

Overview

The global economic system—consisting of international trade in goods and services, flows of capital, 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 least-developed countries (LDCs), landlocked 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. Other declarations include those on the Millennium Development Goals, adopted at the Millennium Summit of the United Nations General Assembly in 2000 and the Monterrey Consensus on Development Assistance, adopted at the International Conference on Development Assistance at Monterrey, Mexico, in March 2002. At best these could be viewed as articulating desirable goals and aspirations and at worst as lofty, but empty rhetoric, since none of them credibly commit their signatories and hold them accountable for taking concrete actions in support of the rhetoric. Indeed, 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 book explores this question, along with the scope for strengthening the links between trade, growth and poverty reduction through cooperation between the developed and developing (including LDCs) nations, including cooperation that goes

beyond multilateral trade talks and regional trading agreements. 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.

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 not to focus selectively on some aspects of globalisation, while ignoring those other processes besides globalisation in 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, political and social infrastructure, 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 hijacked 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 cost 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 United States and European Union 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 foreign direct investment (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 book 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. Indeed, external constraints such as volatility and instability of the global markets for goods, services and capital could erode the benefits of global integration for the developing world. The ongoing crisis in international financial markets is a dire example of instability induced by policy and institutional failures as well as outright fraud. The book 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 (8 Asian and 5 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.

The book 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 landlocked 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 book, 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 that argued 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 trade protection as the preferred means for offsetting permanent or temporary cost disadvantages of SIDS in particular, or LDCs more generally, 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, and over time, on both 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 would be inappropriate, even if feasible. 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 United States and in some members of the European Union, 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. The ongoing global financial crisis has increased such doubts.

This book 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 (1973-1979), 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 most-favoured-nation (MFN) tariffs on goods of export interest to developing countries.

Nonetheless, there has been a significant and welcome 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, this book finds that their annual percentage growth in per capita gross domestic product (GDP) nearly tripled from 1.3 during 1990-2000 to 4.0 in 2000-2006 and further to 4.3 in 2007 (UNCTAD, 2008, Table 1 and Statistical Annex, Table 1). 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. UNCTAD (2008, Table 5) shows that LDCs’ merchandise exports more than doubled to US\$99 billion in 2006 from US\$43 billion in 2003. However, exporters of oil exports accounted for US\$52 billion of US\$99 billion and mineral and agricultural exports of non-oil exports accounted for another US\$77 billion. Thus, LDCs continue to depend heavily on oil

and primary commodity exports. UNCTAD (2008: 11) points out that the increase since 2004 in LDC exports was largely attributable to rising international commodity prices. The price index of food rose by 49 per cent, agricultural raw materials by 52 per cent, and mineral and ores by 178 per cent and crude petroleum by 128 per cent during 2000-2006 (UNCTAD, 2008, Table 7). These favourable price trends may be reversed in the near future. However, the gross domestic savings of LDCs increased from 12.8 per cent GDP in 2000-2002 to 20.7 per cent in 2006 and gross domestic capital formation increased modestly from 19.8 per cent of GDP to 22.2 per cent during the same period (UNCTAD, 2008, Table 4). If sustained, these trends are conducive to future increases in growth. Thus, 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 its 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 labyrinthian. The trade-offs involved are difficult to evaluate, even for a very well-informed and skilled individual. A small and poor developing member country 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 to LDCs, the Programme of Action (POA) of the UNCTAD and the Aid-for-Trade (AFT) of the WTO. This book 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 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 in 2005, after the evaluation.

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 Integrated Framework 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 had 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 coordinated 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 concept of 'country ownership' is elusive, as noted in UNCTAD (2008, Box 4), and too difficult to be meaningful (Buiter, 2005). Moreover, it 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 Programme of Action (POA). More recent data from UNCTAD (2008) confirm the disturbing findings of UNCTAD (2006), although it makes only a very brief reference to the POA):

- Only 8 out of the 50 LDCs¹ met or exceeded the POA target of growth of 7 per cent per annum between 2000 and 2004. In 2006, growth rates of 14 countries exceeded 7 per cent. Ten out of 35 LDCs met the investment target of 25 per cent of GDP during 2001-2004. In 2006, 14 met the target.
- Nineteen out of the 50 LDCs were unable to achieve per capita growth rates of more than 1.0 per cent per annum during the period 2000-2004, 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.

1. The 50 include Cape Verde, which graduated from being an LDC in 2007.

- Although the recent improved growth performance in some LDCs noted above is certainly encouraging, a closer analysis shows that out of 40 LDCs, only 7 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 per cent of GDP in the LDCs as a group in 1999-2003. It was 22.2 per cent in 2006, with domestic private investment 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 per cent higher than in 1980-1983, whilst it increased by 55 per cent 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 (2006) 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 Aid-for-Trade (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 14 November 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 technical assistance 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 fulfilment, 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 book 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 19 May 2008. These were rejected by India and other developing countries as inadequate. An informal meeting of the Trade Negotiating Committee (TNC) opened on 21 July 2008 to consider the latest (July 2008 package) negotiating texts. As of 25 July 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 29 July 2008. Although the proximate reason for the collapse was the irreconcilable difference in the positions of China and India on the 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 4 November 2008. Parliamentary elections in India have to be held before the end of May 2009. A new European Commission will take office in Spring 2009. If the Republican Party administration in the US is succeeded by a Democratic Party administration, which most polls of voters in mid-October 2008 (two weeks before the elections) suggest is likely, going by the rhetoric of Mr. Barack Obama, the Democratic presidential candidate, it seems unlikely his administration 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 European Commission 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 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 per cent over two decades, from 0.5 per cent in 1983 to 1 per cent in 2006. Moreover, in 1948, soon after the conclusion of GATT, India's share was much higher at 2.2 per cent. 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 per cent in 1948, 26.8 per cent in 1983 and 35.4 per cent in 2006. However, the trend in these shares of world merchandise trade does not reveal the divergent trends among sub-groups. For example, 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 per cent in 1948, 19.8 per cent in 1983 and 19.6 per cent 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 per cent in 1995 to 30 per cent in 2006. However, excluding East Asia and the Pacific, the share of the remaining countries increased by less, from 12 per cent in 1995 to 18 per cent in 2006. It is clear that although the period after 1980 is one of growing integration of the developing world with the 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.

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 multidimensional. Reasonable people could, and often do, 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 multidimensional 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 as those included in the Millennium Development Goals, 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 trans-national) 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 book 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. 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 multidimensional 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 coordinated, 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 preferential trade arrangements (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 United Nations, 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 Generalised System of Preferences (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 perpetuate the counterproductive, preferential access through GSP.

