

BRIEFING PAPER

CUTS
International

TDP 3/2007

WTO, Trade, Development and Aid *Some Misconceptions and Myths*

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This paper addresses three general misconceptions and myths about the World Trade Organisation (WTO), trade, development and aid. First, development is equal to special and different treatment (S&DT) provisions in the WTO agreements and aid! Second, developing countries are reluctant participants in the negotiation on the Doha Development Agenda. And third, on Aid for Trade, there are three further misconceptions:

- aid does not belong to the WTO;
- developing countries want to make the WTO a development institution; and
- aid is being used as a substitute for trade solutions (to buy off developing countries).

In the conclusion, the paper argues that Aid for Trade can contribute towards a “Development Compact” in the WTO.

Is development equal to S&DT and aid in the WTO?

The writer has argued elsewhere that S&DT and aid do not constitute the core development content of the WTO.¹ S&DT issues are related to three main concerns of developing countries:

- the issue of market access (mainly concerned with preferences and longer implementation periods);
- the concern with the need for flexibility in the rules; and
- the need for aid for technical assistance and capacity building.

These concerns are reflected in over 150 provisions in the General Agreement on Tariffs and Trade (GATT) since 1947.

Market Access was mainly about preferences, which served to ameliorate and compensate somewhat for the increasingly high barriers erected in the US, Japan and the EU against agricultural imports and textiles. Preferences were based on the colonialist system preferring some developing countries and not others, and were thus fundamentally discriminatory.

As the GATT developed, the rules reflected the competitive capacities of developed countries. In manufacturing where developed countries were very competitive, the Uruguay Round (UR) Trade-Related Investment Measures (TRIMs) Agreement abolished subsidies. Whilst, in Agriculture, the boxes created in the UR Agriculture Agreement (Amber, Blue and Green) to provide some disciplines on trade distorting subsidies contained enough loopholes to allow the EU and US to actually increase their expenditure on subsidies. On intellectual property rights, the Trade-Related Aspects of Intellectual Property Rights (TRIPs) Agreement provided increased protection for largely developed

country research and development. Thus the call for S&DT flexibilities by developing countries in the TRIMs and the TRIPs Agreements were largely to ameliorate this inequity.

Capacity Building was largely a best endeavour effort in the GATT and was directed mainly at the capacity of countries to participate and implement GATT rules rather than address supply-side issues.

An important issue to ponder is why was it that developing countries were so keen on resolving the 88 S&DT proposals that were put on the Agenda at the Doha Ministerial Conference. These proposals called for the existing S&D provisions to be made more precise, mandatory and operational.²

However, these issues do not constitute the central Development Dimension of the GATT/WTO. They remain important in the system and are still valid. Their basic purpose is to recognise that vast differences remain in the economic and trade capacities of developed and developing countries. So what then constitutes development in the WTO? By drawing from the work of Amartya Sen one can develop four essential dimensions of development in the WTO.

Sen defines development as “the removal of unfreedom....”³ Development in the view of Sen is the process of expanding human freedom. Thus, for Sen, development is understood as the process of removing unfreedom. (See Box 1)

In the context of the ongoing Doha Round how should this perspective be translated? Firstly, it does mean that to provide developing countries with *opportunities to export* in global markets, the balance needs to tilt towards a level playing field and, in line with the promise of the Doha mandate for a Development Round, somewhat in favour of developing

Box 1: Development as Freedom and the Multilateral Trading System

Four types of unfreedom or deprivation are identified in Sen’s work that are relevant to the discussion on development and the multilateral trading system. Firstly, Sen argues that deprivation can result when people are denied economic *opportunities*. Secondly, Sen argues that poverty should be understood not so much as low incomes but as a deprivation of basic *capabilities*. Thirdly, whilst Sen argues for *government regulation* to enable markets to work more effectively, he states that a system of ethics *based on social justice* is required to build vision and trust for the successful use of the market mechanism. Fourthly, Sen argues that the deprivation of the *opportunity to participate in crucial decisions* regarding public affairs is to deny people the right to develop.

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Box 2: Coalitions at the WTO and Calls for Greater Equity

The call for greater equity in process as well as outcomes in the WTO, within its rules-based system, is backed by many different coalitions involving developing countries. This may be seen as a rational reaction to the pendulum swings from the bloc-based, hard-line coalitions to the issue-based conformist coalitions. Many of these coalitions go back to at least the Doha Ministerial, if not earlier, such as the African, Caribbean and the Pacific (ACP) group, the Least Developed Country (LDC) group, the Africa group, the Like Minded group, the Small and Vulnerable Economies group. Others are a product of the politics of the Cancun Ministerial, and include the G-20 on agriculture, the Alliance on Special Products and Special Safeguard Mechanism, the Core Group on the Singapore Issues, and the Alliance on Cotton. In all these coalitions, memories of the failure of the old-bloc type, Third World-ist coalitions persist, and delegates are quick to deny any ideological leanings or identity politics of the coalition. Adapting to past failures and successes, these coalitions show high levels of coordination among themselves. Symptomatic of this coordination were the "Alliances of Sympathy" that emerged at Cancun, which offered support to the agenda of other coalitions whenever possible, and at least attempted not to oppose them outright when their interests were in conflict.

Source: Narlikar, Amrita, "Fairness in International Trade Negotiations: Developing Countries in the GATT and WTO", *The World Economy*, 2006

countries this time. This is because the previous eight rounds of GATT did not provide real access for the products of developing countries viz. in agriculture and textiles. In agriculture, the distortions caused by subsidies in developed countries have to be removed that prevent and undermine developing countries from pursuing their comparative advantage. Secondly, all have the responsibility to ensure that the poorest countries are provided with the *capacity to produce, and export* thus allowing them to benefit from the opportunities in the global economy. Thirdly, the rules of the trading system also need to be *balanced*, whilst strengthening a rules based system for all to benefit, it should provide sufficient flexibilities to prevent developing countries from bearing the cost of these rules, without the benefits. Fourthly, the *participation of developing countries* in the process is crucial to ensure that they are engaged in negotiating the new rules in a fair and democratic manner.

Are developing countries reluctant participants in the DDA negotiation?

At the launch of the Doha Development Round, developing countries succeeded in negotiating a mandate that has the promise of delivering a development outcome. They did this through a high level of participation in the negotiation. Since Doha developing countries have formed powerful coalitions in the form of G-20, G-33, NAMA-11, LDC Group, Small Economies, Africa Group and ACP Groups. (See Box 2)

They have stuck together notwithstanding their divergent interests as observed in Hong Kong and now again at the WTO June 2006 Ministerial Meeting (in the G-110) held in Geneva and the G-20 Ministerial Meeting held in Rio in September 2006.

The current impasse in the WTO is a reflection of the strength of developing countries, not their indifference. Developing countries are a force to be reckoned with. They can negotiate. They are technically competent. They are organised. Whilst there are and have been many threats of an unfair deal being imposed on developing countries, this threat should not cause them to renounce their legitimate claims to a fair and balanced outcome in the Doha Round. They have insisted that the promise that the Doha Round will be a development round should be fulfilled.

Developing countries are taking responsibility and providing leadership in the Doha Round. The G-20 – itself a complex set of countries including, Brazil, India, Egypt, Paraguay and Tanzania – has negotiated and put forward a set of proposals on almost every issue in the agriculture

negotiation. The G-20 has, thus, become the centre of gravity in the Doha Round of Negotiation. Both the EU and the US now acknowledge (the latter more reluctantly) that they have to move towards the G-20 to achieve a final deal in the Doha Development Agenda.

The larger developing countries have taken on board their responsibility towards the poorer members, especially the LDCs. In Hong Kong, these developing countries in a position to do so pledged to provide duty-free, quota-free market access (DFQFMA) to all LDCs. This was a historic breakthrough.

What was less visible was the growing understanding between the developing countries on the plight of the "small weak and vulnerable countries". These countries, that remain an undefined category, have been urging the WTO Members to recognise their special situation, and that WTO rules and market access ambitions be mindful of their different development needs and capabilities. The G-20 has recognised the concerns of these developing countries, and the NAMA-11 has agreed that they should be treated differently and provided with greater flexibilities.

South-South trade is an important part of global trade today and an important aspiration of developing countries especially in agriculture where developing country markets now constitute more than 50 percent of the world trade. Thus, the issue of special products and the special safeguard mechanism is of great interest and concern to a large number of developing countries in the G-20, not just to the US. It will most certainly be resolved within the G-20 in same way as the G-20 has agreed on a formula for market access for developed and developing countries within the G-20 i.e., with a great deal of internal negotiation, a moderation of the mercantilist market access interests of the more competitive countries and with solidarity for the poor and vulnerable agricultural producers.

There are still some difficult issues between developing countries that will need more work as the negotiation advances. However, even on the most intractable issue of preference erosion that has divided developing countries in the WTO, developing countries have made much progress. The NAMA-11 has agreed to address this by moderating its own market access interests in developed country markets and providing developed countries longer phase down periods for a limited number of tariff lines.

LDCs too will be contributing to the Doha Round by increasing their tariff bindings significantly. They will also have to adjust to further erosion of their existing preferences in an ambitious Doha outcome. A large number have made significant unilateral tariff cuts and others have bound 100 percent of their tariffs. So developing countries are not calling for a Round for Free!

Misconceptions on Aid for Trade

Does aid belong to the WTO?

There are many provisions on technical assistance and capacity building in the GATT. Paragraph 2 of the Doha Declaration states that “...well targeted, sustainably financed technical assistance and capacity-building programmes have important roles to play”.

The July 2004 WTO General Council Decision on modalities for trade facilitation also commits members to provide “support and assistance for developing countries” to “implement the commitments resulting from the negotiations” and has linked this to their implementation obligations.⁴

The Hong Kong Ministerial Conference called for an enhanced Integrated Framework (IF) to be launched by December 31, 2006. One can recall that the IF, which is a programme of technical assistance targeted to build the trade capacity of LDCs, was agreed at the first WTO Ministerial Conference held in Singapore in 1996 and is managed by six agencies, including the World Bank, International Monetary Fund, United Nations Conference on Trade and Development, United Nations Development Programme, International Trade Centre and the WTO. The Task Force mandated with this responsibility reported to the WTO General Council in July 2006 and stated that the current level of funding of approximately 35 million dollars was inadequate and proposed that the IF should mobilise around US\$400mn over five years through the multilateral trust fund and bilateral cooperation.

The Hong Kong Ministerial Declaration⁵ recognised the importance of “Aid for Trade” and called on the Director General of the WTO to:

- create a Task Force that “shall provide recommendations on how to operationalise Aid for Trade”.
- consult with members as well as the IMF and World Bank and other relevant international organisations “with a view to reporting to the General Council on appropriate mechanisms to secure additional financial resources for Aid for Trade”.

This Task Force⁶ submitted its recommendations to the General Council at the end of July 2006.⁷

At the Hong Kong Ministerial Conference in December 2005, there were three S&DT LDC Agreement Specific proposals that were agreed to in Annex F which are of relevance to the “Aid for Trade” agenda.

The first of these urged “all donors and relevant international institutions to increase financial and technical support aimed at the diversification of LDC economies, while providing additional financial and technical assistance through appropriate delivery mechanisms to meet their implementation obligations, including fulfilling Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBT) requirements and to assist them in managing their adjustment process, including those necessary to face the results of Most Favoured Nation (MFN) multilateral liberalisation”.⁸ The second proposal⁹ called on donors, multilateral agencies and international financial institutions to “coordinate their work to ensure that LDCs are not subjected to conditionalities on loans, grants, and official development assistance that are inconsistent with their rights and obligations under the WTO Agreements”. A third proposal¹⁰ re-affirmed that LDCs will only be required to undertake commitments and concessions to the extent consistent with their development needs and capabilities and directed the WTO to co-ordinate its efforts with donors to “significantly increase aid for trade related technical assistance and capacity building”.

Whilst the language of these proposals is not binding and obligatory, the agreements do provide LDCs with some leverage in their efforts to secure greater “Aid for Trade” and to negotiate greater coherence of their obligations and commitments in the WTO and the conditionalities imposed by the Bretton Woods institutions.

So, aid is very much a part of the WTO and it is an essential component of the development dimension of the WTO.¹¹

Do developing countries want to make the WTO a development institution?

No! developing countries do not want to make the WTO a delivery mechanism for aid but do want to utilise the WTO:

- as a point of leverage to increase Aid for Trade;
- to build coherence between WTO and the aid agencies; and
- to build transparency and mutual accountability.

Developing countries have called for increased coherence between the WTO and other aid agencies (as the second LDC proposal referred to above states). This is line with developments elsewhere in the multilateral system.

A Global Partnership for Development

Goal 8 of the Millennium Development Goals (MDGs), agreed by the UN Millennium Summit in 2000, called for a global partnership between developed and developing countries to address the reduction of poverty, increased development, and the integration of developing countries in the world economy. At the same time African leaders were building their own vision to address the challenges of poverty eradication, peace and security and their effective integration into the world economy. The New Partnership for Africa’s Development (NEPAD) agreed by the Implementation Committee of Heads of State in October 2001, called for a new partnership between Africa and the international community, and committed itself to build democracy and good economic governance as preconditions for development and poverty eradication.¹² The Paris Declaration on Aid Effectiveness, agreed in March 2005, by Ministers from developed and developing countries and heads of multilateral and bilateral development institutions, and its commitment to Ownership, Harmonisation, Alignment, Results and Mutual Accountability, is also an important milestone in strengthening the concept of partnership between donor countries and developing country partners.

Faced with the development situation of the poorest countries in the world, it would be interesting to ask the membership of the WTO how to apply the above-stated concepts to the multilateral trading system in general and to the Trade Policy Review Mechanism in particular. The approach could be to define the responsibilities of both the developing countries and their developed country partners on how to address these development challenges.

What are the responsibilities of the developing countries?

Developing countries can be said to have responsibilities in at least three levels. First, they must provide leadership in developing their own national economic development vision and implementation plans and develop transparent systems of economic governance and accountability. Secondly, developing countries must make every effort within their means to implement their obligations to the multilateral trading system thereby contributing to an effective rules based system.

Thirdly, developing countries must make every effort within their means to participate in the multilateral trading system.

What are the responsibilities of the developed countries?

Drawing from Sen's work on "development as freedom" (see Box 1) their responsibilities can be described in a four-fold manner to:¹³

- provide a fair opportunity for developing country exports to gain access into developed country markets (and not stifle the development of developing countries through the use of trade distorting policies);
- build sufficient capacity in developing countries that are in need to enable their effective participation in the global trading system (the recent Aid for Trade initiative is a step in the right direction);
- ensure that the rules of the trading system are balanced and do not impose more burdens than benefits to developing countries; and
- facilitate the effective participation of developing countries in the WTO by ensuring that the WTO is inclusive and transparent.

Thus, the writer argued¹⁴ that in a review of this nature it is not only the policies of the countries in question that are under review but also the policies and actions of the partner countries in achieving the objectives of poverty reduction, development and more effective global integration. A related question is what is the responsibility of the more advanced developing country neighbours and trading partners.

Is aid being used as a substitute for trade solutions?

Aid for Trade is not part of the single undertaking. Both developed and developing countries agree. For example, developing countries refused to accept aid as a solution for: a) preference erosion, and/or b) for the cotton initiative. Thus,

Aid for Trade is not a substitute but an important complement to the trade solutions for these developing countries in the Doha Development Agenda. Thus, poor countries will not be bought off with Aid for Trade.

Conclusion

It has been argued above that the development dimension in the WTO cannot be relegated to the provisions in the GATT/WTO on S&DT but should go to the heart of the trading system itself; fair market access, capacity to trade for the poorest members, balanced rules and effective participation of developing countries in the multilateral trading system.

With regard to capacity building there are two important reasons why Aid for Trade, that is additional to existing pledges on Official Development Assistance, should remain an essential component of the multilateral trading system and should be an essential component of a successful Doha Round!

First, the history of European economic development provides some valuable insights. The post war Marshall Plan was partly instigated to "neutralise the forces moving Western Europe permanently away from multilateral trade".¹⁵ In addition, European Integration itself was facilitated by economic assistance provided to weaker countries and regions (through the structural and cohesion funds).¹⁶

Secondly, a number of studies¹⁷ undertaken recently have pointed out that whilst an ambitious outcome of the DDA promises significant gains for both developed and developing countries, the poorest countries, including the LDCs and other small, weak and vulnerable economies will make less gains and could even make significant losses from the Round. There are a number of reasons for this result, including significant preference erosion for some countries and the lack of supply capacity to take advantage of new opportunities in global markets. These countries will need to be provided with assistance to manage these adjustments. This support can be regarded as a compact or "Grand Bargain" that is required to ensure a successful conclusion of the Doha Round.

Endnotes

- 1 See Ismail, F., "Mainstreaming Development in the World Trade Organisation", *Journal of World Trade*, Vol. 39. No.1. February 2005
- 2 See Ismail, F., "How can Least-Developed Countries and Other Small, Weak and Vulnerable Economies Also Gain from the Doha Development Agenda on the Road to Hong Kong?", *Journal of World Trade* 40 (1) 37-68, 2006
- 3 See Amartya Sen, "Development as Freedom", Anchor Books, New York, 1999, p.3
- 4 See Paragraph 2 of Annex D. WTO WT/L/579 (2nd August 2004)
- 5 See WT/MIN (05)/DEC Para 57 of the "Ministerial Declaration", Doha Work Programme, 22nd December 2005
- 6 The task force is composed of 13 members: Barbados, Brazil, Canada, China, Colombia, the EU, Japan, India, Thailand, the US and the coordinators of the ACP (African, Caribbean and Pacific) Group of States, the African Group and the LDC (least-developed countries) Group.
- 7 See WTO doc. WT/AFT/1, Recommendations of the Task Force on Aid For Trade, 27th July 2006
- 8 Proposal number 36
- 9 Proposal number 38
- 10 Proposal number 88
- 11 See Ismail, F. 2007. "Aid for Trade: An essential component of the multilateral trading system and WTO Doha development agenda", *World Economics*, Vol. 8 No.1 January-March 2007
- 12 NEPAD, October 2001
- 13 See Ismail, F., "Mainstreaming Development in the World Trade Organisation", *Journal of World Trade*, Vol. 39 No. 1, February 2005
- 14 See Ismail, F., "Discussants Presentation on the Trade Policy Review of the East African Community", 25th October 2006
- 15 Foreman-Peck, J., "A History of the World Economy", Wheatsheaf Books, 1983
- 16 Tsoukalis, Loukas, "What Kind of Europe", Oxford University Press, 2003
- 17 Anderson, K., W. Martin and D. van Mensbrugge, "Would Multilateral Trade Reform Benefit Sub-Saharan Africans?" World Bank, Washington DC, April 2005

This Briefing Paper is researched and written by Faizel Ismail in his personal capacity and for CUTS Centre for International Trade, Economics & Environment under the project 'Linkages between Trade, Development & Poverty Reduction' (TDP) funded by Ministry of Foreign Affairs (MINBUZA), The Netherlands and Department for International Development (DFID), UK. The views expressed in this paper are those of the author and therefore, in no way be taken to reflect that of MINBUZA, The Netherlands and DFID, UK.

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