

4

Cooperation between Developed and Developing Countries to Strengthen the Links between Trade, Growth and Poverty Reduction

4.1 TEMPORAL AND SPATIAL HETEROGENEITY OF THE LINKS AND THEIR STRENGTH

The book concluded in Section 2 that links between trade (or more generally globalisation) and poverty reduction could be usefully distinguished into two categories: direct and indirect. The direct links reduce poverty by eliminating (or accentuating) those characteristics of an economy that disproportionately affect the poor unfavourably (or favourably). Most ubiquitous among those that affect the poor unfavourably are domestic market distortions. Equally, if not more important, are the indirect links through the effects of globalisation on aggregate growth (e.g., growth of GDP) and the effects of growth on poverty reduction. It was emphasised that not all links, direct and indirect, need be unidirectional and, moreover, there is enormous heterogeneity across countries and over time on both the presence or absence of specific links and the strength of the links where and when present. Given the heterogeneity across countries and time, both in the presence of the links and, importantly, the variation in their strength, obviously a 'one-size-fits-all' approach to strengthening the links between trade, growth and poverty reduction is infeasible and inappropriate, even if feasible.

4.2 GROWING DOUBTS ON THE BENEFITS OF GLOBALISATION IN DEVELOPED COUNTRIES

An essential prerequisite to cooperation between developed and developing countries to strengthen the links, is an understanding by both groups of

the efficacy of the links and their operation in a manner that is beneficial to both. Yet doubts are growing in developed countries, particularly in the United States and in some members of the European Union, about the traditional belief that international trade is not a zero-sum game, but one of mutually-beneficial exchange, and that any domestic distributional conflicts that globalisation (trade liberalisation) induces can and should be addressed through domestic policy instruments. If unaddressed, these doubts will undermine any effort to foster cooperation between the groups.

Recently, in his two articles in the influential *Financial Times* (FT), one entitled “America needs to make a new case for trade” (27 April 2008) and the other, “A strategy to promote healthy globalisation,” (5 May 2008) Lawrence Summers, former Secretary of the Treasury of the United States, former President of Harvard University and a distinguished economist, argued that the international economic policies of the US need to be coupled more closely to the interests of its workers. His arguments were endorsed and augmented in an article (21 May 2008) by the distinguished columnist of the *Financial Times*, Martin Wolf. Wolf, while conceding that the argument that increases in income of the poor [globally] offset equivalent losses for the rich is morally compelling, noted that because politics is national, unless or until a global political community emerges, politics will respond only to perceptions of national interest. In turn, Wolf’s article generated comments from many economists, notably from the economic historian Kevin O’Rourke and Jagdish Bhagwati. O’Rourke questioned the point raised by Summers that globalisation implies “a race to the bottom” in terms of regulation, corporate income taxes and the ability of states to maintain fiscal policies benefiting ordinary workers. He pointed out that the first wave of globalisation during 1850-1914 was the origin of the welfare state, with freer trade and government intervention in other spheres being positively related, during the late 19th and early 20th centuries, with the introduction of a wide range of labour-market regulations, old-age, sickness and unemployment insurance and other schemes that benefited workers. There was no evidence of a race to the bottom then. Agreeing with Wolf’s scepticism of the death of the nation state and, with it, the arguments about the appropriate role and size of government, O’Rourke concluded that as long as this is clearly understood

by [and explained to] voters, they will have one less reason to oppose economic openness.

Jagdish Bhagwati points out that the answer is manifold to Martin Wolf's question as to how to deal with domestic anxiety over globalisation and the fear that trade with poor countries and immigration (legal and illegal) of low-skilled workers from them is driving down wages. He argues that there is little empirical evidence for the hypothesis, that either trade and/or immigration is the cause of "wage compression" in the US. To the contrary, they may have moderated such compression from other causes such as skill-biased technical change. Those who believe that sound public policy decisions have to be based on rigorous theoretical and empirical analyses, should not give up arguing against erroneous beliefs contrary to theory and empirical evidence, because of pessimism that such beliefs (e.g., globalisation harming workers) are so deeply held that no analysis will dispel them. Arguing that strong political leadership has been lacking, and politicians as well as news media are driven too much by opinion polls on free trade, Bhagwati argues for a holistic response to the real anxiety over wages and jobs. Such a response will focus on the two factors that feed into that anxiety, namely, the shifts in patterns of comparative advantage that makes specialisation volatile, and the rapid and deep labour-saving technical change. It will require a holistic revision of institutional and policy frameworks.

4.3 HISTORICAL AMBIVALENCE OF DEVELOPING COUNTRIES TOWARDS TRADE OPENNESS AND MULTILATERAL TRADE AGREEMENTS

The growing doubts in the United States about the benefits of globalisation and the importance of a liberal global trading system are particularly disturbing, since in the post-Second World War era the US has been the force behind establishing a rule-based global trading system. The conclusion of the General Agreement on Tariffs and Trade (GATT) in 1947 was entirely an US initiative. The eight successive rounds of multilateral trade negotiations for reductions in trade barriers under the auspices of GATT were also actively pushed by the US (Srinivasan, 1998). Moreover, after being a staunch supporter of multilateral and non-discriminatory liberalisation of trade, the US embraced preferential,

and hence discriminatory, trade liberalisation through bilateral, regional and plurilateral preferential trade agreements (PTAs), many of which are euphemistically called free trade agreements (FTAs). This embrace, which began in the early 1980s as the start of the Uruguay Round was delayed and later stalled after its start in 1986, was initially halting. It was expected that once the Uruguay Round was successfully concluded, the US would give up this position and return to its traditional role as a staunch supporter of multilateralism. However, this did not happen and the US began to pursue PTAs and FTAs aggressively.

Developing countries have always been ambivalent in their attitudes towards GATT and trade liberalisation. Of the original 23 contracting parties of GATT, at least 11 were developing countries. GATT was intended as the commercial policy chapter of a charter for an International Trade Organization (ITO), which was signed in March 1948 by 53 countries, including the contracting parties of GATT, at the conclusion of a United Nations Conference on Trade and Employment in Havana, Cuba. However, the ITO was stillborn, since not enough countries, including most importantly the US, ratified the charter, although the charter was based on a draft prepared by the US (Srinivasan, 1998, Chapter 2).

At the Havana conference, the debate was most heated on trade and development. India deemed the imposition of direct control on foreign trade necessary for the promotion of rapid and large-scale industrialisation. According to Wilcox (1949), Latin American participants at the conference were even more extreme in their views.¹ Wilcox points out that more than three-fourths of the chapter on economic development in the ITO charter: "is devoted to an elaboration of methods by which underdeveloped countries may obtain release from commitments assumed in trade agreements and under the charter with respect to commercial policy."

1. It is worth quoting Wilcox (1949: 32) in full on this: "wealth and income...should be redistributed between the richer and the poor states. Upon the rich obligations should be imposed; upon the poor, privileges should be conferred. The former should recognise it as their duty to export capital for the development of backward areas; the latter should not be expected to insure the security of such capital, once it was obtained. The former should reduce barriers to imports; the latter should be left free to increase them. The former should sell manufactured goods below price ceilings; the latter should sell raw materials and food stuffs above price floors. Immediate requirements should be given precedence over long-run policies, development over reconstruction, and the interests of regionalism over world economy. Freedom of action, in the regulation of trade, must be preserved. The voluntary acceptance by all states, of equal obligations with respect to commercial policy must be rejected as an impairment of sovereignty and a means by which the strong would dominate the weak".

The non-ratification stillbirth of the ITO charter meant that GATT rules governed the global trading system until GATT itself was subsumed by the World Trade Organization. The eminent scholar of International Trade Law, John Jackson (1989: 9) points out: "The GATT has limped along for nearly 40 years with almost no "basic constitution" designed to regulate its organisational activities and procedures.' The only substantial formal amendment to the GATT was the 1965 protocol to add Part IV, dealing with trade and development.²

Even so, under GATT's auspices, eight successful rounds of multilateral negotiations for reducing barriers to trade were concluded. The liberalisation of trade barriers under successive rounds resulted in remarkably rapid growth, at nearly 8 per cent a year on average, in the volume of world trade between 1950 and the first oil shock in 1973. In the roughly two decades thereafter (1973-1990), which included the second oil shock of 1979 and the debt crises of the 1980s, average trade growth slowed to around 4 per cent a year.³ Since 1990, it has grown at an average of slightly less than 6 per cent a year (WTO, 2007 and 2008). In all these periods, trade grew faster than output, so that the share of trade in output increased substantially.

However, many developing countries did not participate significantly in either reducing trade barriers or in accelerating the growth of their exports. First, this was because most developing countries chose to remain outside GATT. Some elected not to become contracting parties of the agreement (for example, Mexico did not become one until 1986), and others chose not to participate actively as contracting parties in multilateral trade negotiations until the Tokyo Round of 1973-1979. Driven by the then-dominant faith in inward-oriented, import-substituting industrialisation

2. Jackson (1989: 89). According to Dam (1970), this step was also a reaction to the preparations already in progress for the first United Nations Conference on Trade and Development (UNCTAD). The proposed amendments were approved in 1964 and became Part IV of the GATT, entitled "Trade and Development". Dam concludes that apart from its symbolic importance in sensitising the contracting parties to the new role of the GATT in development, less developed countries achieved little by way of precise commitments (and even these were highly qualified).

3. Although the debt crisis is often referred to as the Latin American crisis initiated by the Mexican default threat in 1982, Poland had earlier run into problems in 1981 with its borrowing from German and other European banks. Other countries having problems in the 1980s with their foreign borrowing included Korea, the Philippines and Turkey, as well as countries in Sub-Saharan Africa. Nicholas Hope drew my attention to these facts.

as the appropriate development strategy, they erected and maintained relatively high barriers to foreign trade. The only exceptions were countries in East Asia, which chose to move away from an inward-oriented to an outward-oriented development strategy from the mid-1960s on.

The second, and no less important, reason for this lack of participation is that—partly because developing countries were not involved in the bargaining over reciprocal reductions of tariffs (or exchange of tariff concessions, to use GATT terminology) in GATT—trade barriers in commodities of export interest to these countries were not reduced to the same extent as trade barriers in commodities mostly traded among developed countries. After each round of multilateral trade negotiations, developed countries retained higher barriers against imports from developing countries than against imports from other developed countries. Agriculture, a sector of great interest to developing countries, largely remained outside the GATT framework until the Uruguay Round. Trade in textiles and apparel, meanwhile, had been exempted from GATT rules since 1961; the initial short-term arrangement covering cotton textiles was quickly converted to a long-term arrangement in 1962, and 12 years later this was expanded into the multi-fibre arrangement (MFA), which covers trade in textiles made from almost all natural and manufactured fibres!⁴ The MFA had been a particularly egregious exception to GATT rules: apart from being an outright violation of the fundamental non-discriminatory most-favoured-nation treatment (MFN) enshrined in Article I of GATT, it also permitted the use of bilaterally negotiated trade quotas on an item-by-item basis between each importer and exporter. One cannot imagine a worse way of segmenting and heavily distorting markets. The MFA expired only on 1 January 2005.

Up to the conclusion of the Tokyo Round in 1979, many developing countries perceived that GATT promoted the interests of developed and industrialised countries and that it had frustrated several attempts

4. It is interesting to note that the short-term arrangement was introduced mainly to limit cotton textile exports from Japan to North America and Western Europe. When Japan became a leading exporter of automobiles in the late 1970s, 'voluntary export restraints,' another discriminatory trade policy measure (which technically was GATT-legal, because it was 'voluntary', though it violated GATT norms), were negotiated in 1981. Complaints about the undervalued yen, Japan's huge bilateral trade surplus with the US and the high Japanese savings rates were also raised. It is no surprise that as China emerged as the fourth largest exporter in the world, similar whining by the US about China's exchange rate, high savings rate and huge bilateral trade surplus is heard now, loud and clear.

by developing countries 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 developing countries, the GATT was unfriendly, if not actively hostile, to their interests.

It is a matter of debate whether or not the frustrating experience of developing countries in seeking greater access to the markets of developed countries was a consequence of their own relentless (but misguided) pursuit of the import-substitution strategy for development, which in effect led them to opt 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.⁵ The experience of East Asian countries, which 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.

Nonetheless, even when developing countries actively participated (and 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. The formal incorporation at the Tokyo Round of their demands for special, differential and more favourable treatment (SDT)—including not being required to reciprocate tariff ‘concessions’ by the developed countries—triply hurt them: once directly, through enabling them to continue their costly import-substitution strategies; a second time by allowing the

5. It is sometimes argued that because of GATT’s origins in the US proposals and because of the stillbirth of the ITO—in large part due to non-ratification by the US—the rules of GATT were determined by the US and stacked against the developing countries from the outset. Hence, there was no way in which the rules would have changed to become fairer, even with active participation by developing countries. This argument is not plausible: first of all, the US proposals were circulated to all countries of the world. The original 23 contracting parties of GATT, including 11 developing countries, were also among the 53 signatories of the ITO charter. Thus, developing countries had ample opportunities to express their concerns in the GATT negotiations in Geneva and in the Havana conference, and indeed they did so. If they were not satisfied with either the GATT or ITO charters, they would not have signed them. In any case, no country, developing or developed, even if it is a member of GATT/WTO, need remain a member if to remain so is no longer in its interests; all it needs to do is simply to withdraw from membership after giving six months notice.

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. Unfortunately, SDT has been accepted as an integral part of multilateral trade agreements since the Tokyo Round.

4.4 DEVELOPING COUNTRIES IN THE WTO

Since the conclusion of the Uruguay Round and the establishment of the WTO, 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. The author attributes this in large part to the success in accelerating growth and reducing poverty by China and India after they began seriously integrating their economies into the world economy. Yet some vestiges of the past persist—such as special and differential treatment that concedes the demand for non-reciprocity and for relaxation, if not a complete waiver, of rules applicable to all other members of the WTO.

The author argues that past excessive emphasis by developing countries on non-reciprocal concessions from developed countries is even more the case now, particularly in the face of skepticism about the benefits of globalisation and the resultant rise in protectionist sentiments by developed countries. Developing countries should recognise that they are not the only ones that need to re-allocate resources, relocate them and undertake institutional changes and domestic reforms to realise the benefits of globalisation in full, and these changes would necessitate costly adjustments. The adjustment costs and benefits of globalisation are not necessarily uniformly distributed across socio-economic groups within the population of developing countries. However, developed countries also face similar changes, adjustment costs and the uneven distribution of costs and benefits. It is true that developed countries are usually better placed to face the adjustment costs, both because they are richer and also because of their better-developed safety nets. Nonetheless, this does not mean that the adjustment problems and their political impact in developed countries are unimportant and irrelevant from the perspective of international

negotiations on development issues, be they on problems of LDCs, the Doha Development Round, Millennium Development Goals or whatever.

Having flagged the desirability on the part of developing countries of a shift away from excessive emphasis on non-reciprocal concessions in the context of the growing doubts about globalisation and the threat of rising protectionism in the US and other developed countries, the author now turns to the policies and approaches for addressing the special problems (perceived and real) of LDCs in a spirit of constructive cooperation between developed and developing countries. The somewhat overlapping discussion is organised around the issues of:

- Accelerating and sustaining LDC growth, since growth, though certainly not an intrinsically valued objective, has been (as discussed in Section 2.2)—or could potentially be—instrumental for achieving objectives that are, such as an escape from drudgery and poverty, making economies less vulnerable and more resilient and more broadly development, as defined by Amartya Sen, as freedom;
- The effective participation of developing countries in world trade, as well as in the decision-making of multilateral organisations such as the WTO, World Bank and the IMF; and
- Progress in programmes of action specifically designed to help LDCs. The focus is on three: the Integrated Framework for technical assistance to LDCs initiated in 1997; a new Programme of Action (POA) for the LDCs for the decade 2000-2010, as agreed at the Third United Nations Conference on LDCs in 2001; and Aid-for-Trade (AFT), launched in December 2005 at the Hong Kong Ministerial Meeting of the WTO. The POA was intended as “a framework for a *strong global partnership* to accelerate sustained economic growth and sustainable development in the LDCs to end marginalisation by eradicating poverty, inequality and deprivation in these countries, and to enable them to integrate beneficially into the global economy” (UNCTAD, 2006: 29, emphasis added).

4.5 ACCELERATING AND SUSTAINING GROWTH IN LDCs AND SMALL ECONOMIES

At the outset it is worth noting that the average annual growth rate of real GDP per capita in LDCs nearly tripled from 1.1 per cent during 1990-

2000 to 3.0 per cent in 2002-2004. Most of the acceleration (from 0.5 per cent to 2.8 per cent) was accounted for by LDCs other than the large one of Bangladesh, whose growth rate accelerated only modestly from 3 per cent to 3.6 per cent. The growth acceleration in African LDCs was remarkable, from no growth at all during 1999-2000 to 3.1 per cent in 2002-2004 (UNCTAD, 2006, Table 1, p.4). In 2004, only 12 of a set of 46 LDCs had real GDP growth (not per capita GDP growth) below 3 per cent; 19 had growth rates between 3 per cent and 6 per cent; and as many as 19 had growth rates exceeding 6 per cent. Thus, the recent growth record of LDCs as a group shows enormous growth improvement compared to the decade of the 1990s.

However, to what extent this improvement is from long-term underlying fundamentals, such as total factor productivity growth, and is hence sustainable, and to what extent it is simply a reflection of short-term factors such as, for example, the improvement in terms of trade of commodity exporters, has to be explored. The reason is that nearly 65 per cent of total LDC exports during 2000-2003 consisted of primary commodity exports, of which fuel exports alone constituted 25 per cent. The price of crude oil, around \$130 a barrel in mid-June 2008, is double its level two years ago (chart on p.13, *Financial Times*, 13 June 2008). Price indices for food, agricultural raw materials and minerals have also shown substantial increases during 2002-2004 (UNCTAD, 2006, Tables 6 and 7, pp.11-12) and also subsequently. Thus, improvements in prices prior to 2004 of commodity exports must have contributed significantly to the short-term growth performance of LDCs. This conclusion is reinforced by the fact that gross domestic capital formation and savings as a proportion of GDP did not change much or declined (savings rate) between 2000 and 2004. The difference between the two, defined as the resource gap to be filled in part by external capital inflows, increased by nearly 4 per cent (UNCTAD, 2006, Table 3, p.6). Clearly there is no evidence of the problem of sustainability of growth in LDCs either disappearing altogether or even declining in its severity.

The Commission on Growth and Development (2008), hereafter the Commission, submitted its report on 21 May 2008.⁶ The Commission notes

6. For a critical comment on the report, see William Easterly, *Financial Times*, 29 May 2008.

in its comments on the 50 small states (each with a population of less than 2 million and in total of 20 million) that they are interesting in their own right and for illustrating the role of size, if any, on their growth and growth strategy, and the potential of regional integration to overcome the disadvantages of size. While recognising the three distinct disadvantages of small states (absence of scale economies, vulnerability to shocks and remoteness), it confirms the earlier conclusion of Read (2001) that small states, in spite of their disadvantages, do not have lower average incomes or slower growth than other countries. Their external environment has become both more hospitable, with a range of services becoming tradeable, but also less hospitable, in that the value of tariff preferences that they enjoyed in their access to rich country markets had eroded, with average tariffs having fallen.

The Commission (2008) rightly emphasises that most small states are very young, having become independent nations only after 1970, and have not long assumed responsibility for providing through their own local services institutions, such as security, justice and regulation of economic activity, as well as diplomatic and negotiating services. Financial systems and services is a notable example of such recent assumption of responsibility for provision. The Commission finds that small states have shown great ingenuity in pooling their resources and outsourcing public services, and cites some examples such as multi-country central banking as in West Africa. The Commission (2008: 79) concludes: "In sum, small states should seek to pool their markets, through regional economic integration, and to spread the burden of public services, through partial political unions. Good governance is an important foundation on which regional co-operation and multi-national integration can build." The Commission is rightly cautious that dealing with risk is more difficult, although in principle having a diversified portfolio of financial assets (particularly foreign assets) will mitigate risk even in a specialised (i.e., not diversified) economy in production. However, as the ongoing crisis in global financial and credit markets illustrates, risk mitigation through portfolio diversification can fail if all, or most, of the assets in the portfolio experience common shocks.

4.6 THE VOICE OF LDCs IN INTERNATIONAL ORGANISATIONS AND NEGOTIATIONS

The Commission notes that small size translates into a relatively weak voice in international organisations and negotiations. Since the Commission measures a country's size by the size of its population, and since the 50 of them analysed by the Commission together had a population of 20 million (as compared to the population of the world of over 6.5 billion) in 2008, it is unlikely they can have a strong voice in the global arena. However, population is a very crude measure of size and voice; it should also depend on rules of membership and of participation in decision-making of organisations. International organisations vary significantly in both. For example, membership in the United Nations is in principle universal, with membership open to the original signatories of the United Nations charter and all other peace-loving states which accept the obligations contained in the charter and, in the judgement of the organisation, are able and willing to carry out their obligations. A country becomes a member of the UN, if the General Assembly votes to admit it upon the recommendation of its Security Council, which in turn requires the unanimous assent of its permanent members who have a veto on the Council's decisions. In practice, entities that meet the criteria of membership have not necessarily been recommended by the Security Council for membership. Until the General Assembly revoked through resolution 2758 Taiwan's membership of the UN and permanent membership of its Security Council, Taiwan was a member, but the People's Republic of China was not! In general, each member has one vote in the General Assembly in decision-making procedures. Presumably, the membership in any of the UN family of organisations is also universal.

In the UN Security Council, the five permanent members, which have veto powers, are a distinct category dating back to their role in the victory over Germany and Japan in the Second World War. The geopolitical and economic configuration of the globe has changed vastly since the approval of the UN charter in 1945. Yet the newly-emerging powers, such as Brazil, India and 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 of (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 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. On 28 April 2008, the Board of Governors of the IMF adopted far-reaching reforms of its governing structure, including a significant shift in the representation of dynamic economies, with an increase in the voting shares of 135 of its 185 members. Also the basic votes for each member will triple, the first such increase since the IMF's inception in 1944, thus resulting in an increase in the voice and representation of emerging markets and low-income countries. The African countries will get additional alternate executive directors on the IMF's Executive Board (IMF Press Releases 08/93 of 29 April 2008 and 08/64 of 28 March 2008).

The World Trade Organization is analogous to a club whose current members decide whether or not to admit an applicant for membership. An applicant is required to come to an 'accession agreement' with each of the club's existing members, an agreement that quite often requires an aspiring member to undertake commitments which existing members do not have to! The negotiation for accession can take very long—for example, China (PRC) applied in 1986 in order to assume the membership of GATT vacated by Taiwan. The membership of GATT decided to treat it as a *de novo* application, and China was finally admitted in 2001 after GATT had been subsumed by WTO in 1995—the last country to sign an accession agreement with China was Mexico in 2001!

The rules of membership of the European Union and various regional groupings with respect to trade, security and other matters vary enormously. Grynberg and Joy (2006) describe the process of accession as consisting of two stages. The first stage is multilateral, at which existing members collectively examine the conformity of an aspiring member, with the latter having no recourse of review of any adverse finding. The second is the bilateral stage of negotiations, as described above. The accession process, according to Grynberg and Joy, is "power" based rather than "rule" based and is subject to abuse.

The rules of the WTO that its members subscribe to are multilaterally negotiated, and so are the commitments that members undertake as part of the agreement concluding any round of multilateral negotiations initiated by a decision of the members themselves. Preferential trade agreements (PTA) are exceptions to the WTO's fundamental principle of non-discrimination embodied in its Article I, which requires most-favoured-nation (MFN) treatment by each member of all other members. The grant of waiver from MFN for members of PTAs, such as customs unions (CUs) and free trade areas (FTAs), is governed by Article XXIV. The waiver has to be approved by the members of the WTO. Recent FTAs involving the US as a member require their members to undertake commitments, such as in the areas of intellectual property protection and investment, which go beyond their corresponding commitments, if any, in the WTO. The process of approval of waiver under Article XXIV has notably failed. To take just one egregious example, the customs union (CU) status of the European Union has never been found formally to be consistent with Article XXIV.

Although it is not a requirement, thus far, decisions of consequence in the GATT/WTO have been made by consensus, so that in effect every member has a veto on such decisions. In principle, therefore, LDC members of the WTO have a strong voice in its decisions if they choose to exercise it. However, there are many practical constraints on doing so.

Before turning to the factors that in practice constrain the effective participation of LDCs in the WTO, the following briefly touches on collective action by developing countries as subgroups of members in WTO negotiations and the role of power *versus* rules. Until China opened its economy in 1978, increased its share of world merchandise exports to over 8 per cent in 2006 (from 1.2 per cent in 1983) and became the second-largest exporter in the world, the share of developing countries as a group in world exports in 1973 was modest (less than 25 per cent) and in manufactured exports was even less. This being the case, it is to be expected that the 'rules of the game' of world trade, so to speak, were set by those who had a large stake in global trade, namely the rich industrialised countries. In addition, as noted in Section 4.3, until the Tokyo Round concluded in 1979, the developing country members of GATT chose not to participate effectively in bargaining over trade rules and liberalisation (Srinivasan, 1998, Ch.3). However, during the run-up to the start of the

Uruguay Round and the Punta Del Este ministerial meeting that launched it, a group of 10 developing countries (GT) led by Brazil and India was pitted against a group of 40 (GF), which included major industrialised countries and also 20 developing countries.

According to Winham (1989), the Punta Del Este meeting began with three competing texts for the ministerial declaration, without a single agreed-upon text from the Preparatory Committee: "The main contention was between the GT and GF texts. The former reflected the resistance of some developing countries to the US demand to include new issues: services, intellectual property and investment measures. But the GT position eroded, and a growing consensus emerged around the US position once the United States in effect gave an ultimatum that it would withdraw from the conference altogether if these issues were not included."

Winham (1989: 64-65) concludes that the process "succeeded in the end because of the widely-held perception that failure to begin a new negotiation would have harmful consequences for the GATT regime and for the prospects for continued liberalisation of international trade. Thus crisis avoidance was an important motivation during both, the early pre-negotiation period and the Punta Del Este session. However, once the momentum in favour of a new negotiation had developed, the main motivation behind each delegation's activities became even more sharply focused as a fear of being isolated and blamed for the failure of the special session. For example, most of the G-10 [i.e., GT] developing countries abandoned their hard-line opposition to a services negotiation during the Punta Del Este session, until only India and an increasingly-uncertain Brazil were left. In the end, India found it impolitic to be isolated and it acquiesced. The same explanation accounts for the 11th-hour acceptance by the French of a negotiation on agriculture". Although it seems very unlikely, it is not inconceivable that a similar realisation—that letting the Doha Round fail would irreparably damage the rule-based and liberal global trading regime represented by the WTO—would ultimately convince all members to compromise and conclude the round in the near future. Unfortunately with the collapse of negotiations at the informal meeting of the WTO ministerial in Geneva 21-29 July 2008, it seems that the members of the WTO are not yet ready to compromise.

In comparison to the ineffectiveness of GT at Punta del Este, the so-called Group of 20 (G-20) developing countries, again led by Brazil and India but now including China, has been far more effective since it was first formed at the Cancún ministerial meeting of 2003. Brazil, India and South Africa, prominent members of G-20, had been invited to the so-called G-8 summit of rich countries to present developing-country perspectives. The three and Russia recently met to discuss global issues of mutual interest. Another group of four, consisting of Brazil, the European Union, India and the United States, have met periodically to advance the Doha Round. Thus, some leading developing countries and groups of developing countries that they represent have come to acquire a more effective voice in trade negotiations than they had before. Goldman Sachs has coined the word “BRIC” to denote Brazil, Russia, India and China and has issued two reports on their future prospects. Nonetheless, all this international attention to some leading developing countries by no means implies that the problem of a voice for individual countries in the groups of LDCs and small states in international organisations and negotiations has been solved.

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. For example, consider the case of a WTO member who wants to bring a complaint against another member whose action it believes violates a WTO commitment and thereby damages its interests. To do so, the member not only has to have knowledge of relevant WTO rules and commitments of all members, but also has to have the ability to argue its case in the dispute settlement process, through its various stages from initial consultation with the other member, then presenting the case to the WTO panel if consultation fails, and finally before the appellate body if the panel rules against it. The entire process not only requires resources, but also skilled personnel. This is just one example. The ongoing Doha Round of negotiations, like all negotiations, involve complex issues and the negotiating positions of members are also complex. The trade-offs involved are difficult to evaluate, even for a very well-informed

and skilled individual.⁷ A small and poor developing country member is severely handicapped in such negotiations. Fortunately, 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.

It will also be helpful if groups of developing and developed countries, before they crystallise their negotiating stances, consider not only the impact on their own group of their stances, but also on the other groups. All said and done, 'real politick' cannot be wished away. The more powerful, which have the resources, will try to divide the weaker and poorer groups. Building cohesion and resisting pressures to deviate from common positions is not that easy. For example, the offers of the EU to exempt developing countries in Africa from having to make any liberalising commitments at all in the Doha negotiations could be seen as a way to split the ranks of developing countries.

4.7 PROGRAMMES OF ACTION FOR THE LDCs

4.7.1 Integrated Framework (IF) for Trade-Related Technical Assistance to LDCs

Established in 1997, the IF is a joint undertaking of the IMF, International Trade Centre, the United Nations Development Programme (UNDP), UNCTAD, the World Bank and the WTO. The IF (2008) has two main objectives: (i) to 'mainstream' trade into the national development plans, such as the Poverty Reduction Strategy Papers (PRSPs), of the LDCs; and (ii) to assist in the coordinated delivery of trade-related technical assistance in response to needs identified by the LDCs. The IF is built on the principle of country ownership and partnership.

7. It is hard to understand, let alone rationalise, the labyrinthian process of WTO negotiations, which is in three stages. The first involves agreeing on a framework for negotiations that delineates the objectives of the negotiations and issues to be negotiated. At the second stage, modalities for achieving the objectives are agreed. They determine the shape of the final outcome of the negotiations by laying out, for example, the possible ranges within which an eventual agreement will be with respect to tariff reductions and also formulae for linking initial levels of bound tariffs to their final levels at the end of the implementation period of the agreement. The modalities also specify any special and differential treatment to be accorded to developing countries, LDCs and other groups. The last stage consists of each negotiating country committing to its particular commitments within the broad range relevant to it, as laid out in the modalities. Under the 'single undertaking' procedure, until everything is agreed, nothing is agreed!

Other key elements of the IF are:

- Improved governance structure, with the establishment of the Integrated Framework Steering Committee (IFSC) and the expanded IF Working Group (IFWG) for better coordination amongst donors, beneficiary LDCs and the agencies;
- The establishment of the IF Trust Fund, which finances mainstreaming work, led by the World Bank, but also follow-up activities from the studies; and
- Improved coordination of the delivery of trade-related technical assistance amongst bilateral and multilateral donors within a coherent policy framework.

The implementation of the IF comprises three broad stages. First, preparatory activities, which would typically include: an official request from a country to participate in the IF process; a technical review of the request; the establishment of the National IF steering committee; and, to the extent possible, the identification of a lead donor. Second, once the request has been approved, the process moves on to its diagnostic phase, resulting in the elaboration of the Diagnostic Trade Integration Study (DTIS). Finally, follow-up activities start with the translation of the diagnostic phase's findings into the elaboration and validation of an action plan, which serves as a basis for trade-related technical assistance delivery.

An IF manual: *Integrating LDCs into the International Trading System*, was published by the United Nations in 2005. The IF Steering Committee (IFSC) published its second evaluation of the IF in December 2003. The evaluators had only half of the seven months initially contemplated for their evaluation, and had to do their best in a short time. Although the primary purpose of the evaluation was the assessment of results, it became evident that it was too early to look for measurable developmental results in terms of poverty reduction attributable to trade and economic growth. The evaluation focused, therefore, on operational results and even for these there was a lack of measurable goals and objectives, and hence performance indicators. In sum, the evaluators ended up analysing alternative processes for the operation of the IF and making recommendations. On the whole, the exercise was very disappointing.

Nonetheless the Development Committee of the World Bank and the IMF at their meeting in September 2005 concluded that the IF should be enhanced and provided with additional resources. As a follow-up to this decision, the IFSC set up a framework Task Force on an Enhanced IF (TFEIF) to report no later than 2 December 2005. It submitted a report with its recommendations on 19 June 2006 (WT/IFSC/W/15).

The report begins with a short history of the IF, the number of its evaluations as of 2004 and the findings of an IF simulation held in Addis Ababa in September 2005. While noting (without really providing any convincing evidence in support) that “IF has provided a good framework for helping the LDCs enhance their trade development capacity and facilitate adjustment and integration in the multilateral trading system”, it found also that “there are still significant shortcomings in the process” (pp.2-3). The shortcomings identified by the Task Force were (p.3):

- The IF has generally failed to mainstream trade into the Poverty Reduction Strategy Paper (PRSP) process and has not provided adequate financial and human resources to the LDCs to deliver the intended outcomes...there is an implementation gap; priorities identified in the Diagnostic Trade Integration Study (DTIS) process are not being picked up in mainstream investments.
- Country ownership has been weak. The national IF structures have generally not worked to integrate trade into the development process and there is often still a lack of awareness of the importance of trade at the national level. Capacity to take the integration process forward is generally inadequate and the capacity-building support that has been provided through the IF has been inadequate to the task.
- The donor community has generally not responded adequately to the needs identified in the DTISs...Trade is inadequately seen, by both donors and recipients, as an integrated aspect of economic development and poverty reduction, so does not figure high enough on their priorities.

Given its identification of the shortcomings, the Task Force’s recommendations to improve the effectiveness and efficiency of the IF are predictable (p.15):

- There needs to be much stronger ownership of the IF by the LDCs and the donors...Capacity needs to be developed and strengthened in LDCs to facilitate greater ownership. Similarly, donors need to give much greater prominence to these issues and to provide more resources.
- The gap between the diagnostics and submission of 'bankable projects' needs to be filled.
- Responsibility for management and implementation must be more focused. Currently...everyone, yet no one, is responsible.
- There is a need for adequate funding, provided in a predictable manner to meet the objectives of the IF.

Rabinowitz (2007) reviewed the trade and diagnostic studies carried out in 11 LDCs through the donor-funded IF to assess the effectiveness of the IF in addressing trade-related needs, with the objective of poverty reduction as the centre of the analysis. He found (p.1) 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. Food crop trade receives minimal attention; there is limited attention to the constraints facing small-scale producers in agriculture and elsewhere; there is limited focus on and ambition for services and industrial development; and analysis of the impact of trade reforms on poverty is weak and poorly linked to the discussion on trade capacity building needs".

The author of this book argues that the problems with the IF, as well as its enhanced version, are fundamental, even if it is as yet too early to look for measurable outcomes of its performance. For several reasons, the programme is unlikely to show better results once enough time elapses and its development results have been measured, nor is its probable failure entirely due to its neglect of key areas of significance to poverty reduction.

To begin with, the objectives of IF are utterly vague. The word 'mainstreaming' of trade into development plans has little operational content and even less of any identifiable and measureable link to development goals. It is no more than a buzz word. Although technical assistance (TA) and its coordinated delivery as goals could be made

operational, unless IF itself has clear and well-defined objectives, TA in support of it cannot be made operational. After all, the capacity limitations of LDCs mean that leaving such countries in the main to identify what is needed by way of TA in their context would be limiting in any case.

The phrase ‘country ownership’, in the author’s view, unnecessarily confuses the conventional (but increasingly irrelevant) concept of ‘sovereignty’, meaning that a sovereign country is one that has complete control over its domestic affairs, with such a country having control over how externally-provided resources—be they technical assistance of the IF or more generally any other form of external aid, including official development assistance (ODA)—are to be utilised for development and poverty reduction, both of which are quintessentially domestic responsibilities. It is not so much country ownership of a programme of external aid such as TA under the IF that matters, but whether or not the programme is well defined to deliver the objectives that the country wishes to achieve with the resources, regardless of who designed that 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 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.

The author argues further that 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 would contribute significantly to both, is not the only determinant of either. Moreover, as has been repeatedly argued in this book, 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 understood, redesigning the IF at the margin is unlikely to make it deliver greater integration or poverty reduction to any significant extent.

4.7.2 Programme of Action of UNCTAD

The Programme of Action (POA) (UNCTAD, 2006: 29) is intended as “a

framework for a strong global partnership to accelerate sustained economic growth and sustainable development in LDCs, to end marginalisation by eradicating poverty, inequality and deprivation in these countries, and to enable them to integrate beneficially into the global economy". The POA envisages concrete action in the following seven areas by global partnership founded on mutual commitments by LDCs and their development partners:

- (i) Fostering a people-centred policy framework;
- (ii) Good governance at national and international levels;
- (iii) Building human and institutional capacities;
- (iv) Building productive capacities to make globalisation work for LDCs;
- (v) Enhancing the role of trade in development;
- (vi) Reducing vulnerability and protecting the environment; and
- (vii) Mobilising financial resources.

In contrast to the vagueness of the IF, the POA is better defined, but also covers some crucial dimensions of a development strategy. This is not to say that it does not have its share of vagueness—for example, 'fostering a people-centred policy framework'. However, its emphasis on building capacities is indeed appropriate. After all, it is the lack of capacity in a variety of dimensions that distinguishes the group of LDCs from other countries, developing and developed. Having said this, let it be re-emphasised that understanding and addressing the domestic political economy-based constraints is just as important for the success for the POA as it is for the success of the IF.

UNCTAD (2006) is a comprehensive review of the state of development of the LDCs as of 2004, and not so much of the actions taken and yet to be taken on the seven areas identified in the POA. This book ignores the standard staples of such documents—such as the "need for a paradigm shift," "to start and sustain a virtuous circle in which the development of productive capacities and the growth of demand mutually reinforce each other, and there is a transformation of productive structures towards more skilled and technology-intensive systems consistent with higher value-added activities and strong productivity growth," and instead cites some of its extremely sobering findings:

- Since 2001, there is now a stronger engagement of development partners than in the 1990s with respect to aid, debt relief and market access. During the 1990s, many LDCs engaged in significant and far-reaching economic reforms, including extensive trade liberalisation, financial liberalisation and privatisation. Although trade fell by 45 per cent in real per capita terms between 1990 and 1998, this trend has now been reversed, with aid inflows doubling in nominal terms since 1999.
- Economic growth and investment rates are higher than in the 1990s in many LDCs. However, only six out of the 46 LDCs for which data are available met or exceeded the POA target of growth of 7 per cent per annum between 2001 and 2004. Ten out of 35 LDCs for which data are available met the investment target of 25 per cent of GDP during 2001-2004.
- Eighteen out of the 46 LDCs for which data are available were unable to achieve per capita growth rates of more than 1.0 per cent 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.
- The recent improved growth performance in some LDCs noted above is certainly encouraging. However, closer analysis of the year-to-year changes that have occurred in the LDCs shows that historically many LDCs have experienced short periods of rapid growth, but these have been followed by economic crises in which there are often quite severe output losses and economic recoveries of varying strengths and completeness. Of the 40 LDCs for which data are available, 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.
- Despite improvements in the 1990s, capital formation was still only 22 per cent of GDP in the LDCs as a group in 1999-2003 and domestic private investment was particularly weak. A further

concern is that actual rates of human-capital formation in the LDCs in the 1990s were slower than in other developing countries. The inadequate rates of physical- and human-capital formation reflect weaknesses in domestic-resource mobilisation to finance capital formation, as well as weaknesses 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, although there are significant differences between LDCs.
- The evidence shows that, on average, it required five workers in the LDCs to produce what one worker produces in other developing countries, and 94 LDC workers to produce what one worker produces in developed countries in 2002-03. Worse still, the productivity gap is widening. Labour productivity in the LDCs as a group in 2000-03 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 that the LDCs can supply competitively to world markets are ultimately limited by the goods and services they can produce and how efficient they are in producing them. This is the basic source of the marginalisation of the LDCs in world trade. Even if the LDCs exported all their output, their share of world exports of goods and services would only be 2.4 per cent, even though their share of the world population is over 10 per cent.
- 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 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.

4.7.3 Aid-for-Trade

It is not so long ago that spokespersons for developing countries demanded greater access to developing country markets with the slogan 'Trade, Not Aid', in part as a response to the stagnant aid flows, but in part also to emphasise that greater trade results in two-way flows of benefits as compared to the one-way flow of resources that aid from rich to poor countries represents. The slogan is no longer 'Trade, Not Aid', but 'Aid-for-Trade'. The Hong Kong Ministerial Conference of the WTO in December 2005 provided the WTO mandate on Aid-for-Trade (AFT) with the aim of helping developing countries, particularly LDCs, to build the supply side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO agreements, and more broadly to expand their trade. It invited the Director-General, Pascal Lamy, to create the AFT Task Force to provide recommendations on how to operationalise AFT. The Task Force was set up by Mr. Lamy on 8 February 2006, with Ambassador Mia Rantzien of Sweden as its chair and with Barbados, Brazil, Canada, China, Columbia, the European Union, Japan, India, the United States and the coordinators of the ACP, the African Group and the LDC Group as members. The Task Force was asked to provide recommendations to the General Council of the WTO by July 2006 on how to operationalise AFT and how it might contribute most effectively to the development dimensions of the Doha Development Agenda.

The Task Force, together with multilateral donors, helped Mr. Lamy outline a plan for mobilising and monitoring AFT. It involved global tracking of financial flows, self-assessments by partner and donor countries, three high-level regional meetings and a series of 'periodic reviews' in the WTO Committee on Trade and Development. These various threads were to be woven together in a Global AFT Review and debated in the General Council.

A background paper (WT/AFT/W26) of 29 May 2007 on WTO's work programme on AFT, circulated five months prior to the first Global Review in November 2007 by the Secretariat of the WTO, noted that a

comprehensive AFT package needs to respond to 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. The first Global Review had the objectives of taking stock of what was happening by drawing it together into a coherent picture; identifying what should happen next by moving from analysing needs and priorities to their implementation by donors, agencies and partner countries; and finally to discuss how the processes of monitoring and progress evaluation could be improved.

In his report to the Global Review meeting, Mr. Lamy said that although AFT is a complex subject with a multitude of players having a multitude of policies, with each country having its own needs priorities, some common themes have emerged from the first year of monitoring AFT. These were:

- ‘Ownership’—No grand plan to expand trade capacity will ever work unless developing countries want it, unless they ‘own’ it and unless it addresses their interests.
- Priority setting—the challenge for countries is to decide on the projects that matter most and that will deliver the biggest return on investment. Having 100 priorities is having no priorities.
- Thinking regionally—since many capacity and connectivity problems are regional in scope.
- Increased and predictable financing.
- Mobilising the private sector.

Mr. Lamy mentioned another and perhaps the most-important theme that ran throughout the preceding year’s discussions. It was that trade, investment and domestic reforms are the main drivers of economic growth and development. AFT can and must be an important complement to a successful Doha Round, with development as a central pillar. However, Mr. Lamy was frank, clear and emphatic that AFT is only a complement, and in no way a substitute for official development assistance (ODA).

In some ways the list of common themes, except the last and most important one, is almost banal. For example, the need for priority setting, for increased and predictable financing, and for thinking regionally by recognising heterogeneity across countries and regions, could all be cited as relevant for almost any policy discussion on development. Indeed the evaluation of the IF cited them as well. This book has already pointed out that the notion of 'ownership' has its limitations.

The author of this book could not find in Mr. Lamy's speech any specific set of actions in order to realise the implied objectives of the various common themes. Such a set would assign responsibilities to the stakeholders involved for each action in the set, along with a credible mechanism for holding each stakeholder accountable for undertaking and completing the tasks that the stakeholder commits to do.

Mr. Lamy got the green light for his 2008 AFT roadmap from the WTO's Committee on Trade and Development at its meeting of 25 February 2008. The roadmap has three objectives: (i) increasing developing-country ownership; (ii) shifting emphasis to monitoring implementation, with a focus on country, regional and sectoral priorities; and (iii) launching a work programme to develop performance indicators and to strengthen self-evaluations.

The strategy for achieving these objectives is short on concrete and specific actions in the above sense, and long on general actions, such as working with the OECD to implement an AFT 'knowledge' network; encouraging early establishment of regional AFT networks comprised of key stakeholders to assist countries and sub-regions in identifying priorities and performance indicators; and strengthening self-evaluations and holding more reviews and meetings, such as, for example, holding an expert symposium on evaluation.

There is nothing inherently wrong or objectionable in any of the actions proposed in the 2008 AFT roadmap. Yet they are not specific enough in the sense described earlier to address some critical issues already identified in the WTO Secretariat's background paper of 29 May 2007. These critical issues are that:

- AFT must be a complement to, and not a substitute for, ambitious results for the Doha Development agenda. Increasing trade

opportunities for developing countries, and in particular LDCs, remains by far the most important contribution that the WTO, consisting of all members, developing and developed, can make to development.

- AFT must not have to compete for existing official development assistance flows with other development and poverty reduction priorities.
- The case for attracting AFT to implement WTO agreements and build trade-related capacity more broadly must have the commitment of trade, development and finance ministers in developed and developing countries and LDCs and the support of private business if it is to live up to its promise of catalysing their trade-related investment and production.

Implicit in the Secretariat's identification of critical issues for AFT is the idea that successfully completing the Doha Development agenda, although 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 of what these constraints are, but equally important what actions those countries and other WTO members could take in relaxing them.

It is most likely that some of the constraints so identified (e.g., general capacity constraints) will be critical, not only for taking advantage of trade opportunities, but also for development (and its overarching goal of poverty reduction) in general. If this is the case, as the author believes it to be, clearly for AFT to be, strictly speaking, a complement to ODA, it would have to be targeted only at relaxing those constraints that are inhibiting availing of trade opportunities only and not any that constrain development as well, which would be the target of ODA. However, whether doing so is a cost-effective use of AFT resources is a separate issue. After all, taking advantage 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, 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. The second issue is to ensure that donors do not substitute AFT for ODA in their aid budgets.

Turning to the third objective, the lack of coordination among ministers with different portfolios and its deleterious effects have already been discussed in an earlier section. In addition to coordination, their credible commitment 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.

In sum, 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.

