Funding

It is clearly not possible to be precise about the extent of the required or appropriate level of 'AfT'. The previous discussion (sections 2 and 3) provides some reference points, however. Four headings for the types of adjustment were identified – production and employment adjustment, skill development and productivity enhancement, trade facilitation and export diversification, and other (including fiscal) adjustments. For just one of those categories (employment adjustment) it was shown that half of OECD countries spent at 0.5 percent of GDP in 2004 on labour market programmes (excluding unemployment and other social benefits).

If we took this as a lower limit of indicative aid requirements and the estimate of the total adjustment support required by the low-income ACP countries to accommodate EPAs with the EU (equivalent to about three percent of the then combined GDP of the low-income ACP countries, including non-LDCs) as a modest upper indicative guide, then we have a basis for evaluation. The combined GDP of the least developed (low income) countries in 2006 was US$364.1 (Rs 1618.7). If one includes middle income countries as well the combined GDP rises to US$11,678.6bn. Therefore, the indicative adjustment costs may range from about US$2bn to US$11bn (at 2006 prices) for the lower cost rate and only LDCs to US$48.6bn for the higher cost rate and largest grouping of countries (including middle income).

The allocations from IF Trust Fund thus far have been US$27mn, the current contributions (US$50mn) and the indicative budget for next five years has been set at US$400mn. Clearly, there is a substantial shortfall on current and planned provisions, if it is unrealistically viewed that the IF should fully fund the adjustment support needs of all these countries. Even in terms of the LDCs to which IF is currently limited, the current budget is modest relative to credible (even modest assumptions of 'aid for trade') needs. Of course the primary role of the IF is to support the coordination of delivery of assistance. Arguing, however, that the IF provision need not make a substantive contribution to covering the type of requirements identified above may weaken the credibility and effectiveness of the programme. Alternatively one may argue that increasing the importance of IF as a source of funding may increase the coordination challenge (given that bilateral and multilateral donors funding will remain in place) and create administration, evaluation and monitoring responsibilities that cannot be accommodated (See comments below the WTO as a development agency).

The illustrative, upper limit figure of adjustment support for the wider, developing country grouping of US$48.6bn is in excess of either the recent annual commitments of wider trade-related and identified by the OECD-WTO Global Review (averaging at US$21bn) and of projected figure for 2010 (US$30bn) assuming a constant share for 'AfT' of total ODA. Further, as argued in the previous section, the OECD estimate of provision is upwardly biased (based as it is on commitments rather than spend and using all infrastructure, not just trade-related infrastructure, commitments).

Appropriateness of Organisational Structure

Increasing 'AfT' provision will only improve the capacity of countries to adjust and create new export capabilities if the aid is disbursed appropriately (across countries and areas of adjustment support needed) and the receiving countries have a capacity to absorb and effectively utilise or mobilise the funds. Clearly standard issues of aid effectiveness and macro-economic and competitiveness spillover (e.g. exchange rate) effects arise. Similarly, in line with the wider aid management debate, the quality of any 'AfT' programme will be influenced by the extent to which it is aligned with national development plans and is harmonised with other bilateral and multilateral programmes.

These issues are recognised, in principle at least, in the WTO documentation and in the endorsement at the 6th Ministerial WTO Conference in Hong Kong (in December 2005) of an enhancement of the IF. Some issues are pertinent, however, in evaluating the current structure of support for trade adjustment and development. The WTO is not a development agency and the secretarial and technical support for the enhanced IF remains quite limited.

WTO should not be a development agency. It is not within its remit or competency to be one, and there is no need to change this in order to duplicate the competencies and capacities of other development agencies and international financial institutions. It may well need, however, greater technical and administrative capacity to fulfil the enhanced coordination and national capacity-building that is required and corresponds with an enhanced mandate / responsibility and funding. As Prowse (2005) argues:

> *"The Integrated Framework has become an established and well-regarded mechanism to mainstream trade into a country's development programme and provides a programmatic approach to assistance for adjustment and integration."*
> [Prowse, 2005, p28]

Without substantively changing its core competency and responsibilities, enhancing the WTO's capacity to fulfil this central role of mainstreaming trade and trade adjustment within national development strategies offers some specific attractions / benefits. It increases the prospects for achieving that mainstreaming in a manner which is consistent with the global trading rules, but allows feedback into the evolution or revision of these rules. It also allows the trading rules, trade policy reform and trade adjustment issues to be more effectively negotiated within the WTO's multilateral negotiating framework, and in a way which allows for differential treatment of developing countries. Given the expectations of developing countries about the development focus of the current Doha Round of negotiations, it is important that the contribution of an effective 'AfT' programme to increasing the prospects for multilateral agreement is recognised.

Country Coverage of Programme

At present the IF programme provides assistance to 49 (WTO-defined) LDCs. Clearly these are not the only low-income countries that will experience adjustment costs from trade reform and whom need assistance with adjustment and export development. It is not difficult, therefore, to make a case for extending the programme to other low-income countries. Indeed, the principle of differentiation (S&DT) is not restricted to a distinction between the least developed and other WTO members. Further, the widening of the country coverage of the programme would increase the scope for regional coverage and coordination of adjustment support and trade development measures, where regional trading arrangements embody both least developed and developing country membership [e.g. the East African Community (EAC)].

The case for extending country coverage cannot however be divorced from the earlier provision and organisation structure issues. Extending country coverage without a corresponding increase in funding and organisational capacity is likely to be harmful to the effectiveness of the programme overall and its usefulness to those countries already covered by the programme. If, however, the capacity and ability to deliver and manage an enlarged programme is in doubt, then it may be better not to extend the coverage or at least delay the extension until the effectiveness of the programme with its existing coverage can be demonstrated.

Conclusion

The recent evidence indicates that the adjustment and trade development costs of trade liberalisation in developing countries are much higher than they had been understood to be. There are strong economic arguments for increasing the assistance provided to low income developing and LDCs in particular, to support adjustment to increased trade openness and export development. Indeed 'AfT' offers an impetus to mainstreaming of trade and private sector development into national development and poverty reduction plans. It also offers support for multilateralism, and increased prospects for the lowering of barriers to exports and for the sustaining of a rules-based trading system (which is in the interest of developing countries).

This paper argues that the adjustment problem should be seen in broad rather than narrow terms, involving not simply the dislocation of production and employment in import-competing sectors. In a developing country context the scope for relocation of factors of production (labour and capital) into more competitive import-competing and export-oriented sectors is constrained by a range of market, policy, institutional and infrastructure characteristics. Adjustment to trade reform and increased openness requires support for development, assistance with labour retraining, skills upgrading, organisational restructuring in firms, capacity-building in the private and public sectors, the reform of domestic policy and institutions and investment, including investment in domestic and trade-related infrastructures.

Indeed, the scale and cross-country diversity of the adjustment and trade development needs are such that it is undesirable and inappropriate to try to separate the adjustment needs from different sources of trade reform or from different aspects of trade reform or globalisation. Low income developing countries need to become more adaptable, and need to integrate more into international trade and production networks. An ambitious and effective 'AfT' programme would encourage and facilitate both greater adaptability and greater international integration across low income developing countries.

The existing Integrated Facility provides a credible basis on which to build an ambitious and effective 'AfT' programme, provided:

- Its funding is increased substantially and additionality is ensured;
- Its organisational capacity matches the growth in funding and role;
- It can strengthen its coordination role both between national and regional governments and between bilateral and multilateral agencies;
- It can deepen the linkage between the action plans coming out of the DTIS and the respective national development plans; and
- The expansion of funding and roles (and possibly country coverage to other low income countries, rather than LDCs only at present) is coordinated and sequenced in a manner to sustain the effectiveness of the programme.

Outstanding Issues

It is evident from the list of provisos above that we are only at the start of establishing an effective and successful mechanism for supporting trade reform in developing countries and for supporting their greater integration into the global economy. There is, therefore, a remaining agenda of uncompleted work and unresolved issues. Although not an exhaustive list some issues emerge clearly from the material reviewed in this paper, namely that:

(i) The initial diagnostics of developing country's needs need to be completed. Diagnostics need however to be on-going, as methods of evaluation improve, good practice spreads and as ownership and local participation in national 'aid for trade' strategies increases.

(ii) The definition and measurement of 'AfT' needs to be formalised. This will give greater assurance to recipient countries that there is additionality and that 'AfT' is not at the expense of social sector spending. It will also provide donors and recipients the opportunity to assess the effectiveness of this component of aid.

(iii) There needs to be effective coordination across donors and effective management of 'AfT' strategies, in order to convert commitments into spending, to ensure effective local absorption, and ultimately to speed up and increase the 'returns' from 'AfT'. (Again this will be supported by the dissemination of information across countries about good practice).

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Endnotes

1 The evidence (Miller and Upadhyay, 2000) indicates for poor countries that increased openness is more likely to increase productivity where human capital endowments are greater

2 Avoiding liberalisation is of course also likely to bring loses and losers (Deardorff and Stern, 2005)

3 There is some case study evidence on labour market adjustment to trade liberalisation in developing countries but data limitations have restricted systematic cross country analysis. There is indirect evidence (see Santos-Paulino and Thirlwall, 2004) of potential adjustment problems arising from the more rapid response of imports than exports to trade liberalisation

4 A number of recent studies recognise the fiscal consequences of trade liberalisation for developing countries (e.g. Baunsgaard and Keen, 2005)

5 Public spending on social protection is of course much higher in OECD countries, at about 25 percent of GDP on average. It is the absence of this social protection that is viewed by some commentators (e.g. Rodrik, 1999) as preventing developing countries from being able to cope with or manage greater openness

6 See also UNCTAD (2004)

7 See also Milner (2004)

8 If trade costs are broadly measured to include policy barriers, international transport costs, information and contract enforcement costs, costs of currency conversions, legal and regulatory costs and local distribution costs, these are still much higher than one might imagine. Poor countries are likely to experience substantially higher costs. See Anderson and van Wincoop (2004)

9 Africa-wide information can be found in Limao and Venables (2001). For detailed country-speci?c information on Uganda see Milner et al. (2000), and Malawi see Milner and Zgovu (2006)

10 Actual funding has not necessarily been pledged

11 There are very useful summary reviews of AfT developments within the WTO in CUTS (2008)

6

Toward Effective Trilateral Development Cooperation

– By Dominique Njinkeu*

Introduction

The record of international development over the last 50 years shows that properly articulated and implemented development cooperation through technical and financial assistance can be useful in stimulating economic development in low-income countries. In fact some economies have capitalised on development cooperation assistance to achieve commendable social, political and economic performances. Several of these previous beneficiaries of development cooperation have accumulated enough wealth or expertise that they are increasingly graduating out of aid and have started providing technical or financial assistance, building on either expertise accumulated through development cooperation or capitalising on the familiarity with conditions similar to those pertaining in other low-income countries. However, some recipients of development cooperation have become aid dependent, without much-needed economic transformation to higher growth paths. For many we have even witnessed stagnating or declining welfare indicators.

This trend has given prominence to a new compact in the aid discourse through TDC which is the focus of this paper. TDC entails projects which are jointly planned, financed and carried out by an established donor and a cooperation country which, although itself a recipient of development cooperation has either started providing aid or has accumulated expertise that can be harnessed to assist a poor country (Altenburg and Weikert, 2007).

Hence, TDC has three layers: the first layer is the traditional donor which is a developed country member of the OECD-Development Assistance Committee (OECD-DAC); such a donor has long history of international development

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cooperation involving provision of technical and financial support. In the second layer financial support could be received by an emerging or cooperation country, either to strengthen its development cooperation institutions in order to become an effective provider of aid or to capitalise; it could also rely on its expertise to implement projects using financial resources provided by the OECD-DAC member. The third layer is the recipient of technical assistance.

TDC, could therefore, have several non-mutually exclusive objectives. First, it could aim to assist in building effective aid agencies in the new donor or cooperation country by bringing their aid delivery practices to the OECD-DAC standards currently encapsulated in the Paris Declaration on aid effectiveness. The Paris Declaration provides guiding principles to the development community to ensure aid ultimately is used for its intended purpose which is to engineer welfare improvement in the recipient country.

The second objective of TDC could be to capitalise on expertise accumulated in the new donor country, including expertise acquired through previous assistance received from an OECD-DAC member. An important element of this assistance is the role of knowledge of local economic, cultural and political conditions. This assistance could be fully financed or jointly financed by an OECD-DAC member. Finally, TDC could aim at pooling resources from OECD-DAC members and new donors to address international development challenges in recipient countries. Recipient of pooled funds need not be a cooperation country and could be multilateral institutions, such as the UNDP; it could also be a consortium in an inter-governmental or a non-governmental framework.

This paper will thus review experiences and lessons learned in pursuing each of the above objectives of TDC, with particular attention to how trilateral cooperation could serve as an effective framework for addressing the development challenges of recipient countries in the poorest parts of the world.

The rest of the paper is structured as follows. The first section provides a background on TDC which is compared and contrasted with traditional development assistance. The characteristics of the recipient and cooperation countries are reviewed, with illustrations of the latter using the example of China.

The second section highlights the main development challenges of the poorest countries, with a particular attention to the four-component poverty trap afflicting the poorest countries and how TDC can constitute an effective framework for identifying lasting solutions to these, while relying on the principles encapsulated in the Paris Declaration on aid effectiveness.

In the third section selected experiences and lessons on implementing TDC in a country-specific context are considered. A process is identified by which the new donor's aid delivery practices can be brought to the OECD-DAC aid agency standards and those of selected projects that have been successfully undertaken in this framework. The section also contains experiences in Thailand and Brazil that have enabled donor agencies in these two countries to assume leading roles; how Japanese aid has been able to assist with institutional development of cooperation countries is also considered. A similar exercise is undertaken in section four for multilateral agencies and non-state actors (NSAs). The last section provides some concluding remarks.

Background of TDC

International development assistance has gone through dramatic changes. Notable recent innovations include the adoption of comprehensive and coordinated approaches that emphasises poverty reduction and the attainment of MDGs in the framework of PRSPs. Such an emphasis on poverty reduction has also stimulated a priority being attached to securing substantial level of financial resources efficiently managed. There is, therefore, a need for adequate knowledge of the best practices and how they fit in local conditions hence the necessity such that projects implemented ultimately overall improvement of welfare.

The relevance of TDC can be established from illustrations on how it has worked in real settings and could be relied upon to address some of the most challenging situations plaguing growth and welfare enhancement in poorer countries. The focus could be on those aspects that are of interest to fostering development through technical or financial assistance. A country would fall in the category of a cooperation country because it is increasingly assuming centre stage in a priority area of concentration on development assistance.

For example, Brazil has been successful in areas such as HIV/AIDS and agricultural development. Poorer countries could benefit from technical assistance being provided by Brazil given the similarity of initial conditions as compared to those prevailing in LDCs. The lessons accumulated in this process would be useful in addressing the AIDS pandemic which is currently reversing years of economic progress in most of Africa. Likewise, successes in Brazilian agricultural transformation could help steer agricultural policies for poorer countries in a manner that can nurture sustained growth and production diversification; hence reducing volatility to external shocks.

Peace and security is another area where TDC could be handy. By relying on countries such as South Africa, Nigeria or regional economic groupings in West and Southern Africa the international community has been able to address the lingering peace and security challenges in many parts of Africa. Properly building on the lessons from such experiences TDC could include schemes for identifying these regional leaders and providing them with the necessary financial and technical assistance.

Overall, through TDC, the provider of assistance could bring to the table new financial resources or expertise. However, these providers also have diverse attributes which need to be taken into account. Furthermore, to be successful in addressing the challenges of development it is important that TDC draws proper lessons from over 50 years of development cooperation. There are two broad sources of failure in aid policy that TDC should take into consideration. The first is the way in which the aid system has been designed and managed. The second source of aid failure concerns constraints to aid effectiveness, including absorptive capacity and Dutch disease, through which large inflows of foreign currency can have a negative impact upon production.

Aid-financed investments in regional infrastructure have shown to have positive effects on landlocked countries. Even for countries trapped by poor governance, higher levels of project supervision, governance conditionality and the creation of independent public service agencies can make aid effective. Above all the attributes of recipients can provide guidance to the design and implementation of TDC arrangements. Cooperation countries, building on their experience with the same issues in comparable situations are well positioned to assist other poorer nations.

The intended recipient of development aid in this paper is a small group of about 50 failing states which Paul Collier (2005) calls the "The bottom billion". The UN Secretary General, Ban Ki-Moon, also called for 2008 to be the year of the 'bottom billion". The UN General Assembly of September 2008 will focus on strengthening the UN's role in development especially in view of re-energising the world's commitment to the MDGs. This group comprises the weak, the disadvantaged, as well as those who have been excluded from the mainstream international community.

Another characteristic of these failing states is the fact that their challenges may not be addressed using traditional approaches to alleviating poverty. While the centrality of increased and predictable financial contribution to the economic development of these countries cannot be minimised it is crucial to acknowledge that money alone is not sufficient. Using TDC one can combine financial flows and expertise for improved results; hence there is a need for proper understanding of the specific conditions of these countries.

The role played by emerging donors is crucial for a host of economic, geopolitical and strategic reasons. The most prominent case is that of China's. We limit ourselves to Chinese African interventions. There is a significant segment of the population that is of the view that Africans should welcome the emergence of China on the African economic and diplomatic affairs, as long as this is done without losing the support of their traditional OECD-DAC donors. To capitalise on opportunities offered by China and other new and emerging donors, African countries would need to: (1) properly identify the immediate advantages and shortcomings of Chinese policies, contrasted with those of other donors; (2) follow adequate approach to ensure African long-term objectives remain the focus of each of these donors; (3) adopt relevant instruments and mechanisms for dealing with problems being considered in each development cooperation arrangement; and (4) set up triangular mechanisms for sharing experiences and good practices.

The key challenges for African countries in nurturing trilateral cooperation arrangements with specific focus on China should be in two aspects. The first is the extent to which the old and emerging donors cooperate in the framework of recipient development strategy despites their contradictory positions, while the second is the ability of African countries to manage multiple partnerships to their advantage, especially without becoming a battle ground for the super and emerging powers as was the case during the cold war era.

Chinese emergence as an influential actor in African development cooperation also has disturbed critics. Discontent over the Chinese Africa policy has been rising partly because of suspicions about the possibility that China's engagement could be undermining long-term development objectives of Africa, protection of human rights and good governance support.

Some of the specific concerns include the following: (1) unethical foundation of Chinese development cooperation with support to repressive regimes; (2) lack of transparency in aid and loan allocation reminiscent of the cold war era; (3) free riding on debt relief painfully provided by OECD-DAC members, hence possible exposure of recipient African countries to new debt build-up; (4) worsening of energy and other commodities crises; (5) lack of consideration for social and environmental standards; and (6) unfair competition with local small and medium scale enterprises especially taken into consideration the fact that some Chinese interventions are in non-traditional intervention sectors.

One possible way of allaying these fears would be for China to follow the basic principles of the Paris Declaration on aid effectiveness. There are two priorities to that effect. First, there is a need to enhance aid effectiveness requiring finding common approaches and concepts which serve the broad long-term development objectives of the aid recipients rather than the narrow and short-term interests of particular donors. The second and related priority is the need to harmonise the implementation strategies which themselves require the promotion of local ownership which is obtained through a process focused on implementing priorities arising from broad-based stakeholders' consultations in the recipients countries.

There are important differences in the short- and long-term objectives pursued by China and Africa's traditional donors. For example, China's main objective appears to be access to natural resources that are needed to support its own industrial development and the enhancement of its global position (Alden, 2005). Moreover, development cooperation with Africa guarantees supply of raw commodities to China to satisfy the burgeoning increase in its demand in the latter commodities. In 2005, trade between Africa and China was valued at more than US$37bn (Konings, 2007). The Chinese White Paper on Africa was published in January 2006; see China (2006), a narrowly-focused interest is to be pursued cognisant of the African countries interests as well as the need not to offend Africa's traditional partners. One approach to this is to rely on structured dialogue with both African leaders and with Africa's traditional donors. The EU-China dialogue on Africa, has for example, helped in building trust and defining the issues at stake on both European and Chinese sides more clearly. There are, however, many challenges for all parties; the following are prominent.

The first challenge is related to competing business interests. A related dimension is overall good governance programme including effective implementation of the rule of law and financial accountability. Chinese companies are present in the construction commodity sector, and the resource extraction. They come in as small, medium and large-size enterprises. In total, over 750 Chinese enterprises were present in Africa in 2005 with over US$1bn in direct investment (Konings, 2007). Several of these are beyond governmental control. Those enterprises which are of strategic importance have the backing of Chinese governmental institutions and hence issues arising in there private business transactions feature prominently in high level diplomatic discourses. As alluded to earlier, while the soft terms of business contracts and the generally low interest rates have been attractive to cash-trapped African governments, there is growing concern about their long-term impact on the level of indebtedness especially because these could undermine recent efforts on debt relief.

The second challenge is related to energy security. Africa's natural resources have driven Chinese investment. Indeed, Chinese exports and imports grew between 2000 and 2004: exports increased from US$5bn to US$13.8bn and imports from US$5.6bn to US$15.6bn. China is now the continent's third most important trading partner after the US and France, and ahead of the UK. Strikingly, Sino-African trade is no longer vastly unbalanced in China's favour: its growing oil imports from Africa largely account for its trade deficit in 2004; Chinese oil import has grown 50 percent per annum since 1994, making China the second importer of oil. Chinese Oil companies have not shied away from high risky deals and usually Chinese outspend competitors in order to access remaining upstream opportunities. Chinese have also invested in countries that have been abandoned by traditional players. In many instances, Chinese investment in poorly governed countries could help prolong ineffective governments' term in office and undermining good governance standards; the most prominent case is that of Sudan. Concerns over support for terrorism have reduced the number of foreign oil companies in Sudan; China is said to have exploited this opportunity by increasing its presence in this turbulent region.

The third challenge is that of climate change and environmental security. A consensus has now been reached that global challenges need to be comprehensively addressed on both the supply and demand sides of energy production and effects on climate change. Environmental security is particularly relevant for Africa because, while not responsible for the degradation over the years, without the necessary safety net mechanisms, Africa will suffer from climate change, natural catastrophes, and scarcity of basic supplies of water and food. Cooperative approach is essential; initiatives such as the Extractive

Industries Transparency Initiative (EITI) or the Action Plan on Forest Law Enforcement, Governance and Trade (FLEGT) will need to be supported (See EITI, 2008 and Brack, 2007). China is not participating in these initiatives.

The fourth challenge is related to the terms of cooperation *per se*. Whereby the OECD- DAC members have converging set of values and principles those, underlying Chinese intervention are often hard to bring in line. The differences could be overcome by adopting a two-track approach involving pragmatic policy mainstreaming and focusing on complementarities. Cooperation could lead to confidence building and eventually have a spillover effect in other areas. One implication has been the need to pool financial resources from domestic and international sources, hence enhanced coordination in program design, funding and aid delivery.

TDC provides a framework for cooperatively addressing issues that have traditionally been the exclusive focus of OECD-DAC members. China as well as other emerging and traditional donors have in common the problem of combining their commercial and political interests with the short and long-term developmental needs of the African continent. Since 2006, the EU Commission has relied on effective and issue-based cooperation with China that has led to progress in harmonising policy-goals and implementation strategies in aid and investment. Such an approach has enhanced the attainment of higher common global responsibilities (Berger 2006).

TDC and International Development Challenges

This section highlights the main development challenges of the poorest countries, with a particular attention as to how TDC can constitute an effective framework for identifying lasting solutions. Economic development in the poorest parts of the world is hampered by a four-component poverty trap: conflict, Dutch disease of natural resources, inadequate access to global markets which could come from being a landlocked country, and poor governance. These countries need special attention as they do not enjoy the benefit of being situated next to growth centres, and accordingly does not have the opportunity of exporting cheap, labour-intensive manufactures.

Most of the world's poor are in China and India and these countries still face development challenges in their poorer regions and with respect to progress towards achieving a number of the MDGs. Indeed 29 percent of Indian and 17 percent of China's inhabitants live with less than one dollar a day[1] . However, the growth performances in these countries have been robust and they can generate the resources to handle their own poverty problems in the future; hence these countries can break away from poverty.

Furthermore, these countries have become development actors themselves. It is critical to engage with them as equals in order to learn from their successes, deliver global public goods and work with them as they become increasingly important trade, investment and aid providers to the bottom billion countries. Unless their motivations and priorities are recognised, it will not be possible for the OECD countries to engage with them constructively

Options for growing out of the conflict trap include state-building, financial support through well-timed aid instruments, increased security assistance and changes in norms of governance through new international charters. For the natural resource trap the OECD and the EITI guidelines could help to ensure transparency in allocating resource concessions, resource payments and government expenditure. It would bring justice in resource contracts, as well as equity in bearing price shocks. There is also a need for an international governance regime to reign in those global corporations that pursue bad practices.

Inadequate access to markets and growth poles could be deterrent to growth and poverty alleviation. 38 percent of the poorest people reside in landlocked nations. These countries face greater transport costs and are dependent on the transport, infrastructure and ports of their coastal neighbours. It is more difficult for these countries to integrate into global markets, including manufacturing which to date has been a reliable driver of development.

Ingredients for a solution to landlocked countries include increased spillover growth effect obtained through regional cross-border trade; improved regional economic policy and investment in transport corridors such as the Maputo Trans-Kalahari corridor or the African Union Regional African Development Strategies (RADS); ability to take advantage of air and e-commerce to break into new services and niche markets; migration and investment; creation of a transparent investor friendly environment for resource prospecting and ability to attract aid from donors. The landlocked trap is even more taxing on African development because of the added constraint of having bad neighbours and being situated away from dynamic growth centres.

Poor governance can help keep inefficient governments in power, it nurtures an unfriendly business environment and a fertile ground for violent conflicts. Solutions proposed would include increased aid; mobilisation of international law and opinion to end Northern and Southern practices that are destructive to development[2], and increased international trade. Western assistance, will therefore, need to be coupled with the intervention of local troops as evidenced by the role played by the Economic Community of West African States (ECOWAS) in Sierra Leone and Liberian conflicts. Preventative packages must include improving the ability of local security forces to intervene appropriately and effectively in violent domestic conflicts and to enforce their resolution.
The Paris Declaration aimed at increasing effectiveness of aid delivery. The signatories agreed to a set of provisions that focus around:

- Harmonisation and alignment of aid strategy where countries work on common standards of aid delivery;
- Ownership where the partnership is surrounded by mutual accountability of both donors and recipients of aid;

- Management for result that center around result oriented frameworks;
- Shared accountability between both recipient and donor country.

The trilateral cooperation answers these challenges by providing harmonisation and alignment of aid and by uniting recipient, emerging and traditional donors through development cooperation which empowers both the emerging country and the recipient country.

Experiences and Lessons Learned with a Cooperation Country

The effectiveness of development aid depends to a large extent on the institutional capacity of the aid delivery agencies[3]. This section explicitly focuses on experiences and lessons learned in institutional development of aid delivery agencies as well as selected projects that have successfully been undertaken under the aegis of TDC. A particular attention is paid to the identification of a process by which the new donor's aid delivery practices can be brought to the OECD-DAC aid agencies standards, i.e. assistance is designed and implemented following the principles of the Paris Declaration on aid effectiveness. The design of partnerships or trilateral cooperation arrangements are based on the principle of equal partners, complementary, mutuality and solidarity between OECD-DAC member and the emerging donor. Let us first illustrate experience of institutional transformation in Thailand and Brazil that has enabled donor agency of these two countries to assume the role of a cooperation country then we consider how Japanese aid has been able to assist with institutional development of cooperation countries.

Experiences and Lessons of Institutional Transformation in a Cooperation Country

As indicated above TDC could enhance the capacity of the donor agency of a cooperation country for aid delivery. It could entail an increase in the financial resources of OECD-DAC members, accruing to the cooperation of country for helping poor countries. It could also be a cooperation country deploying its expertise to the benefit of a poorer country. The experiences in Thailand and Brazil offer lessons that could be relevant for others.

Thailand's Involvement in Development Cooperation

Thailand has concluded the partnership and trilateral cooperation with several countries and international organisations. In 1975, Thailand established the international cooperation scheme namely the "Thai International Cooperation Programme" (TICP) to implement her own development cooperation activities particularly to share expertise and experiences under the framework of South-South cooperation. TICP has helped accelerate Thailand's efforts to become a technical cooperation centre for other countries in Asia and beyond.

Salient components of TICP include the bilateral programme, the Annual International Training Courses (AITC), Third Country Training Programme (TCTP), and trilateral cooperation. Through its bilateral programme, Thailand provides direct assistance to human resource development, education, health, and agriculture. Activities organised under the programme include training, dispatch of Thai experts, and provision of equipment. In that context, Thailand has supported Sri Lanka in the areas of fisheries, agriculture, health, and de-mining.

Beyond Asia, Thailand has initiated partnerships with African countries, especially through the New Partnership for Africa's Development (NEPAD). Thailand's development cooperation to Africa focuses on promoting human security, human development, poverty eradication, primary health care, and HIV/AIDS. Countries covered in Africa include Egypt, Madagascar, Mozambique, Swaziland, and Uganda. This assistance to African countries is channeled through the Department of Technical and Economic Cooperation (DTEC) which has played a leading role in establishing the contours of South-South cooperation among developing countries.

In its AITC training activities are undertaken by Thailand's best academic and technical institutions, in a wide variety of development fields where Thailand has strengths and capacity. In 2005, this assistance targeted 50 countries who participated in over 20 training sessions. The particular feature of the technical cooperation among developing countries is the promotion of South-South cooperation, the ultimate objective of which is the promotion of a truly global partnership for development. A related programme is the TCTP through which training programmes or study visits in Thailand are organised for participants from other developing countries who are sponsored by international organisations or donor countries.

Finally through the trilateral cooperation programme, Thailand and her development partners provide development cooperation, such as training courses, study visits, and sub-regional programmes for third countries on a cost-sharing basis. In this programme, Thailand has successfully cooperated with several development partners in providing development assistance to other developing countries.

Brazil's Involvement in Development Cooperation

Brazil has provided development assistance to developing countries since the late 1960s. Its development activity expanded considerably beginning in the 1980s. As the country's development assistance programmes grew and matured, the country's government has sought to introduce greater coherence through coordinating institutions such as the Brazilian Cooperation Agency or ABC (*Agência Brasileira de Cooperação*), which was created in 1987.

Brazil's priority areas for technical cooperation programmes are agriculture, health (particularly HIV/AIDS), meteorology, energy, water, professional education, electoral support, public administration, cooperation in sports and use of bio-fuels (especially ethanol and bio-diesel). Brazilian foreign assistance has primarily focused on South America and Africa, with cooperation arrangements with Japan, Germany, the UK, Canada, Spain, France, and Italy. Brazil has been quite successful in its HIV/AIDS intervention, therefore providing ground for effective TDC. Brazil's world renowned effective response to the AIDS pandemic can serve as an effective resource for many developing countries that are also strongly affected by it.

Indeed, out of 250,000 HIV registered cases, 80,000 people are receiving free anti-retroviral treatment and the Brazil programme is renowned for its efforts on combating AIDS through a combination of prevention and treatment. In fact Brazil's well renowned HIV/AIDS programme has been used in the form of trilateral cooperation with Russia, through a DFID-ABC cooperation with the aim of sharing this expertise while cooperating with other countries in Latin America.

In June 2003, DFID facilitated a high level Russian delegation to learn from the Brazilian response to HIV-AIDS. DFID participated as a facilitator as it helped design the programme for the Russian counterparts in Brazil and used its network of contacts to offer opportunities for exchange between the Russian delegation and the Brazilian actors. In the process, the Russian delegation visited Brasilia, Rio de Janeiro and Sao Paulo where they had the opportunity to interact formally and informally with representatives of a wide variety of organisations. This exposure to the Brazilian system by Russian delegates stimulated debates among its delegation, particularly around the strong political commitment to a multi-disciplinary government approach, low cost treatment in Brazil, the clear government support for harm reduction, the strong relationship between civil society and the roles of government and the church.

Several strategic areas for future learning and collaboration were identified in the process including a multi-disciplinary response to HIV-AIDS. In Brazil, the involvement of the ministries of justice, education, labour and defense was critical in developing a strong government response to the AIDS epidemic. Secondly, effective prevention techniques can inspire other countries plagued with the AIDS epidemic.

In Brazil, prevention among school children and through mass media campaigns, the role of the church and harm reduction programmes in reducing transmission among drug users played large roles and provide pointers for other countries. Thirdly, experience sharing on testing, treatment and care is an interesting feature of this cooperation, particularly the role of a network of laboratories and clinical protocols. The cooperation reveals that the costs of Antiretroviral drug (ARV) therapy are higher in Russia than in Brazil and Canada hence another experience sharing is learning from the success of domestic production in Brazil and how to negotiate with the multinational pharmaceutical industry on pricing. Indeed, Brazil has secured a series of reductions in drug prices through effective negotiations. There is also a need to carry out detailed studies of the patent laws and increase international cooperation around legislature for drugs production.

Japanese Financial Support to Transfer of Know-how

Japan has been sympathetic to developing and LDCs' development challenges for years with Japanese aid actively supporting various kinds of South-South cooperation and therefore making it a key player in TDC[4]. This is illustrated by selected experiences showing the process by which recipients of Japanese development aid have increasingly capitalised on their experience as recipient of foreign aid to provide more effective assistance to other lesser fortunate countries. The emphasis will be Africa.

The main framework for trilateral cooperation to the benefit of Africa is the Tokyo International Conference on African Development (TICAD). TICAD is a framework for consultation initiated in the early 1990s to address problems affecting African development. TICAD has played a major role in defining the underpinnings of Japanese African aid strategy. The first such conference, or TICAD I, was held in 1993 and focused on African ownership and Asia-Africa cooperation; TICAD II centered on promoting a proactive role of the state; it also had an emphasis on good governance and democratization of political systems. TICAD III held in 2003 focused on human security particularly on norms and institutions that protect and empower people and communities[5]. TICAD III also provided a forum for underscoring the importance of African long-term development promoted through the NEPAD[6].

NEPAD is a home-grown initiative by African governments that provides a framework and an opportunity to increase ownership of the development process by African government and people. TICAD IV, held in 2008, focuses on promoting economic growth, human security and environmental issues. A case in point for trilateral cooperation has been at the center of TICAD IV and involved specific attention to some successful case studies. The Japan Bank for International Cooperation (JBIC) invited officials from Mozambique to participate in events in Vietnam destined to celebrate the completion of the East West corridor that connects Vietnam with Laos, Thailand and Myanmar. A seminar was held in Maputo (Mozambique) in August 2007 in which officials from Vietnam and Mozambique participated. Experts on Asian economic development from Japan presented lessons from industrial development policies and development of special economic zones (SEZs) and industrial parks in Vietnam and other Asian countries.

Another example of TDC is the innovative cooperation between UNDP and Japan to further projects of South-South cooperation. In that framework the Japan Human Resources Development Fund (JHRDF) provides cost-sharing arrangements, resources for government agencies, private and civil society organisations (CSOs) in developing countries who work to take development initiatives to address issues of poverty alleviation, environment preservation and sustainable development. One result from this joint effort between the UNDP and the JHRDF is the development of the New Rice for Africa (NERICA) which aims at linking best traits of African and Asian rice species[7].

New Rice for Africa (NERICA) was created in the mid-1990s and has since evolved into an essential promoter of economic development among upland rice farmers in SSA. The relevance of NERICA as an example for TDC has become more prominent with the current food crisis. NERICA is a technology from Africa for Africans as it has successfully apprehended the vagaries of African agriculture with harsh growing conditions, low fertilizer use and upland ecology where small holders lack the means to irrigate and apply chemical fertilizers and pesticides. Salient success features of NERICA are in three categories. First NERICA has unique combined assets that have lead to higher yield, shorter growth duration, resistance to local stresses and higher protein content than traditional rice varieties. The second attribute is relevance, as NERICA has been able to respond to the real needs of millions of upland or dry land rice farmers of SSA. Finally NERICA offers wonderful prospects for the future especially with its potential to alleviate the desperate food situation in the region and fuel SSA's economy[8].

The project is overseen by the West African Development Association (WARDA) and includes 17 National Agricultural Research Systems (NARS) universities from Japan and the US. The target of the programme is mainly subsistence rice farmers in West Africa[9]. The cooperation includes experts from 17 West African countries, China, Colombia, France, Japan, the Philippines and the US. The financial and logistical support is given by the UNDP and Japan though JHRDF and country offices. The research is provided by China and developed countries partners. WARDA has helped in linking research, provision of financial and logistical resources and African countries members. An essential part of the programme is assistance in overall management, data collection and provision, technical guidance and support, training and technological transfer. In addition, the African countries engage in further sharing of experiences.

The success of the project is reflected in the growing demand for the NERICA rice which resulted in the creation of the African Rice Initiative (ARI). Over US$35mn have been committed to scale up activities[10]. The ARI targets include expansion to over 210,000 hectares of land in west and central Africa involving more than 120,000 African rice farmers and exposing more than 1.7 million African farmers to the strand of NERICA species. Another target is the significant increase in food security in dozens of African nations.

One particular feature of Japanese aid and its relevance to TDC is its success in nurturing an emerging donor to assume centre stage in aid delivery to other recipients of development aid. During 1993-2001 Japanese aid to Thailand and the volume of technical cooperation was declining. Simultaneously, the development cooperation between Thailand and her development partners, in general, was peaking. The technical cooperation between Thailand and Japan during this period focused on the implementation of selected priority sectors.

In 1994, both countries opened a new chapter of cooperation by concluding a Partnership Cooperation Programme. Thailand became Japan's partner in promoting South-South Cooperation. From 2002, Thailand and Japan agreed to shift their development cooperation towards competitiveness and regional cooperation. In addition, the Thai government announced a policy to promote Thailand as an emerging donor. In this regard, the modality of cooperation between Thailand and her development partners increasingly changed from the latter being donor recipients to both being equal partners. During this period, Thailand and Japan agreed to implement partnership / trilateral cooperation to provide technical assistance to other developing countries, notably in Africa.

There are two lessons that can be drawn. First, the absorptive capacity necessary for maximising the ODA support is facilitated by adequate human resource and institutions. Second is the importance of ownership and the development of an indigenous technical assistance plan. Development cooperation requires strong commitment from the recipient. To achieve the set objectives, it is necessary to have a good plan that provides a clear framework for monitoring and evaluating of the success. As a result of the Japanese assistance to Thailand the Thai development agency has become a model of assistance to emerging donors that can be emulated. A case in point is TDC involving Thailand and Japan for the benefit of Africa

The Thailand-Japan Technical Partnership for Africa, also called "Knowledge Creation Programme between Asia and Africa" aims to promote South-South cooperation between Asia and Africa as the follow-up measures of TICAD III. The programme links African with Asian countries (Thailand and Malaysia), with Japan acting as supporter and facilitator. TICAD III discussions focused on fostering a bottom-up instead of a top down approach to development cooperation (Horiuchi, 2004). The Thai and Nippon partnership has been situated in a framework of broader Japanese effort to increase South-South cooperation between African and Asian countries.

TDC with Multilaterals and Non-state Actors

United Nations Organisation

The UN system could become a key player in the future of trilateral cooperation. It could capitalise on its global reach by moving from *ad hoc* projects to a more coherent, coordinated approach. This would include systematic methods of financing, such as cost-sharing with clearly defined components. Given its universal presence and neutrality, the UN system has emerged as a key player of the trilateral development compact. South-South cooperation is an integral part of UNDP work, given its positioning as a knowledge-based organisation and its role in the exchange of development experience through its global network of country offices.

The UN General Assembly resolution 3251 of December 04, 1974 established a Special Unit for Technical Cooperation among Developing Countries (TCDC) within the UNDP. The mandate of the Special Unit includes coordinating South-South cooperation matters within UNDP. It also requires the Special Unit to work with UNDP country offices, regional centers and headquarters, as well as to contribute to UNDP discussions and decision-making processes related to

South-South cooperation. UNDP has been requested to strengthen the Special Unit to help it promote and mainstream South-South cooperation in UNDP programmes; orient UNDP activities to support South-South cooperation; and ensure adequate funding of the Special Unit.

The strategic orientation for TCDC adopted in 1995 identified some 22 developing nations as 'pivotal countries' or 'prime movers'. These are countries that can capitalise on their capacities and experience to assist other developing countries. The Marrakech Framework, adopted at the 2003 High-Level Conference on South-South Cooperation, called for the strengthening of the Special Unit as a focal point for South-South cooperation within the UN system.

The Buenos Aires Plan of Action (BAPA) and subsequent UN resolutions require that South-South cooperation focuses particularly on the needs of economically or geographically disadvantaged developing countries. These include, for example, the LDCs, landlocked developing countries, Small Island Developing States and the entire region of SSA. Further, emphasis should be placed on strategic initiatives, which are likely to have a major impact on a large number of target countries.

The UNDP pursues South-South cooperation in global, regional and country programmes. The global programme helps in increasing opportunities for South-South cooperation. An explicit objective of the global programme is to facilitate interregional knowledge exchange, South-based experiences and learning and ensure that development assistance, advice, programme design and capacity-building efforts draw on global best practices and expertise. An essential element is made up of communities of practice or knowledge networks that help position UNDP as a knowledge-based organisation. This arrangement maximises the synergies of knowledge sharing and provides a formal structure for interregional exchanges of knowledge.

Regional programmes provide a platform to share best practices and draw attention to innovation and good practices. Such regional programmes aim to address public goods and challenges; hence these encourage positive spillovers across borders. The regional programmes also enable countries to advocate collectively for equitable, transparent trade regimes and other areas of common interest.

Building on its presence in almost all countries, knowledge networks and communities of practice, UNDP is best positioned to play a catalytic role in TDC. This has been happening through the Emerging Donors Initiative (EDI) launched in 2003. The EDI has enabled emerging donors to leverage their ODA resources in multilateral partnerships with UNDP, with one another, and with traditional donors. UNDP has in particular helped with capacity-building of development cooperation institutions of new donors hence putting in place delivery mechanisms compatible with OECD-DAC standards. This assistance was essential for establishing trust funds and other cost-sharing arrangements.

Based on the lessons learned so far from the cooperation with the emerging donor (ED) countries, especially through the National Trust Fund mechanisms, the ED countries are effectively contributing to solve the major development challenges worldwide and in the poorer parts of the world. For example, in the area of democratic governance UNDP helps with experience sharing and also contributes by building up the democratic institutions or nurturing their efficient performance. Democratic institutions considered here include parliaments, regional or local governments, decentralisation processes. UNDP has also been active in the area of environment; the most frequent areas of cooperation are in the development of strategies for sustainable development and energy efficiency. Socio-economic agenda comprises mostly of privatization issues, monetary policies during transition period and development of SMEs. Other significant areas of cooperation have also been health, especially HIV / AIDS and education.

Looking into the future, given that the current strategy proved to be quite successful in terms of resource mobilisation, programme delivery and UNDP's strong facilitating role in national capacity building and donor coordination, it would make sense to factor the lessons from this experience in the future. UNDP could work closely with emerging donor countries through partnerships arrangement

The United Nations Industrial Development Organisation (UNIDO) could play an equally important role for industrial development and manufacturing support to developing countries and countries in transition. It has accumulated experience in several areas and regions. The UNIDO has established centres for South-South cooperation in a number of middle-income countries to strengthen and facilitate the sharing of experiences, know-how and management techniques to develop productive capacity in the South. Such South-South centres could promote the replication of best practices in wealth creation through industrial growth.

Non-States Actors

Another area where TDC would be handy in addressing the needs of the poor is networking, particularly with NGOs. A network forum would give a coherent voice to the poor, serving as a recognised venue for consensus building. A network setting also provides a framework for implementation of pro-poor programmes. NSAs as conduit of TDC can also play a key role.

A remarkable development in recent years has been the emergence within the policy community of a wide range of organisations producing research to inform policy formulation and implementation in low-income countries. These include inter-governmental and governmental organisations, universities, think-tanks, NGOs and others in the private sector. One rationale for these developments is the recognition of the necessity of governments to take into account the contribution of a broad range of NSAs. The process bringing together this variety of stakeholders would be an important aspect of the discourse in shaping TDC.

Weston (2007) proposes two categories for mapping these organisations with particular attention in the trade field.

First broad category comprises the international research institutions and networks. The international organisations included in this group are: the UNCTAD, the World Bank, or the ITC. The United National Economic Commissions such as United Nations Economic Commission for Africa (UNECA) or the Economic Commission for Latin America and the Caribbean (ECLAC) would have a comparative advantage in their respective regions. Also included among trade research institutions and research is a new group of academic or policy research institutions with a strong critical and analytical content. CUTS, International Centre for Trade and Sustainable Development (ICTSD), the European Centre for Development Policy Management (ECDPM), ILEAP, Third World Network (TWN), or the Southern and Eastern African Trade, Information and Negotiations Institute (SEATINI), would fall in this group

A second category is essentially made up of NGOs focusing on advocacy; the emergence of this category has included various stakeholders in the policy debate. One important feature of these advocacy NGOs is their connections with the grassroots, thereby enabling the voices of the poor and marginalised sections of the society to tell mainstream their needs directly or indirectly in public policy. While some of the above research networks have also developed effective advocacy programmes Oxfam has taken the lead and is often consulted by national governments and international organisations.

Lyakurwa et al (2007) underscore the centrality of local researchers in the process of promoting evidence-based decisions. The involvement of local researchers at different levels (design, implementation and evaluation) would help provide the much-needed focus on long-term trade and development objectives. The experience of the African Economic Research Consortium (AERC) shed more light. The consortium is a network of researchers interested in issues relating to African development. Its main objective is to strengthen local capacity for conducting independent, rigorous inquiry into the problems facing the management of African economies. It also aims to promote retention of such capacity as well as to encourage its application in the policy context. The underlying motivation is that an active, well informed group of locally based professionals conducting policy relevant research and disseminating that research is better positioned to properly peer review evidence regarding mutual pursuit of short and long term development objectives.

The involvement of local expertise and stakeholders is a means by which to ensure that the project is owned locally. Local expertise tends to possess a strong understanding of the workings of their respective economies – an important factor when designing and implementing intervention programmes.

The peer-reviewed evidence requires need assessment studies that relate and clearly show the areas where policy interventions have the highest developmental pay-offs. For these exercises, in-depth knowledge of the structure of the economy is essential. Such diagnostics are best conducted by local experts and stakeholders with a strong bias for analysis of sustainable development and poverty alleviation. There is also a need to bring such evidence to inform policy. This requires many actors working together in a coherent manner.

TDC would need to include assistance to research and consensus building in the poor countries. In particular these countries need the NSAs to generate peer-reviewed evidence and present such evidence in both technical and non-technical formats. In many cases, to increase the absorption capacity of the policy community assistance could include involvement of policy officials in learning by doing exercises.

Conclusion

Building on their experience as recipient of international development assistance several emerging donors have accumulated useful experiences and lessons that could be capitalised on to nurture economic and social transformation of low-income countries. For these emerging donor to be effective there would be a need for them to receive financial support from an OECD-DAC member. Such technical and financial support could be used to strengthen their aid delivery capacity of emerging donors. In Africa such assistance could be provided to regional powers such as Nigeria or South Africa or regional economic communities in their respective areas of comparative advantage. The emphasis in the paper has been on cooperation in policy design and implementation capacity.

Future efforts should in particular be put on pragmatic cooperation and progressive rapprochement aiming at bringing forward a common African agenda. Such an approach would deal with immediate challenges and assist in terms of trust-building. In that vein there would be a need to anchor each donor's development-approach to the support of an African agenda of making globalisation more equitable and sustainable. In this process the actors can learn from one other while Africa has an opportunity to steer this process in the desired direction. African initiated processes should be supported; this is for example the case in the framework of the consensus on good governance as championed in the African Peer Review Mechanism (APRM).

The analysis in this paper could be furthered in several ways. First, there is very little scholarly literature on this concept. Efforts in this direction could help amend the broad lessons from development cooperation involving one donor and a recipient. For example, the principles of Paris Declaration on aid effectiveness would need to be revisited and eventually amended to take into account the role played by a cooperation country.

Second, the paper has not carefully analysed the cost and advantages on specific TDC. Issues to be considered in future work in that direction should pay particular attention to the efficiency of TDC. For example, if the transaction cost is significantly reduced, is that reduction at the cost of the quality of assistance? Is it the case that cultural proximity is always a welcome attribute or could there be cases where political and hegemonic considerations could limit the trust required between the provider of technical assistance and the recipient?

Benchmarking and counterfactual analytical framework need to be developed for designing and implementing TDC projects that would ultimately lead to overall economic and social transformation in the recipients.

Finally, the inclusion of non-state actors in the overall design and implementation of TDC needs careful analysis to ensure that it is part of mainstream thinking. This would include conditions under which flows of funds to these categories are secured and can be monitored.

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Endnotes

1 Additional information at: http://devdata.worldbank.org/AAG/ind_aag.pdf and http://publications.worldbank.org/ecommerce/catalog/product?item_id=631625

2 Schmidt (2008) cautions that in the past many such conventions have been ineffective and in some circumstances might even have been counter-productive, e.g. the UN Global Compact for Human Rights

3 Include a review of capacity deficient in cooperation countries that ODA could fund

4 See Mabuchi, Executive Director of FASID

5 A particular emphasis was provided to a “bottom up” approach to empowerment with overall objective of promoting ownership of development strategy by people and communities established. Horiuchi (2005)

6 Refer to NEPAD website

7 The recent food price crises highlight the need to increase efforts to support rural communities

8 See www.WARDA.org, NERICA On the move Consulted on June 29, 2008

9 Additional information available at Tcdc.undp.org/doc/triangcoop.pdf

10 All numbers available at Tcdc.undp.org/doc/triangcoop.pdf

7

The Issues of Chinese Aid to Africa

– By Jean Raphael Chaponnière*

China has been one of the engines of the world economy since the beginning of the present decade. Its appetite for raw materials has driven up commodity prices and thus helped to boost growth in Africa (Goldstein *et al.*, 2006; Broadman, 2006, 2008). As a consequence, trade between China and Africa increased seven-fold between 2000 and 2007, from US$10bn to US$70bn and may reach US$100bn by 2009. China is the leading supplier of the African continent and its second-largest trading partner after the US. This spectacular growth has halted the marginalisation of Africa in world trade that began in 1980.

Africa is of course only a modest trading partner for China, but it does have a larger share in China's external trade (3.5 percent)[1] than in world trade. Although trade between China and Africa comes under the heading of South-South trade, in structure it is closer to a North-South pattern of trade as China imports natural resources (oil and ores) and exports manufactured products. As the trade surpluses of the oil-exporting countries (Guinea, Angola, Nigeria, Sudan) are greater than the deficits of the 41 non oil-exporting countries (according to Chinese sources), Chinese-African trade has generated a surplus for Africa up to 2006. In 2007, while natural resources' prices surged, China ran a surplus in its trade with Africa.

While Chinese FDI to Africa is still small relative to it's total flows to Africa, its growth is rapid and contrast with the relatively stagnant inflows from the OECD despite government's attempt to promote it's (Besada and Alii, 2008) firms which have an increasingly strong presence in Africa. They have gone international only recently (Accenture, 2005), and according to Chinese statistics, Hong Kong is currently the destination for two-thirds of their foreign investment, far ahead of the Virgin Islands and Cayman Islands (20 percent). Chinese firms often use these destinations as investment bridges. This statistical bias can be circumvented by monitoring the international business activity of large Chinese companies (OCO Consulting, 2006) or by using host-country data.

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The stock of Chinese investment in Africa has been estimated at US$1.6bn at year-end 2005; according to UNCTAD 2007 this amounts to 10 percent of total foreign investment in Africa. Around 800 Chinese firms are in Africa and this represents a rather modest presence (there are a similar number of US firms in South Africa). Chinese enterprises are primarily present in the oil and mining sectors, as well as textiles, household appliances, bicycle assembly, electronics and telecommunications[2]. State-owned enterprises (SoEs) were the first to move into Africa, and they have been followed by private firms as well as by small ventures. Chinese investment is diversifying into services. In October 2007, the Industrial and Commercial Bank of China (ICBC) invested US$5bn to buy 20 percent of Standard Bank, the largest South African bank with subsidiaries in 18 African countries.

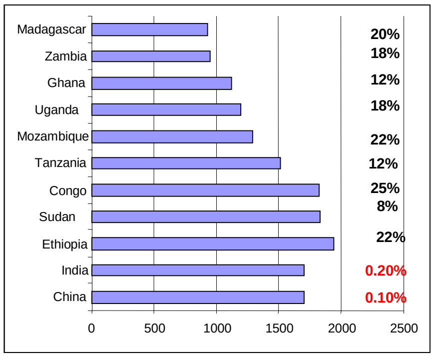
If little is known about the geographical distribution of China's FDI that of its ODA remains wholly obscure. China provides no statistics on its aid, simply issuing press releases after ministerial visits and conferences. These announcements suggest that China is already a substantial provider of aid to Africa. At the occasion of the third China-Africa Cooperation Forum that was preceded by the first summit meeting which brought 43 African heads of state to Beijing, the Chinese government announced that its aid to Africa would double between 2006 and 2009, via an increase in soft loans and many social projects. However, the government did not provide any data concerning the actual amount of its 2006 aid to Africa.

Apart from these announcements, it is difficult to obtain hard information on China's aid to Africa. One of the aims of this paper, which starts with a historical review of Chinese aid from its beginnings in the late 1950s, is to analyse Chinese aid to Africa; and discuss the issues it raises. It describes the Chinese institutions involved and the forms in which they deliver aid. Next, having reviewed various estimates of the amount of Chinese aid to Africa, the paper considers its geographical distribution in order to determine which countries receive the most aid. The paper goes on to discuss issues relating to Chinese aid to Africa and its possibilities of either convergence or divergence with aid provided by OECD donors.

A Historical View of Chinese Aid to Africa[3]

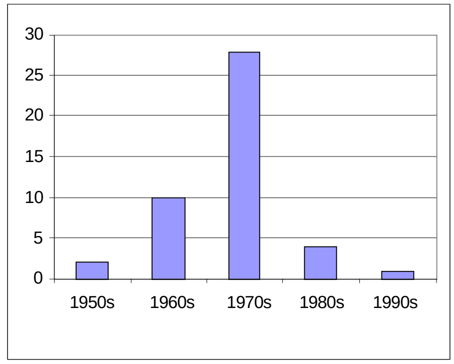
The OECD governments have held a monopoly position in ODA since the 1960s. This position has been shaken by the appearance of new aid organisations both from the North (such as the NGOs and the foundations) and from the South. In the 1970s, several Middle Eastern countries entered the donors club, and 30 years later as their number increased, the OECD created the category of "emerging donors". This category comprises a number of countries – South Africa, Brazil, Russia, China, India, Korea, Malaysia, Thailand and Turkey – that, with the exception of Korea, receive international aid while at the same time providing development aid to other countries. Within this group, not only is China by far the largest but it also stands apart from the others in two respects: the amount of aid it continues to receive and its long experience as a donor.

Figure 1: ODA to China and Africa in 2003-2005 (in US$mn and percent of GDP)



Source: OECD Development Assistance Committee

Figure 2: Number of cooperation agreements signed between China and African countries



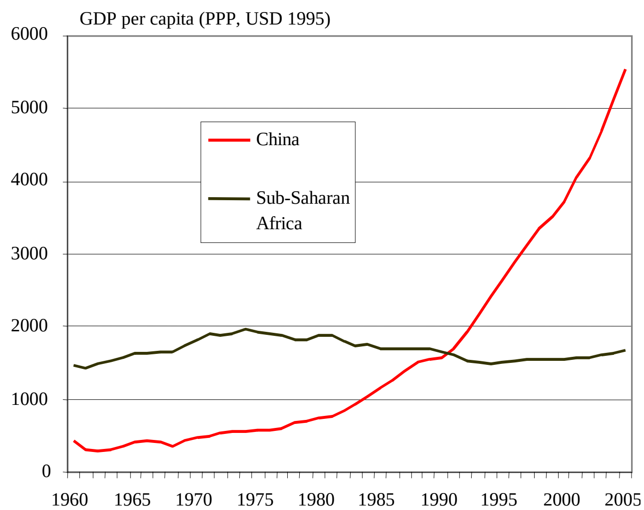
Source: Bräutigam (1998)

China still receives considerable aid, US$1.7bn annually on average (2000-2006), an amount comparable to that received by several large African countries such as Sudan, Congo, Mozambique and Tanzania (Figure 1). Though large in absolute value, this aid makes only a very small contribution (0.1 percent of GDP) to the Chinese economy. China has traditionally been reticent with regard to aid as it suffered considerably from the withdrawal of Soviet advisors after the Sino-Soviet split. Japan has provided half of all aid to China (Takamine, 2006) that will come to an end in 2008 whereas that of the World Bank will continue. Other significant donors include Germany and France. Western donors are eager to provide concessional loans to China in order to enhance their influence.

Where China is concerned, the term "emerging donor" is hardly appropriate as Chinese ODA dates from the 1950s. After a first experience with Cambodia, China signed an agreement with Egypt in 1956 when the onset of the Suez canal[4] war erupted and later on with Algeria. Four years later, Beijing inaugurated its first embassy south of the Sahara and offered assistance to Guinea under President Sékou Touré and Ghana under N'Krumah. In 1964, during a diplomatic round that took him to 11 African countries[5], Premier Zhou Enlai made a speech in Accra that laid the foundations for Chinese aid by setting forth the "eight principles[6]. Although these principles still govern China's aid policy, their interpretation has changed over time.

In the 1960s and 1970s, per capita income in China, on purchasing power parity (PPP) basis, (Figure 3)[7] was well below that of SSA. During this period, aid was the main tool of Chinese diplomacy, which used its "soft power" in its rivalry with Taiwan for representation on the UN Security Council and with the Soviet Union over the legitimacy of its ideological positions. China's aid continued during the turbulent years of the Cultural Revolution and was stepped up in the 1970s.

Figure 3: GDP per capita of China and sub-Saharan Africa (at purchasing power parity) 1960-2005



Source: CHELEM database, Centre d'Etudes Prospectives et d'Informations Internationales.

In 1975, China had more programmes in Africa than did the US. The culminating point was reached in 1976, with the completion of the railway link between Zambia and Tanzania to transport copper ore to Dar Es Salaam. The building of this very large-scale project[8] employed 15,000 Chinese workers and made China one of the main donors to Africa. At the time, China's aid to Africa was larger than its trade with Africa.

After 1978, the Four Modernisations that transformed the Chinese economy did not leave aid policy untouched. The government gave priority to modernising China, and hence the number of projects in Africa decreased, with greater attention being paid to feasibility as Beijing requested more participation by African countries. These changes were explained by Zhao Ziyang during a visit to Africa in 1982 where he presented the "four principles" that indicated a slight modification to Zhou Enlai's "eight principles" as they laid more emphasis to mutual benefit[9]. In 1989, the Tiananmen crisis led to a change in the Chinese attitude to African countries[10] as they did not join the western critics. Although several African countries had resumed their relations with Taiwan, political considerations began to be subordinated to economic considerations as Chinese discovered the opportunities created by market opening (a result of structural adjustment programmes) and realised that Africa was an outlet for their consumer goods. This change of course was helped along by the introduction of concessional loans in 1995. After the visit of President Jiang Zemin (1996), the Chinese government decided to help Chinese firms establish themselves in Africa.

China's involvement in Africa increased as from the year 2000 with the organisation of the first China-Africa Forum and the creation of a development fund to finance vocational training, as well as the China-Africa Joint Business Council. On this occasion, China announced the cancellation of US$1.2bn in debt. The second forum was held in Dar Es Salaam in 2003. In January 2006, the Chinese government published a white paper on China's Africa policy that emphasised the need for a 'win-win' attitude in development cooperation. The holding of the third forum coincided with the summit of heads of state in October 2006, where China announced the doubling of its aid between 2006 and 2009, the creation of a US$5bn fund comprising US$3bn in soft loans and US$2bn in commercial loans, the cancellation of US$1.4bn in debt, and the construction of 30 hospitals and training for 15,000 Africans. In addition, it announced the construction of several manufacturing free zones for Chinese investors.

Chinese Aid Institutions and Instruments

China refuses the label of "donor", considering its aid rather as mutual assistance between Southern countries. China presents itself as the largest developing country while Africa is the continent that contains the greatest number of developing countries. Its solidarity with Africa is based on a shared feeling of humiliation at the hands of the western powers, which carved up the Chinese empire in the 19th century, and of Japan, which occupied China in the 20th. On the strength of this common experience, China considers that it can empathise more readily with African aspirations than the western countries can.

In addition to this political legitimacy, China can point to its economic success: between 1978 and 2007, economic growth increased per capita income by a factor of seven and reduced the number of people living on less than a dollar a day by 500 million[11]. This spectacular performance cannot be attributed to the advices of the "money doctors" as Chinese authorities did not follow the advice of international organisations and adopted "heterodox" strategies. It learned from the economic experience of Japan, Korea and Taiwan as well as on the political experience of Singapore which proved since 1965 that economic openness can co-exist with a single-party system.

China still faces development problems despite its spectacular growth. These problems are particularly acute in the western provinces, because the country's growth pattern has increased inequality. Since China itself is still an ODA beneficiary, it is more sensitive to the expectations of African countries than western donors are.

China's development aid was placed under the authority of the State Council and was initially administered by the Ministry of External Economic Relations, whose minister sometimes held the post of Vice-Premier. In 1982, this ministry was folded into the Ministry of Commerce (MOFCOM), and aid management was assigned to a division of MOFCOM. Each year the Ministry of Finance is instructed to allocate fund to foreign aid that will be disbursed as grants (in kind), interest subsidies for interest free loans or soft loans. A unit from the MOFCOM prepares for bilateral negotiations, administers aid, draws up plans for receiving countries and analyses projects; it is represented in embassies by the economic advisor.

The MOFCOM is not the only public institution involved. All of the technical ministries have development aid departments, making some 30 separate bodies. There are also the provinces as China is highly decentralised, and some provinces – particularly the coastal provinces – have sufficient resources to open offices abroad. Thus, Levy (2008) lists over 70 bilateral accords between Chinese and African cities. Following various interviews with government officials and Chinese think tanks on the subject, Davies M (2008) concludes that aid spending is quite disorganised and lacks effective coordination.

Established in 1994, the Exim Bank has assets comparable to those of the US Ex-Im Bank as it manages both commercial and soft loans. Other banks involved in Chinese overseas aid include the China Construction Bank and the People's Bank of China, with the latter managing China's participation in multilateral institutions. China participates in the Bretton Woods institutions and the Asian Development Bank (ADB); the annual meeting of the ADB was held in Shanghai in May 2007. It has also taken equity interests in two regional African banks (those for West Africa and Central Africa) and in the African Development Bank (AfDB). Although it is taking a more active role in these bodies, China has a preference for bilateral aid.

Since the Beijing summit, the Foreign Affairs Ministry has been in charge of monitoring commitments in Africa. These commitments are very difficult to coordinate because of the number of institutions involved. China's ODA system may be headed for change. The government is planning a reform that should lead to the establishment of a national development aid agency. This body would be placed under the supervision of one or more ministries that have divergent objectives. For example, the trade ministry will support project that will enhance exports or access to raw materials while the Ministry of Foreign Affairs will be more sensitive about China's image in the world.

Until 1995, China provided aid only in the form of grants – made in kind in the case of health and education projects and no-interest loans for construction work. Since that year, it has added loans at concessional rates. The weight of no-interest loans and concessional aid has led China to carry out regular remissions of debt[12].

Aid is delivered with hardly any financial transfer to the recipient country. The African government submits a request to the Exim Bank, and after an evaluation by the MOFCOM, the governments sign a framework agreement. When the projects provided for in the agreement have been completed, the Chinese firms present their invoices to the project owner, which passes them on, via its government, to the Exim Bank for payment. The African government's payments of interest and principal are made to the Exim Bank. These financing procedures limit corruption problems.

Exim Bank is also engaged in infrastructure development backed finance as in the case of the financial package provided to the Democratic Republic of Congo (DRC) which is made of two parts. For example, a loan of US$3bn was provided by the Exim Bank to finance the building of 3200 kilometre railway between Matandi and Sankya, a 3400 km road between Lulumbashi and Kisangani as well as several hospitals and two universities; a US$2bn copper mining investment by a joint venture between Gecamines, the state copper mining company and Chinese firms (68 percent). Tax free revenues of the joint venture will be used fist to reimburse the mining investment and later on the infrastructure related loan. By implementing this scheme, Exim Bank hedges the sovereign risk of a loan to DRC.

Little is known on the conditions of such loans: their maturity stands between 10 to 20 years, the grace period from three to seven years and the average interest rate 2.85 percent. Examining an Exim Bank loan, Reisen and Ndoye (2007) show that it met ODA standards as it contained a grant element of 40 percent.

Whereas Western countries are turning towards programme aid and budgetary supports[13], China finances projects only. Major projects such as the Tanzam railway, large public building complexes and sports stadiums have long been the exceptions, as China has emphasised small projects such as introducing rice farming or horticulture and building bridges, roads and hospitals in rural areas. This situation has changed as Exim Bank engage in the financing of very large projects in order to achieve the objective set at the 2006 Beijing summit.

China also provides technical assistance, beginning with the establishment of many medical teams ("barefoot doctors") in rural areas. It has a programme to receive African interns in China. In addition, it has become more active culturally through the creation of the Confucius Institutes.

The Scale and Geographical Structure of Chinese Aid

Measuring development aid, be it Chinese or Western has always been a delicate task. In donor meetings, each participant announces its commitment for the coming year, and the sum of these commitments is made public at the conclusion of the meeting, giving an idea of the amount of support provided by the international community. The problem is that this sum is calculated by adding components that are not comparable, from either the donor or recipient standpoint. A US$100mn grant has a budget cost of US$100mn for the donor, whereas a US$100mn loan has a lower cost, which varies with interest rates, the length of the grace period and the maturity.

The OECD DAC is responsible for checking whether the assistance offered by DAC member countries is properly classified as ODA. To be considered as ODA, aid must: i) come from an official institution; ii) benefit a developing country; iii) be intended to foster development; and iv) include a minimum concessional element if it is not a grant. This "grant element" is measured by the difference between the face value of the loan and the discounted value (using a fixed rate of 10 percent) of the borrower's repayment flows (interest and principal); the ratio between this difference and the face value of the loan is the grant element. To qualify as ODA, a loan must have a grant element of at least 25 percent, which rises to 35 percent when the aid is tied to the purchase of goods and services produced by the donor. A 30-year loan of US$100mn at the concessional rate of 2.5 percent, with a ten-year grace period, contains a grant element of 60 percent.

Estimates of the Amount of Chinese Aid

Although most of the "emerging donors" have not joined the DAC (even though some of them belong to the OECD), they publish data – in many cases detailed data – on their aid. China, in contrast, provides no statistical data.

China's lack of a culture of transparency does not wholly account for this attitude, and other explanations may be put forward. First, the government faces a real problem: to centralise its aid statistics, it must overcome the resistance of a highly compartmentalised public administration as aid is given by different ministries as well as by provinces and cities. Second, if such statistics were published, the government may fear that they would provoke a domestic backlash against aid.

Why should the Chinese government provide aid to Mali instead of Anhui province[14]? Not only are China's western provinces poorer than the coastal provinces, but up to 2005 the central government made their situation worse by withdrawing from the social sectors and leaving the provinces to cover their own education and health spending. In a country where civil society is increasingly playing a vocal role (as illustrated by the reaction to the Sichuan earthquake) the government could be reluctant to publish data on aid. Lastly, the Chinese government may wish to avoid publishing statistics as their breakdown by beneficiary country would reveal inequality of treatment and raise questions from the recipient countries.

In the absence of statistics, the only available information comes from the statements made to the press at the end of official visits or summits. For example, at the third China-Africa summit in Beijing (October 2006), China promised that aid would double between 2006 and 2009, without specifying how much aid had been provided over the three previous years. These announcements are not accompanied by a disbursement schedule or any breakdown into grants, no-interest loans, soft loans and commercial loans. In some cases the announced "package" comprises both loans and investment intentions.

Given the lack of official statistics, a number of authors have attempted to evaluate the amount of China's aid.

- Bräutigam (1998) estimates that China provided US$4.9bn in aid to Africa from 1957 to 1989. This amount is estimated to be equal to half of total Chinese aid over the period and a low percentage of OECD aid to Africa. According to Bräutigam (2007), bilateral project aid amounted to US$1.6bn from 2000 to 2006, an amount that includes loans and grants as well as technical and medical assistance valued at US$1bn (though worth much more in "volume" terms). Next in order of size are concessional loans (US$1.5bn) and debt cancellation.
- Kurlantzick (2006), working from African data, estimates Chinese aid to Africa at US$2.4bn in 2004 and considers that a substantial share of it was ODA as defined by the DAC.
- Working from central government budget data, Qi Guoqiang (2007), who is affiliated with the MOFCOM, finds that aid to Africa rose from US$300mn a year in 1998 to nearly US$1bn in 2007. This estimate, which focuses on the "cost to the state" of grants and loans, takes account of neither the provinces' aid activities nor the subsidies granted to Exim Bank for its soft loans.
- In an IMF working paper, Jian Ye Wang (2007) finds that Chinese aid to Africa is greater than in most previous estimates. This evaluation seems the most credible (see below). Chinese aid could amount to 10 percent of total aid to Africa if debt relief, which accounts for half of European aid (figure 4), is not taken into consideration.

None of the previous methods used MOFCOM statistics on "international cooperation". Under this heading the MOFCOM aggregates all contracts – mostly construction and civil engineering contracts – that are obtained by Chinese firms in foreign countries, providing a breakdown into capital expenditure, wages paid to Chinese workers and consulting services. These statistics aggregate construction projects that are financed from very different sources and that, for the most part, do not constitute aid.

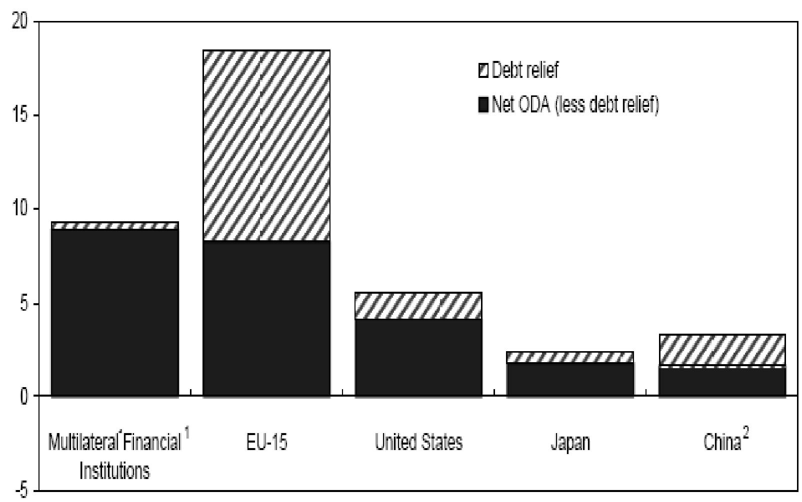
Private financing is used when the work is performed by a Chinese company on behalf of a non-Chinese company[15]; multilateral or bilateral financing is employed when a Chinese firm carries out a project for the World Bank, the AfDB or a bilateral donor; and there is Chinese financing as well, in the form of either aid or loans from the Exim Bank. These statistics therefore cannot be used as such. Nevertheless, it is possible to get around this difficulty, by working with the data published for each of the African countries by the international development banks. These data specify the national origin of the companies carrying out the projects, which makes it possible to measure the value of projects conducted by Chinese enterprises using multilateral financing for individual African countries[16].

Chaponniere (2006) estimates Chinese financing in the range of US$1.6bn and US$2.2bn by taking total foreign economic cooperation in Africa of US$2.6bn for the same year (official Chinese numbers), and netting out both (a) the value of contracts won by Chinese contractors from multilateral agencies and (b) an estimate of private sector activity. When the value of projects financed by multilateral bodies is subtracted from total international cooperation as measured by the MOFCOM, we obtain the amount representing projects financed by Chinese loans plus private projects.

Although we have no way of determining which projects are financed by private firms, we may assume that, in certain countries such as South Africa, Botswana, Mauritius and Nigeria, they play an important role, whereas in the poorest countries this is not the case. For the latter countries, the difference between "international cooperation" and the data provided by the multilateral organisations gives an approximate figure for projects financed through aid and soft loans.

This method leads to an estimate of US$2bn for total Chinese aid to SSA, a figure that is fairly close to those of Kurlantzick (2006) and the IMF. This estimate is corroborated by the results of a survey conducted by Goldstein (2007) on Chinese construction firms in Africa. The survey shows that 40 percent of the contracts executed by these enterprises are financed from Chinese funds. According to MOFCOM data, these contracts were worth a total of US$6bn in 2005, which means that US$2.4bn worth were funded by China[17].

Figure 4: Aid to Africa



Source: Jian Ye Wang (2007)

The Geographical Structure of Aid

In contrast to other "emerging donors", China does not limit its aid to its neighbours. While it has provided grant, interest free loan and soft loans to Mongolia and North Korea as well as to Southeast Asian countries (Laos, Cambodia, Myanmar, Vietnam, Indonesia and the Philippines), its coverage is broader and Africa has always been one of Chinese priorities since the 1960s.

China provides aid to 53 African countries among which are a handful of countries that have not adhered to the "one China" principle. Which countries receive the most aid from China? There are no statistics that allow us to answer this question directly. Table 1 (column 4), which indicates the 17 largest beneficiaries of "Chinese international cooperation" in 2005, i.e. the figure for international cooperation published by China less multilateral financing.

Have China's geographical priorities in Africa changed? The first two columns of Table 1 show Bräutigam's (1998) data for the 17 main beneficiaries of Chinese aid from 1959 to 1998: in Nigeria, Angola and Botswana, the figures for international cooperation probably include private financing, whereas those for other countries indicate cooperation financed by China.

This admittedly imperfect comparison shows that China's aid and international cooperation to Africa are becoming increasingly concentrated (the first five countries received 38 percent of the total over the 1959-89 period and 68 percent in 2005). Of the 17 countries receiving the most aid in 2005, only seven were among the top 17 in the earlier period (Tanzania, Congo, Sudan, Egypt, Mali, Ethiopia and Algeria). There has been a considerable turnover in the ranking. Countries entering the top 17 in 2005 include Angola[18], Nigeria and Botswana, indicating that countries which export oil or raw materials are among the priorities of Chinese cooperation. After the spectacular announcements made in 2007 and early 2008[19], the DRC will probably rank among the first beneficiary of Chinese international cooperation.

Issues Relating to Chinese Aid

As OECD countries will probably be unable to meet the pledge they made at Gleneagles to double their aid, one could expect that the emergence of a new donor should be welcomed by traditional donors, as it increases the amount of aid available to Africa. Chinese aid has nevertheless been greeted with suspicion and China is accused of having imperialistic objectives as it tries to impose a new colonial pact on Africa. This new scramble to Africa is considered as a threat to the West and some observers think it could lead to conflict (Navarro, 2006).

What are the main issues raised by Chinese aid to Africa? Is it in competition with or complementary to Western aid? Is China engaged in free rider behaviour by further indebting countries that have just been granted debt relief? Is Chinese

Table 1: China's Priorities in Africa			
In US$mn	Aid		"International Cooperation" excl. external financing in 2004/05
	1959-1998		
Tanzania	534	Sudan	1 342
Zambia	372	Algeria	1 065
Congo DR	303	*Nigeria*	*787*
Mauritania	239	*Angola*	*305*
Sudan	230	Egypt	276
Somalia	220	*Botswana*	*265*
Congo	205	Tanzania	181
Egypt	193	Mali	169
Guinea	161	Libya	132
Ethiopia	155	Zimbabwe	89
Mali	148	South Africa	82
Madagascar	144	Ethiopia	77
Burundi	125	Mauritius	76
Cameroon	124	Eq. Guinea	75.6
Mozambique	116	Ghana	69
Senegal	108	Congo	68
Algeria	100	Tunisia	65

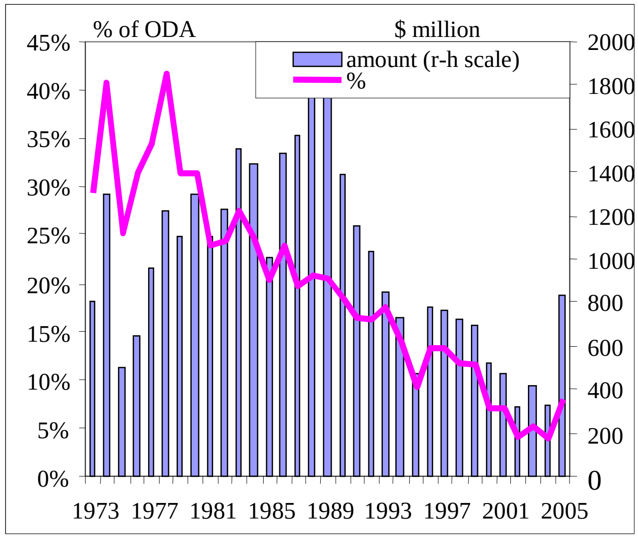
Sources: columns 1 and 2, Bräutigam (1998); columns 3 and 4, author's estimates based on MOFCOM statistics and data from the World Bank and the African Development Bank
Note: Countries where cooperation includes projects financed by private firms are in italics

aid in line with the Washington consensus? How effective is its aid and do Chinese share the Western definition of effectiveness?

Competition or Complementarity?

Chinese aid is geared towards the construction of infrastructure (which accounts for 70 percent of aid according to Chinese declarations), and the major projects announced recently (railways in Angola, Congo and Gabon, revamping of the Tanzam) will increase this share in total spending. As stated by one South African observer quoted by Davies M (2007), "*even Africa's numerous colonial powers did not have the commitment to invest so substantially in the continent infrastructures and probably were unable to afford it anyway*"

Figure 5: Share of Infrastructure in ODA to Africa



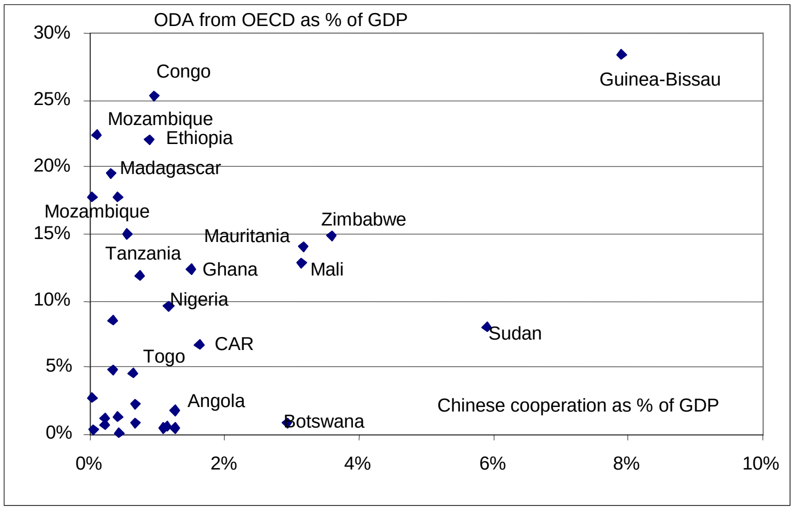
Source: Based on OECD DAC data

Whereas the poor state of Africa's infrastructure is widely recognised to be a major constraint on its development, only a small proportion of Western aid is devoted to infrastructure improvement. This is illustrated by Figure 5, which shows infrastructure expenditure financed by the DAC countries from 1970 to 2005 as a share of total development overseas aid. After the excesses of the 1960s, when they financed many "white elephants", donors became increasingly reluctant to finance this type of project. The decline of ODA financed infrastructures was also a consequence of the Helsinki agreement between DAC members of the Arrangement on Guidelines for Officially Supported Export Credits. The genesis of this Arrangement established in 1978 was the desire on the part of some OECD governments to have a "gentlemen's agreement" to bring order to official export financing with the focus on interest rate subsidies. The group evolved from a simple creditors' cartel to a powerful force for improved international and domestic economic policies worldwide (OECD, 1998).

Although the Arrangement is soft law, it produces hard results and although it is not a legal act of the OECD, the degree of adherence by its participants is extremely high. At Helsinki, members of the Arrangement agreed to forbid the use of interest rate subsidies as commercially viable projects for low income developing countries (Pacquement, 1998). However, while they were judged commercially viable, infrastructure projects rejected by DAC have not been realised. This market failure contributed to opening the way for Chinese ODA in Africa.

DAC attitude has changed since the early years of the present decade, leading to a slight upturn in ODA spending on infrastructure: in 2005, the amount of such spending had returned to its level of 30 years earlier in current dollars. Thus, if one considers its sectoral distribution, Chinese aid appears to be rather complementary than in competition with the OECD countries' aid.

Figure 6: ODA from OECD Countries and China's International Cooperation, as percent of African Countries' GDP



Source: Computed from Chinese Statistics and DAC

Beyond the fact that China is engaged in countries such as Sudan or Zimbabwe which DAC countries are reluctant to assist, what can be said about the geographical distribution of Chinese aid in regards to that of DAC countries? Using the proxy of international cooperation (adjusted by subtracting the amounts represented by multilateral projects) as percent of African countries GDP, Figure 6 shows that the distribution of Chinese aid is more complementary with that of DAC countries than competing. This complementarity is due to the fact that China operates in some countries that the OECD countries avoid, namely Guinea-Bissau, Sudan, Togo and the Central African Republic (CAR). In other African countries, China's international cooperation accounts for a much lower percentage of these countries' GDP than OECD aid.

A Different Definition of Efficiency and Ownership

China, which remains a major aid recipient (Figure 1), is a signatory to the Paris Declaration on Aid Effectiveness, which stresses local ownership, alignment, harmonisation, results-based management and accountability. While China signed as a recipient country, does it adhere to the Paris declaration when it acts as a donor?

Harmonisation starts with the participation in a donors meeting. In such events, however, China's chair has traditionally been empty. This is slowly changing as the Chinese start to attend these meetings where they seldom participate in the debates. As its projects meet the demands from governments, China considers that its aid meets both the ownership and the alignment requirements of the Paris declaration. However, they do not align their assistance with the Poverty Reduction Strategies (PRSs) launched by the World Bank and IMF in 1999.

Concerning effectiveness, Chinese consider their aid as effective as it finances concrete projects such as buildings and roads (Pennies, 2007). From the Chinese point of view, effectiveness should be appreciated at the project level and they judge their aid as being more effective than Western aid because their projects are carried out quickly[20] and at lower cost than those financed by other donors, and their financing methods (see above) obviate corruption problems. Chinese contractors have regularly achieved many of their infrastructure projects with dizzying speed and, as an application of the 8th principle[21], Chinese experts are paid much less than their Western counterparts and are willing to work in more difficult environments. China does not conduct systematic evaluations of its projects and anecdotal evidence. Discussions with MOFCOM suggest that their projects face difficulties once the experts have left.

Chinese are fond of the adage that it is better to teach a man how to fish than to give him a fish as they have emphasised technology transfer[22] and trained technicians and management personnel[23]. Nevertheless, by placing the emphasis upon turnkey projects carried out, Chinese have given less emphasis to local capacity building than DAC countries. The latter consider the strengthening of the recipient country's institutional capacity to handle a project as a factor of efficiency and ownership.

Among the issues raised by the question of harmonisation, is that of Chinese participation to the elaboration of international norms as they have not participated within the discussions (as donor countries) on the principles that have led to the Paris declaration.

Issues Raised by Tied Aid

Until the early 1990s, bilateral aid was regarded as a tool for supporting donor exports. This practice has become less common: according to DAC data, tied aid accounted for only nine percent of bilateral aid in 2004, and an increasing number of donors now issue international tender offers, like the multilateral banks. This average figure masks large variations from one country to another and technical assistance, however, food aid and transport of food aid are still often provided by donor countries.

China, like all the other emerging donors, ties its aid to the use of Chinese equipment (according to Chinese sources, 70 percent of China's aid is spent on Chinese goods and services). Given China's level of development, designing its aid to have positive repercussions for the Chinese economy is a justifiable practice. The MOFCOM and the Exim Bank issue calls for tenders that are restricted to Chinese firms. According to China Exim Bank, the basic criterion for soft loans is that Chinese enterprises should be selected as contractors/ exporters. Equipments, materials, technology or services needed for the project need to be procured from China ahead of other countries. In principle, no less than 50 percent of the procurements come from China. Large Western firms which have a subsidiary in China have been selected as sub-contractors (such as procurement of turbines or designing of airport facilities) of Chinese financed projects, a larger number of Chinese firms benefit from the untying of aid, as they regularly submit the lowest bids in response to the tenders of multilateral and bilateral donors.

According to a study by the French Finance Ministry (DGPTE, 2007) Chinese enterprises control over half of the African market for major construction and civil engineering projects. The survey conducted by Goldstein (2007) shows that these enterprises operate in a great many African countries. This extensive presence reduces the cost of staging equipment to project sites and, moreover, it is believed that they invoice only the depreciation of their heavy equipment retained in Africa. This explains why they can offer much lower prices than their competitors (one-third of competitors' bids on average). Considering these competitive conditions, the untying of Chinese aid and the use of international calls for tender would probably have little impact on the position of Chinese firms. However, the Chinese may be reluctant to untie aid and propose open tender as this may create a transparency problem in China.

About 30 years ago, Korean companies succeeded in breaking into the Middle Eastern construction market by using Korean labour, in some cases young conscripts doing their military service. Chinese firms use Chinese labourers for the same reasons. This is probably an important factor in their competitiveness, although a survey by the Centre for Chinese Studies of the University of Stellenbosch (2006) on China's involvement in Africa's construction and infrastructure sectors in four countries concludes that Chinese companies examined were usually found to employ a large amount of local labour, 85-95 percent of the total workforce.

Locals were predominantly employed as low skill labour, but there were also many instances of locals in more senior positions. This shows that the perception of Chinese companies bringing their own workers is not always true. The survey shows that it varies from country to country. The local employment rate is higher in Tanzania and Zambia, where Chinese companies have a longer presence, compared with Sierra Leone and Angola (very few local workers). A number of construction projects in SSA show that this practice is not systematic.

Some of these workers stay on once their contracts are up, increasing the Chinese presence in Africa. Estimates of the number of Chinese established in Africa are often somewhat fanciful, ranging from 100,000 to 1 million. A Chinese diaspora already existed in several African countries[24], and fears over Chinese emigration to Africa are nothing new: the authorities in Guinea and Madagascar were concerned about it as early as 1960[25]. This fear has been revived by recent comments by the chairman of the Exim Bank about the possibility of extending loans to Chinese farmers wishing to settle in Africa. Fujian and Zhejiang provinces have encouraged emigration to Africa as a source of remittances and of new jobs (C Alden 2007). However, it remains to be seen if Chinese rural dwellers will become candidates[26].

Is China "Free Riding" on International Aid?

In March 2007, the former president of the World Bank accused China of following a "free rider" strategy in Africa by lending to countries that had just been granted debt relief.

The Heavily Indebted Poor Countries (HIPC) Initiative launched during the 1990s has reduced Africa's external debt from 80 percent of GDP (1995) to 35 percent (2006), at a cost of US$64bn to the international community. Of the 31 countries eligible for this initiative[27], 18 have benefited from debt relief. Concern for avoiding a resurgence of indebtedness that could lead to another crisis has led the IMF and World Bank (2004) to develop a debt sustainability framework (DSF). This framework sets a debt ceiling above which the risk of default can become very high; separate ceilings are established for three groups of countries according to their CPIA ranking[28].

The categories of risk (low, moderate and high) determine the appropriate proportions of grants and loans. The DSF is intended as an instrument for coordinating the terms of financing. It has prescriptive force for the IDA (World Bank Group), but it is merely indicative for the other organisations: for example, some have chosen to lend only to low-risk countries, while others are willing to lend to medium-risk countries.

The DSF applies only to those donors that accept its legitimacy. If China refuses to cooperate, the collective effort of the other donors will be much less effective, and this is indeed a criticism that is often raised regarding China's aid policy. However (see Table 2), the estimated breakdown of its aid by country shows that the countries to which China provides assistance are not those that have enjoyed the largest debt remissions. The DRC may be in a different situation. This country, classified as being between the decision and completion points, may hope for forgiveness of some of its debt (US$8bn), but such a decision could be compromised by the announcement of two very large loans in 2007 and 2008 to finance major infrastructural projects that is secured by the granting of mining leases[29].

As illustrated by the case of Zambia (Dhale Huse, Muyakwa, 2007) what makes China a risk for debt sustainability is the lack of transparency in loan contraction processes. Those loans have been decided at the highest political level and the agreements are not available to Parliament or civil society. It is then impossible to assess the amount and the terms of the debt contracted. It increased the risks that those funds will not be properly used and may turn out to be cases of illegitimate debt in the future.

Table 2: Chinese Aid and the HIPC countries			
	HIPC Debt Relief		**Chinese Cooperation**
	US$mn	GDP (in percent)	GDP (in percent)
Benin	1 096	24.80	0.0
Burkina Faso	1 160	20.20	0
Cameroon	1 298	7.80	0
Ethiopia	3 217	25.20	0.9
Ghana	3 823	35.70	0.7
Madagascar	2 323	49.30	0.3
Malawi	2 227	107.30	0
Mali	1 915	36.40	3.2
Mauritania	850	45.00	3.2
Mozambique	1 992	29.80	0.1
Niger	1 048	30.70	0.6
Uganda	3 397	39.00	0
Rwanda	530	24.80	0
Senegal	2 392	28.70	0.3
Sierra Leone	870	71.60	0
Tanzania	3 728	30.70	1.5
Zambia	2 687	37.30	0.4

Sources: Djoufelkit (2007) and Chinese statistics on international cooperation less projects financed by multilateral bodies

The Washington and the Beijing Consensus

Adhering to the principle of non-intervention, China imposes no conditions for its aid, but there are two exceptions to the rule. Breaking off diplomatic relations with Taiwan has long stood as a prior condition for aid from China. This is no longer really an issue, since owing to its economic success, China has "won the war" over UN representation. It now has cooperation agreements with countries that maintained relations with Taiwan. Beijing does, however, expect support for its positions at the UN: for example, it requests African support for its opposition to a Security Council seat for Japan or to elect a candidate to a top job in a UN organisation (a recent example is the World Health Organisation). Moreover, the strict secrecy surrounding data on aid and credit terms to Africa suggests that China may require a contractual undertaking not to publish the data.

Apart from these points, China's aid is not subject to conditionality, in contrast to that of the OECD countries. As long as African countries do not express their willingness for social and environmental responsibility (SER), Chinese firms face no requirements for SER and their method can lead to abuses, as in the example of the Merowe dam in Sudan. It does not comply with international standards, and its construction caused the displacement of the local inhabitants to distant locations where the land was not suitable for farming. The Chinese government recognises these abuses but, on grounds of non-interference, refuses to take the initiative of requiring SER clauses in contracts.

China's attitude has led Ramo (2004) to propose the concept of a "Beijing consensus" as opposed to the Washington consensus. According to Ramo, both pursue the same goals but in a different order of priority, with Beijing giving priority to stability and development while the Washington consensus views reforms as a pre-condition for stability and development. M Leonard (2008) has opposed the "Yellow River Capitalism" to the Beijing Consensus. While the latter is against state intervention in the economy and in favour of privatisation, the former encourages the use of public money and a push to protect public property. These differences contribute to the positive image of Chinese aid in African countries where Asian models have long been regarded with deep interest[30].

Following the crisis of 1997, which detracted from Asia's image, the build-up of China's aid has restored the attractiveness of heterodox models. Chinese aid is attractive to the countries that are most resistant to reform, such as Angola, which was granted a loan of US$2bn at a time when it was being called on to account for the disappearance of US$4bn from the public treasury. It is also attractive to countries that have suffered from instability caused by overly mechanical application of reforms designed according to the Washington consensus.

Circumstances may oblige China to change its position. Loans by the Exim Bank account for a rising share of China's aid commitment, and being more concerned about repayment, the Chinese Bank will probably pay closer attention to country risk. It considers the business environment and, though without introducing conditionality, the bank will become more attentive to countries' indebtedness. This concern may lead it to coordinate more closely with other donors.

Conclusion

China's aid to Africa has a long history. In the early 1960s, the first overviews of the subject[31] displayed the same surprise that we see today, though sometimes for different reasons. After decades of turmoil, China was a poor country, where the excesses of the Great Leap Forward caused a famine and millions of deaths in the late 1950s. It was much poorer than the Maghreb countries with which it signed its first aid agreements and than SSA, to which it started providing aid in 1960. China, just emerging from the embargo caused by the Korean war, exported very little. Its aid to Africa was greater than its trade with Africa, and it made no investments. Today, trade with Africa is larger than aid and investment.

In February 2007, President Hu Jintao announced that trade between China and Africa would amount to US$100bn in 2010. This appears reasonable as it implies a 50 percent in four years compared to 40 percent annual growth between 2000 and 2007. Achieving this objective will make China the largest trade partner of Africa, and it should probably been accompanied by a normalisation of economic relations between China and Africa, with investment outstripping trade and aid.

At the 2005 Gleneagles summit, the G8 countries gave a commitment to double their aid to Africa, and China made the same promise in Beijing in November 2006. Three years later, it appears that OECD countries are not on track to meet their targets. As economic growth falters, they would need to make unprecedented budgetary effort to reach their objective since debt cancellations, which account for nearly half of aid, come to an end. While OECD will probably not achieve its 2010 target, China may encounter less difficulty in achieving its objective of doubling its aid by 2009.

Thus, at the end of the present decade, China will probably stand as the largest donor to Africa. While Chinese aid to Africa may double, its increase will not be homogeneous and this could represent a problem as Chinese promises have raised expectations of the doubling of aid in every African country. Entering the club of major donor will represent a considerable challenge for China as it is now engaged in very ambitious projects that will be under close scrutiny.

Will Chinese practices converge towards a Western paradigm or will it diverge and stand as an alternative to the OECD? To answer this question one has to look well beyond the issue of aid and raise the question of the place of China in the world. Will this emerging power be build at the Western image or will China, as all the rising powers try to reshape the international system in order to suit its own purpose?

These questions are discussed inside China in universities, think tanks, journals and on the Internet. These debates have been analysed by M Leonard (2008); on the one hand "liberal internationalists" look forward to a "peaceful rise" that will see China rejoining the world order and adapting to global norms and learning to make a positive contribution to global order; on the other hand, there are "neo cons" whose long term goal is to see China return to a great power status and build its own model.

Returning to the debate on aid, it appears that many Chinese scholars think that European aid to Africa has failed and that there is nothing to be learned from the Western countries' experience. Thus, China should challenge Western influence and propose a different model of globalisation where nations can trade with each other on global markets while maintaining their control on their political and economical system. This opinion is not shared by all, and there is some debate on the subject within China. Some observers take a less black-and-white view both of the Western experience and of the overall results of Chinese aid to Africa. In order to counter this divergence Western countries are making efforts to liaise with those who think that Chinese practices should converge with Western practices. This trend will be accelerated by the implementation of joint projects that stress the complementarities: one way of doing so, can be to add soft loans to Exim bank financed projects in order to fund activities that will enhance the social and environmental aspects of Chinese projects.

World Bank signed an Memorandum of Understanding (MoU) with Exim Bank in 2007 and bilateral donors are discussing joint projects with China in Africa. This trend will benefit from changes in Chinese practices. On the issue of SER, for example, an official of the People's Congress stated in January 2007 that Chinese firms could face sanctions if they committed abuses abroad. In March 2007, the National Development and Reform Commission (NDRC) removed Sudan from the latest list of countries with preferred trade status and China will no longer provide financial incentives to Chinese firms investing in Sudan (B Gill and Alii, 2007).

The pace of such convergence will depend on the dialogue established between China and the traditional donors. Chinese embassies have already begun to attend donor roundtables, in contrast to previous practice. This dialogue could be improved if all parties made their objectives public. The Chinese are accused of having a hidden agenda in their "second scramble to Africa" and assisting African countries to strip them of their resources, whereas Western aid is held to be exclusively for the well-being of the people. The Chinese make the same criticism in return. If China has an agenda in Africa, so do the US and EU, whether that agenda concerns security of supply or migration. Acknowledging these agendas would be a first step towards dialogue, or even towards cooperation.

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Endnotes

1 Africa accounts for a fairly high percentage of oil (30 percent), several ores and timber (Chaponnière, 2006)

2 If we consider only those investments made since 2002, China would be the second largest foreign investor in Zambia and Madagascar, and the fourth largest in Kenya and Angola. Its oil companies (China National Petroleum and China Petroleum and Chemical) have a strong presence in Sudan, Nigeria, Angola, Equatorial Guinea, Gabon, Congo, Mauritania and Niger. ZTE, one of China's most internationalised industrial firms, has directed one-third of its projects to Africa

3 Several books analysed the Chinese involvement in African in the 1960s and 1970s: Cooley John K. (1965), Larkin, Bruce D (1971), Hall Richard Peyman, Hugh (1976) Hutchison, Alan (1976)

4 China reacted to Egypt's requirements by providing a large amount of food, emergency facilities, equipment and munitions and offered US$18mn to buy needed goods and materials. Chairman Mao said this about Egypt's requirement: ¡°We in China are also ready to do what we can to help Egypt, and our assistance is without any strings attached. If you can pay, you may do so; if you cannot, let it be; we shall provide assistance free of charge. Of course a country with national pride, Egypt may wish to pay back our assistance. An account may be kept for future repayment or repayment after 100 years....we can do our best to help Egypt". Quoted in Gountin 2006

5 Egypt, Algeria, Morocco, Tunisia, Ghana, Mali, Guinea, Sudan, Ethiopia and Somalia

6 The Eight Principles are: (i) Chinese government have persistently been providing assistance to foreign countries according to the principle of equality and mutual benefit, never regard the assistance as the grant by one sided. Chinese government maintains that assistance should be mutual; (ii) While providing foreign aid, Chinese government strictly respects the sovereignty of recipient countries, no strings attached and no privilege required; (iii) In order to relief the burden of recipient countries, Chinese government provides economic aids in the way of interest free or low interest loan, the time limit of repayment could be delayed when it is needed; (iv) The purpose of Chinese government providing foreign aid is not to make recipient countries being dependent on China, but to help recipient countries gradually develop on the track of self reliance and economic development independently; (v) For the projects constructed through China foreign aids, Chinese government does its best to make quick effects through small investment. Thus, the governments of recipient countries could increase income and accumulate money; (vi) Chinese government provides equipment and materials made in China with the best quality, and negotiate the price in accordance with the price of international market. If the equipment and materials provided by Chinese government do not up to the negotiated specifications and qualities, Chinese government guarantees to replace it; (vii) While providing technical assistance, Chinese government assures to teach recipients to fully master this kind of technology; (viii) The experts who are dispatched by Chinese government to help recipient countries carrying out construction, should be paid as same as their own experts of recipient countries. They are required to not have any special requirement and enjoyment

7 In 2007, the International Comparison Programme of the World Bank lowered significantly (40 percent) Chinese per capita GDP on a PPP

8 The cost of the project amounted to US$400mn, or 10 percent of the combined GDP of the two African countries at the time

9 China carried out its first debt-equity swaps with textile firms in Mali at this time

10 I Taylor (1998) argue that African reaction is explained by their reaction to the democratisation pressure by the West considered as Western 'neo-imperialist' and a pragmatic understanding that overt criticism of Beijing could be detrimental to their interest

11 It was China's experience with poverty reduction that led the United Nations Development Programme (UNDP) to establish the International Poverty Reduction Centre in Shanghai in 2004

12 At the China-Africa Forum in 2000, China cancelled US$1.4bn in debt for 31 countries. In 2005, President Hu Jintao announced that China would participate in the Heavily Indebted Poor Countries (HIPC) Initiative, and in 2007, the MOFCOM granted debt relief for 33 African countries (Davies, 2007, page 53)

13 According to the Paris Declaration, they are supposed to allocate half of their aid in these forms

14 Whereas the human development indicator (HDI) for China as a whole (0.74) is higher than that of most countries in SSA, the HDI for Sichuan and Anhui provinces is equal to that of Cape Verde, that of Gansu province is close to that of Equatorial Guinea, and those of Yunnan, Guizhou and Tibet are close to those of Gabon, Namibia, Sao Tome and Principe, and the Comoros

15 This explains why a very large share of China's "international cooperation" goes to Hong Kong

16 This shows that 25 percent of the AfDBs projects (in 2005/2006) and 15 percent of the World Bank's projects in Africa were carried out by Chinese firms

17 According to the Financial Times (January 29 2008), Exim Bank had authorised a total of US$13bn for African projects by June 2007 and disbursed half of that amount. The bulk of this amount has assisted the trade activities of Chinese firms in Africa. Other estimates have attempted to determine the terms of Exim Bank loans, which are not published in either Chinese or English. By and large, Exim Bank finance export trade activities of Chinese firms in Africa Hubbard (2007) identifies 87 projects financed by Exim Bank from 2002 to 2007 on terms that are judged to be concessional; 20 of these projects, representing a total of US$500mn in loans, are in Africa. These findings have to be updated as Exim Bank has announced very large package loans

18 China had previously aided the adversaries of the ruling MPLA

19 China announced two financial packages with a total amount of US$12bn to the DRC in *The Economist* A ravenous dragon March 15, 2008

20 This is by and large true even if they have met with problems in the case of large projects as it has been the case of railway projects in Angola., A Russel: "Big projects fall behind schedule" Financial Times January 24, 2008

21 According to the 8th principle of the Accra declaration of Chou en Lai "*experts who are dispatched by Chinese government to help recipient countries carrying out construction, should be paid as same as their own experts of recipient countries*" quoted by GOUNTIN M (2006)

22 Quoted by Gountin (2006) the seventh principle of Cho En Lai speech states: "While providing technical assistance, Chinese government assures to teach recipients to fully master this kind of technology"

23 Under the African Human Resources Development Fund, set up with the purpose of sharing skills, China has trained over 10,000 African professionals in various fields

24 South Africa and Madagascar, where the Chinese took part in railway construction during the colonial period

25 Charbonnier, F (1960), "China Strengthens Economic Ties with Africa", *Far Eastern Economic Review,* 12 May

26 Field surveys conducted in Senegal and Mali have shown that Chinese immigrants were not former peasants, they used to be traders in Chinese cities and benefited from their contacts with a Chinese contractor to emigrate to Africa (Kernen A, Vuilllet B 2007)

27 To be eligible for the HIPC Initiative, a country must: i) have borrowed from the IDA; ii) have accumulated an unsustainable debt burden; iii) have implemented good macroeconomic policies as part of IMF or IDA programmes; and iv) have produced a PRSP. When these criteria are met, the IMF and the IDA decide whether the country is

eligible for debt relief (decision point). After at least one year of PRSP implementation, the country reaches the completion point (Djoufelkit, 2007)

28 The Country Policy and Institutional Assessment (CPIA) grades the quality of policies and institutions according to 16 criteria, grouped under four equally weighted headings: (i) economic management, (ii) structural policies, (iii) social cohesion and equity policies, (iv) public administration and institutions

29 In this way, the Chinese are seeking to limit their risk. The Exim Bank finances the infrastructure, and the loan granted to Congo will be repaid by the Chinese firms operating the mining concessions

30 In 1913-1915, the Reverend Ravelojoana in Madagascar advocated taking Japan as a model; in the 1980s and 1990s, at the time of the first structural adjustment programmes, African leaders took an interest in the experience of the newly industrialised economies

31 *Far Eastern Economic Review*, "China as a Foreign Aid Donor", January 19, 1961

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