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TRADING UP

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Aid for Trade

Win Win Strategy ?

Consolation for Development!

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Aiding Up! Consolation for Development!

The post Davos resurrection bid has not succeeded in giving definite numbers to the Doha round and the uncertainty seems to drag for the poor millions that expect to gain from trade. Aid for Trade is offered as a consolation to those who expect to incur huge costs on account of implementation issues and loss of revenues. However, the debate on Aid for Trade within the WTO continues to remain under suspended animation.

The Integrated Framework for Trade-Related Technical Assistance to the LDCs (IF), set up in late 1997 to assist LDCs in identifying their trade needs, promised transparency and symbolised a joint effort to bridge global inequity. However, the track record of the institution has been very poor and banking on the same set of institutions to deliver aid in light of the Paris Declaration may be inappropriate.

At the Hong Kong Ministerial Conference, WTO members instructed the WTO Director-General, Pascal Lamy, to set up a Task Force to provide recommendations on how to operationalise Aid for Trade. However, the recommendation of the task force lay the entire onus on the Director General and nothing seems to be moving in the desired direction.

This further raises the obvious question i.e. is WTO the right forum to deal with aid? Another disparaging feature is the paradox wherein trade subsides are increasing while the ODA (official development assistance) seems to be slackening. The current Aid for Trade poses a serious risk of diversion, further constraining non-trade development activities across the globe.

For South Asia the current developments on Aid for Trade do not promise much as the most critical factors pressing countries like Nepal are waivers on debt relief and investments on infrastructure and both issues remain unresolved. Cambodia and Vietnam have shown improvement on account of technical assistance but such successes are few.

The losers of the trade game have been the poor and developing countries, which on account of the lack of capacity are not in a position to benefit from trade. The pledges of aid by developed countries are hardly reassuring and lack clarity on the quantum that would be delivered and to their effectiveness these would work in development.

Keeping the uncertainty that prevails at large in the Doha Round, Centad's focus on Aid for Trade in the current issue is yet another effort towards understanding and explaining global disparities and debate on aid that can make a difference to lives of millions of poor people in the poorest countries. As always, your valuable suggestions and contributions are welcome.

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Transforming Aid for Trade: From Mirage to Reality

Robin Koshy

A nomad lost in the desert is struggling to fight off killing thirst under the glare of an unforgiving sun. With his camel dead and water bottles empty, the nomad is punished further by several visions of lush oases that turn out to be mirages when he gets closer. He finally comes across a surreal shop in the desert and rushes inside hoping to get a sip of water before the heat took its toll. As the story goes, the shopkeeper tells the thirsty man that the shop has no water and only sells empty, hand crafted, ivory water bottles. Rather than ponder over the absurdity of the situation, the thirsty man summons up his last reserve of energy and presses on through the dunes and finally comes to a real oasis. As he drags himself to the edge of the water, he is stopped by an armed guard who tells him - "Water only for people with hand crafted, ivory water bottles."

Developing and least developed countries (LDCs) have come across many mirages and barriers in their quest for the oasis that multilateral trade liberalisation has been purported to be. However, most developing countries remain ill equipped to quench their thirst for development through trade. Apart from the many false dawns of liberalisation in agriculture and commodities of export interest to the Southern countries, poor countries have been most strung by their inadequate domestic capacity to adequately exploit their access to developed markets.

Aid for Trade has emerged as a significant theme today, given this inability of most poor countries to be equipped adequately to feast at the high table of multilateral trade. Its relevance is highlighted by the fact that the share of LDCs in total merchandise and services trade has not changed much in the last decade (See Table 1).

Table 1: Changing pattern of LDC in Merchandise and Services trade

Year	Total Merchandise Trade (million dollars)		Commercial services (Services excl. government services) (million dollars)	
	% of World Imports	% of World Exports	% of World Imports	% of World Exports
1991	0.53	0.73	0.40	1.12
1995	0.46	0.65	0.45	0.96
1996	0.50	0.68	0.44	0.93
2004	0.66	0.75	0.41	1.00
2005	0.78	0.79	0.40	1.12

Source: Computed from WTO Statistics http://stat.wto.org by Linu Mathew Philip

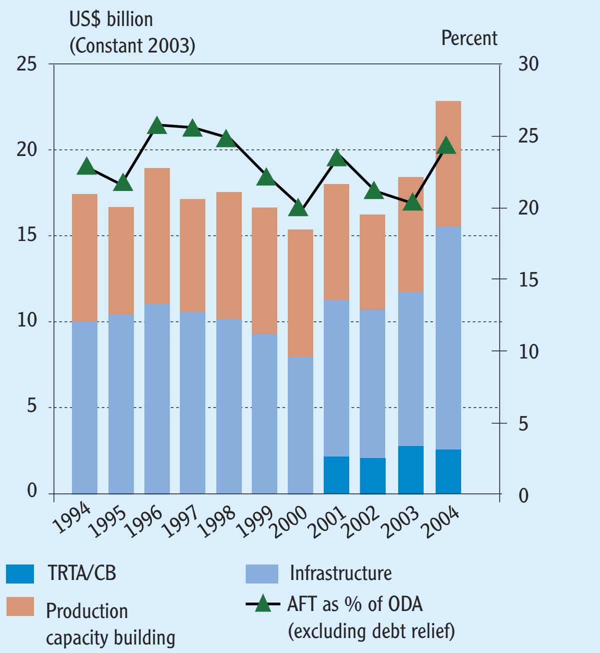
From Mirage to Reality

There is no denying that the poorest countries need significant support to overcome the internal and external barriers to trade. Aid for Trade has been a key enticement since the Uruguay Round when a decision to support net food importing developing countries was included in the Marrakesh Agreement establishing the WTO in 1994. Since then considerable water has flown under the bridge. Aid to support capacity building for trade in developing countries and LDCs had figured prominently in the G8 leaders meeting in Gleneagles in June 2005 and the Hong Kong Ministerial Meeting in December 2005. In fact, Paragraph 57 of the Hong Kong Ministerial Declaration affirms that

> "Aid for Trade should aim to help 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."

Over the period of 2006, when the Doha Round of trade talks stuttered and eventually stalled, debates on Aid for Trade perhaps represented the only real progress. The report of the Aid for Trade Taskforce as well as the recommendations for an enhanced Integrated Framework (IF) to provide trade related technical assistance to LDCs that came in July 2006 demonstrated a gradual evolution in the thinking on translating Aid for Trade into changes on the ground. However, considerable differences remain in the views of donors, recipients and international institutions on the rationale, quantum, effectiveness and target of Aid for Trade initiatives.

Fig.1: Volume of ODA as Percentage of Aid for Trade



Source: OECD 2005

Meanwhile, the volume of aid allocated for trade related capacity building remains stagnant at 20 percent of the overseas development assistance. Apprehensions are also rife that existing development assistance could be rebranded as Aid for Trade and that existing development assistance will end up being diverted. So is there a justification for earmarking Aid for Trade?

Justifying Aid for Trade

There are numerous reasons that justify Aid for Trade. Perhaps, the simplest argument is that trade liberalisation has adjustment costs that need to be borne upfront whereas the rewards from increased exports or efficiencies could take decades. Adjustment costs involved in strengthening policy making machinery, import-export infrastructure such as roads, ports, power, communication, technology and knowledge levels to meet product standards in developed markets are often met by moving resources from other sectors. Developing countries and LDCs need to invest in building up public institutions and infrastructure as well as private sector capacity to supply goods and services. Few developing countries can afford the perspective of writing off these short term costs as they are most likely to be already burdened by debt and limited resources to spend on basic public needs such as health, education and nutrition.

Secondly, free trade can be seen as a 'global public good' where the benefits arising from trade are not necessarily garnered by the country undertaking reforms. Rich countries, with their better institutions, infrastructure and productive capacity are better placed to tap the gains from trade liberalisation than poor countries are. Further, countries that have lost out on preferences such as textile quotas and the Generalised System of Preferences (GSP) are likely laggards when it comes to championing the cause of multilateral trade. The distributive and redistributive dimensions of multilateral trade that could enrich some and impoverish others could create divisions within as well as between poor countries.

Thirdly, the original motivation for considering Aid for Trade - the impact of rising international food prices due to reduced protection and subsidisation of food commodities on net food importing countries is still valid. 45 out of the 49 LDCs are net food importers. Any reduction in subsidies, for say, American rice (disregarding its deleterious impact on rice farmers in Cambodia and India), would have a significant impoverishing impact on the citizens of these imported food dependent LDCs. While it is true that these countries would also gain from liberalised markets for their agricultural products such as cotton, the net gainers (farmers) are not the same as the net losers (landless and urban poor). Social security networks that could cushion the losers are mostly inadequate in the poorest countries and the resultant social pressure could make trade liberalisation a politically untenable option.

Fourthly, tariff reduction which is a key element of trade liberalisation has an attached price as most developing countries depend on import tariffs for fiscal revenue. Although only developing countries (and not LDCs) have to undertake tariff cuts in this Round, it is not an easy choice for developing countries either. Any reduction in tariff levels as a part of trade reform process could lead a severe resource crunch in the short run. A 2005 IMF study suggests that even if such tariff reductions are accompanied by fiscal reforms to mop up revenue from other sources, low-income countries recoup only 30 cents through reforms for every US$ 1 lost in tariff revenues[1]. It is also estimated that if the Doha Agenda were to be implemented as it stands now, Latin America and the Caribbean would lose US$ 10 billion and Sub-Saharan Africa 1.7 billion in lost tariff revenues[2]. Moreover, developing countries that have overvalued currencies would be required to undertake costly monetary reforms with their accompanying fiscal and monetary discipline to make their export commodities competitive in the international markets. Few poor countries can afford the vision of setting off the short term costs of adjustment against the long term benefits from increased exports.

Fifthly, trade facilitation through improved infrastructure and better border institutions is a priority that many low income countries recognise, but few can afford. Pot-holed roads, dilapidated ports, corrupt border passes and labyrinthine customs procedures are enormous barriers to trade for many low-income countries. An UNCTAD study indicates that transport costs of landlocked African countries accounts for an average of 21 percent of the value of imports as against a global average of 5 percent![3] A WTO Trade Facilitation Agreement that many developed countries promote is not going to solve problems within poor countries, since the real issue is lack of hard cash and not the absence of a legal regime on trade facilitation.

Finally, aid is also needed to curtail the perverse incentive for regionalism and instead strengthen the 'policy bias' in favour of multilateralism. Regional trading agreements, especially those between developed and developing countries have ubiquitous 'WTO plus' clauses that are more stringent than what developing countries have collectively agreed to at the WTO. Barring larger nations such as Brazil, Argentina and India, few developing countries have the negotiating clout to take on the US or the EU. Even these countries are found wanting, when negotiating bilaterally with the US or EU. Regionalism is perhaps being spawned by the disenchantment of developing countries with the slow pace of multilateral trade. However, much like how the Marshall Plan weaned European countries away from isolationism after the Second World War, Aid for Trade could perhaps still salvage global trade integration.[4]

Such targeted aid could address the capacity constraint that most developing countries face in protecting their national interests at multilateral, regional or bilateral negotiations. Although alliances such the G20 and G33 have strengthened the collective negotiating clout of developing countries, the capacity to analyse the economic and social impact of WTO and other trade agreements is insufficient in most LDCs.

Aid for Trade – Compensating Losses or Promoting Exports?

Conventional thinking on Aid for Trade has focused on the loss of protected markets for goods and revenues from tariffs that the Southern countries suffer from giving up preferences and lowering tariffs as part of the trade liberalisation process. While these reasons might justify why developing countries need aid, it might be inadequate to provide a politically acceptable rationale for developed countries to expand the envelope of developmental aid to include Aid for Trade.

Joseph Stiglitz and Andrew Charlton argue that citing Aid for Trade as an instrument for buying progress in the Doha Round; compensating preference dependent countries, net food importers and other losers or ensuring fairness are unlikely to cut politically or attract a wider set of donors.[5] Such a compensation approach that focuses on lost preferences would put the onus on traditional granters of preference such as the EU and the US and would not engage other rich countries. Moreover, distribution of funds would be skewed in favour of preference losers rather than largest net losers. Instead, they

Box 1

Key Milestones on the Aid for Trade Path

1994: Marrakesh Declaration acknowledged the need to provide technical assistance to LDCs in specific agreements such as TRIPS and SPS.

1994: African Trade Ministers called to help strengthen their capacity to participate in the WTO through Joint Integrated Technical Assistance Programme (JITAP), a joint endeavour by WTO, UNCTAD and International Trade Centre.

1997: Integrated Framework for Trade Related Technical Assistance for LDCs initiated by six multilateral institutions: IMF, ITC, UNCTAD, UNDP, World Bank and the WTO. IF provides resource to conduct diagnostic studies, mainstream trade into national development plans.

2001: Standards Trade Development Facility set up by five international agencies (FAO, OIE, World Bank, WHO and WTO) to assist developing countries enhance national capacity to implement sanitary and phytosanitary standards.

2005: Paris Declaration on Aid Effectiveness endorsed as a resolve of all developed and developing countries to make global aid more effective to strengthen development performance.

2005: Hong Kong Ministerial Meeting adopts Aid for Trade as an important component of trade reform and establishes a task force to study the operationalisation of Aid for Trade

2006: The IF Taskforce constituted by the WTO Director General proposes an Enhanced IF.

2006: Aid for Task force submits its report with the recommendation at the WTO.

2007: The world awaits signs of change in the Aid for Trade regime.

Aid as Holy Water?

argue that Aid for Trade should be seen as a complement to creating effective market access. Hence Aid for Trade should focus on promoting future exports rather than compensating for past losses.

Salvaging the Aid for Trade Regime

Disregarding the justifications for Aid for Trade amongst recipients and donors, what is important is to ensure that resources allocated as Aid for Trade are used in a coherent and coordinated manner. However, targeting aid and linking it to efforts in other sectors and by other donors have remained challenging. While there is no dearth of trade related assistance mechanisms, poor countries have found it hard to secure funds to address their key challenges such as addressing productive capacity and enabling infrastructure.

Current mechanisms such as the IF for Trade-Related Technical Assistance for LDCs have had limited success in dovetailing trade priorities with national development plan. Diagnostic Trade Integration Studies (DTIS) done under IF have been small budget initiatives bereft of adequate consultation with the private sector and civil society. Moreover, priorities identified by the DTIS rarely receive assured funding. A review of the mechanism by the WTO IF Task Force in mid-2006 pointed out many failings including poor donor coordination, limited ownerships by recipient countries and inadequate financial and human resources to manage the process. The International Monetary Fund's (IMF's) Trade Integration Mechanism (TIM) that seeks to address short term balance of payment crises as a result of multilateral trade liberalisation has been used only by two countries so far. Joint Integrated Technical Assistance Programme (JITAP), that focuses on African countries has had limited success too. In general, most existing Aid for Trade mechanisms are marked by poor project management, shallow assessment of country needs, and scattered interventions that lack adequate linkages to national development or poverty reduction strategies.

The July 2006 report of the WTO Aid for Trade Task Force acknowledges many of these shortcomings. It recommends that Aid for Trade be directed at six broad areas. These include:

- Building governmental capacity to negotiate and implement trade agreements, and comply with rules and procedures;
- Enabling the development of trade through support to business and financial services;
- Building trade related infrastructure such as ports and highways;
- Enhancing capacity to produce goods and services for export;
- Financial support to meet the adjustment costs relating to

trade policy reform including balance of payment crisis or loss of preferences; and

- Other trade related needs.

Importantly, the Task Force resisted the temptation to recommend a new global fund and recommends the better utilisation of existing channels such as the IF and JITAP. A global fund on Aid for Trade would have added another layer of bureaucracy in managing the limited resources available, besides adding to the list of the plethora of ineffective global trust funds. To make existing mechanisms more effective, it recommends strengthening ownership by recipient countries of the process of identifying needs and priorities, improving the response and coordination of donors and radically improving monitoring and evaluation processes. It calls for greater leadership on trade within LDCs and increased coordination amongst donors on trade priorities. It also calls for the need to extend donor support to the regional and cross border initiatives. This is very relevant to small landlocked countries such as Rwanda, Lesotho or Nepal that are dependent on the cooperation of their bigger neighbours in boosting their trade prospects.

The Task Force makes no recommendations on the volume of funds required or how it should be raised. Donor countries retain the freedom to determine volume and mode of funding trade related projects. Donors could resort, to say, direct budgetary support as an alternative mechanism to support trade related capacity building initiatives in developing countries that demonstrate more accountable systems.

At best, these recommendations remain good practice rules for strengthening Aid for Trade and how they will influence trade remains to be seen.

Binding Commitments – Many Battles Ahead

There is a school of thought that calls for a WTO Agreement on Aid for Trade that binds donor commitments and sees Aid for Trade as a part of the special and differential treatment for poor countries that accommodates for the difficulties they face in implementing WTO obligations. Oxfam has been calling for linking costs associated with new WTO commitments to additional resources. While most countries recognise WTO as the appropriate body to coordinate Aid for Trade, an Agreement is unlikely to materialise in the current scenario.

Is Aid for Trade a compensation for a failed Doha Round and will aid be used to coerce developing countries, especially the smaller and poorer ones into making concessions on market access? Will the new monitoring and evaluation standards for Aid for Trade recommended by the Task Force emerge as Non-Aid Barriers? Will Aid for Trade be spread across a larger cross section of developing countries, reducing resources accessible to the poorest countries?

Many of these doubts will persist until clarity emerges on the level of funds for Aid for Trade and the 'additionality' of these funds. Despite the new promises for increasing funds for trade by key donors such as the US, EU and Japan, an estimate of Institute of Agriculture Trade Policy (IATP) suggests a shortfall of about US$ 14 million in meeting the cost of fulfilling the Doha Agenda. While it is heartening to see increased commitments from donors, it is evident that the shortfall in funds will continue. This shortfall could be higher if the increased commitments emerge to be repackaging of existing aid.

LDCs and developing countries too need to play their roles in influencing the efficacy of Aid for Trade programmes. Coherent national development strategies that prioritise trade related capacity building and good governance to manage aid will ultimately encourage donors to increase funding. Developing countries must also demonstrate the maturity to turn down funding that intend to extract market access concessions and instead seek aid into areas that will boost their future trade prospects. A change in mindset in the South is also much needed to reform Aid for Trade. Developing countries must stop viewing Aid for Trade as a compensation for past injuries or as a 'fee' for the continued lack of genuine trade liberalisation that would benefit the poor countries.

After all, the onus is on those seeking to quench the thirst for development at the oasis of free trade to make prudent choices all along the way.

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Aid for Trade 2007: Moving Beyond Best Endeavours

Emily Alpert

Aid for Trade's trajectory across overall development assistance was slow to pick up, surged prior to the 2005 Hong Kong Ministerial, and seems to face a rather dim future; one in which no reform or progress is made over existing aid delivery systems. But all does not need to end in a gloom and doom scenario. If all stakeholders develop clear strategies and timetables for implementing the recommendations of the Aid for Trade Task Force, there is still hope for the Aid for Trade initiative.

The Doha Round was founded on the premise that further liberalising trade in agriculture, goods and services would unleash untold gains and lift millions out of poverty. Aid for Trade gained momentum as WTO members recalculated and conceded the gains would not only be far less than expected, but there would be both winners and losers. Hardest of all to admit a majority of losers would be the developing countries. Realising that without assistance to address broader supply side constraints, developing country members were not aptly positioned to take advantage of greater market access. Further, these countries might even be injured as a result. In the beginnings the Aid for Trade agenda became the political panacea to salvage the "development" round.

Following the commitments made at the 2005 G8 Summit in Gleneagles, the US, EU and Japan reaffirmed their offers to scale up Aid for Trade at the Hong Kong Ministerial. The WTO was also charged with creating two task forces - one to address the Integrated Framework (IF) and the other to tackle overall Aid for Trade. The task forces were instructed to design a new architecture of Aid for Trade that addressed the gaps and shortcomings of the current apparatus. And to their credit, the Task Forces achieved the challenges set before them by submitting recommendations to the wider WTO membership by the end of July 2006.

"The Task Force at WTO suggests the following next steps:

- urges members to expeditiously implement the recommendations of the Task Force.
- urges the Director-General to use these recommendations in pursuing his mandate to consult on "appropriate mechanisms to secure additional financial resources for Aid for Trade" so that the joint mandate in Paragraph 57 of the Hong Kong Declaration can be implemented in a holistic manner.
- invites the Director-General to communicate these recommendations to relevant agencies and organisations and to urge Ministers at the upcoming Development Committee meeting in Singapore to give consideration to these recommendations and to encourage the Bank and the Fund to ensure adequate follow-up and to report on the results at the 2007 annual meeting.
- invites the Director-General to continue, under his coherence mandate, a dialogue on how recommendations targeted at the agencies could be implemented, including where responsibility for implementation should lie.
- invites the Director-General to establish an ad hoc consultative group to take forward the practical follow-up of these recommendations.
- invites the Director-General to begin examining how to implement the recommendations regarding WTO monitoring of Aid for Trade.
- invites the Director-General to convene, at an appropriate time, an initial review of Aid for Trade, with the participation of all relevant stakeholders.
- suggests, after the completion of the DDA, that the Secretariat conduct an assessment of associated Aid for Trade needs in developing countries, particularly those most affected, including LDCs, and of how Aid for Trade can contribute to the development dimension of the DDA."

WTO Director General Pascal Lamy was charged with securing donor financing for Aid for Trade and reporting on the outcome of his efforts. To date, Mr. Lamy has not made any reports. And that's where the brief history of Aid for Trade began to slip down a rocky path.

Aid for Trade, as emphatically endorsed by all involved parties, was never a part of the single undertaking. Aid for Trade was to be a complement to the Round to help members adjust to the new liberalised trading system and to prevent its use as a method of coercing developing country members to undertake commitments that were not in their best interest. Yet, since the suspension of the talks, the life of Aid for Trade seems to have slowly drifted into a coma much like the Round itself.

The lack of enthusiasm for carrying forward the recommendations of the Task Forces is extremely worrisome. Aid for Trade has been underscored on countless occasions as critical to development and poverty reduction - with or without a global trade agreement. Aid for Trade is needed to help countries with comparative advantages reap a greater share of the market, adjust to past WTO commitments and preference erosion, and meet the Millennium Development Goals.

Despite the importance of Aid for Trade to poverty reduction, it was the momentum carried by the trade talks that brought this issue to the forefront of the trade debate. Sadly, without a trade deal, the issue has slid off the table. But the responsibility and commitment to make trade work for development has not disappeared.

To contrary belief, the international community does not need a trade deal to deliver or improve Aid for Trade. Moreover, reviving Aid for Trade does not rest solely in the hands of the WTO, but far from it. The WTO can and should serve as a convener, a monitor and an arbitrator, but it cannot force its members or the wider community to make good on their commitments. As evident in the Task Force's recommendations, Aid for Trade is truly a multi-stakeholder initiative. Each and every agency must play its role and assume responsibilities.

The developed countries must commit to financing that is additional, predictable, recipient-driven, and free of economic policy conditions. Any exercise around Aid for Trade cannot be considered a success if donor countries and development institutions do not make solid commitments for additional resources. Developing countries should not be forced to choose between development priorities and donors must be prohibited from using old money.

Attaching economic policy conditions to aid can lead to unpredictable stop-start aid flows. To tackle poverty, countries need to have long-term plans and to do this, they need long-term commitments. Aid that is unpredictable or delayed because links to economic policy conditions were not fulfilled does not make for effective aid.

Best Intentions, Worst Endeavours

Aid for Trade should be demand-driven and complementary to established or forthcoming country development and poverty reduction strategies. Demand-driven aid will require mutual accountability and broad stakeholder consultation. Yet, most importantly, as this process generates varying trade-related needs, donors should respond to the priorities set by the developing countries.

The donor institutions – the World Bank, International Monetary Fund and the development agencies of the US, EU and others – must develop a strategy for enhancing cooperation and coordination amongst their ongoing activities and programmes. Too often resources are wasted due to overlapping interests. Recipient countries complain that the reporting requisites for each agency are overly burdensome. These costs can be minimised through more regular communication both amongst themselves and with other actors, including civil society, the private sector and, most importantly, the recipients.

Developing countries too have a responsibility to mainstream trade into their country development strategies. Self-reporting suggests there is often significant disconnect between government agencies to address the links between trade and development. This means the development, finance and trade ministers need to communicate better.

The Task Force recommendations clearly define stakeholder roles and responsibilities. But in order for this endeavour to be meaningful, two things must happen: first, all stakeholders must strategise on how to cooperate, coordinate and collaborate better. Second, donor countries and institutions must lead by example.

No single agency, country or institution can accomplish this job alone. And as much as the recipient countries are responsible for mainstreaming trade into their development strategies and identifying priorities and projects for funding, this can only go to an extent. Once a project has been identified, it needs a donor and an implementer. As the proverb goes, you cannot put the cart before the horse.

The Aid for Trade agenda is also seriously lacking political will and leadership. The challenges ahead are not few or easy. But with all the resources at the fingertips of donors, developed countries and development institutions must take the first steps to show they are serious about delivering on Aid for Trade. Without a clear demonstration of their commitment, developing countries have little reason to invest their scarce resources for little in return.

More than likely when questioned, each donor member of the WTO would attest that they have every intention of standing by their word. In addition to all current Aid for Trade flows of US$ 12.3 billion in 2004[1], the US committed US$ 2.3 billion by 2010, the EU 2 billion Euro each year by 2010 and Japan US$ 10 billion over three years. There is little reason to doubt that these commitments will be disbursed, but the lingering questions remain how, when, where and how well.

The likelihood that the delivery system and methods will actually be improved remains murky. No formal institution exists to monitor commitments, disbursements or practices of development agencies and their governments. The Aid for Trade Task Force recommended that some of these gaps could clear any intentions it may have of enhancing its capacity to take on these new roles; let alone any admission by the major aid agencies as to how they will improve the delivery of Aid for Trade.

This leads to responsibility for the NGO and civil society communities. It is the NGOs who must continue to pressure and remind these institutions of what must be done to deliver Aid for Trade effectively. We must continue to remind the WTO, its members, and the multilateral and bilateral development agencies of their unfulfilled promises and all that is at stake if they fail to follow through.

Unfortunately, these promises are not new and the game has not changed. Aid to address the trade constraints faced by developing countries was a key promise of both the Uruguay and Doha Rounds, but efforts to date by the donor community have been wholly inadequate. Now is the time to move beyond the rhetoric, beyond best endeavours and muster the political will necessary to demonstrate to the developing countries that aid and trade can work together to lift millions out of poverty, but only if we all do our part.

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Aid for Trade : Bonanza for Consultants, Noth ing for Development!

J. Michael Finger, Former Lead Economist and Chief Trade Policy Research Group, World Bank

Centad: Given the fact that there exists a structural asymmetry in the multilateral trading system in favour of developed countries, would Aid for Trade be a prescription for reinforcing these imbalances or do you expect it bring about any significant change in the current state of affairs? What do you think may be the benefits for recipient countries in the long run?

J. Michael Finger: Changes? Benefits? That depends on many things, particularly on how developing countries leaders manage the issue at the WTO and in their dealings with development banks and bilateral donors. The most visible part of that management, at the WTO, has so far been unproductive and overemphasised. On the other hand, much has been accomplished through the interface with development banks and bilateral donors. Aid for Trade has considerable potential to advance development.

Centad: There has been a view that Aid for Trade is, in effect, deflecting the focus away from Doha negotiating mandate on special and differential treatment. How do you view this concern?

J. Michael Finger: Negotiations on special and differential treatment have no potential to advance development. Their capture of what might have been a constructive discussion of WTO implementation has been a step backwards for development. I will explain.

Analysis of the Uruguay Round outcome revealed an imbalance to the disadvantage of developing countries. The implementation problem – bound commitments in exchange for unbound promises of assistance – was one element. The other was that developing countries had given on intellectual property and other "new areas" more than they got – developed countries gave – on agriculture and textiles/clothing.

This perception of imbalance generated among WTO members a general sympathy to take up in the next negotiation issues of particular interest to developing countries, hence members accepted the label "Doha Development Agenda."

As to how this concern might be made substantive, Rubens Ricupero, then Secretary-General of UNCTAD, had made earlier an important suggestion: future proposals should include an implementation audit that would identify the specific investments needed to meet new obligations – so that any agreement could include bound commitments to provide the needed support. Indeed, the idea might be retrofitted to the Uruguay Round agreements to arrive at a concrete measure of what might be needed to overcome this part of the Uruguay Round imbalance.

WTO Ministers, in the Doha Declaration that opened the new round, stated that they "attach the utmost importance to the implementation-related issues and concerns." They also called for a review of special and differential treatment provisions "with a view to strengthening them and making them more precise," but then allowed things to spin off in an unproductive direction.

Their decision on implementation ignored Ricupero's suggestion. It did not call for identification of the resources developing countries would need to meet WTO implementation requirements – and perhaps expand trade capacities more generally. In fact, Ministers provided no work programme at all on implementation, only a work programme on SDT – "we endorse the work programme on special and differential treatment set out in the Decision on Implementation." (Emphasis added) – a work programme on SDT falsely labeled a Decision on Implementation!

On SDT, they provided nothing new: unreciprocated market access concessions by developed countries, lesser rules obligations on developing countries, longer phase-in periods for obligations developing countries did accept. Such debate is diplomatic coup-taking, not development.

There are, however, a lot of useful things going on elsewhere.

Centad: Operationalisation of Aid for Trade would require cooperation and coordination of international development agencies in order to be effective. Also, there are several important concerns on Aid for Trade including issues such as conditionalities, accountability and agenda setting by donor countries. What instruments are needed to ensure that Aid for Trade is channelised effectively?

If Toyota announces the construction of a new truck plant, many potential suppliers will come forward to offer their products and services. Should Toyota respond by asking the potential suppliers to get together among themselves, decide who will supply what to Toyota? Of course not. Managing suppliers is an important part of what makes Toyota an efficient enterprise. In my experience, the first persons to call for "coordination and coherence" of policies and programmes are the least knowledgeable of what they are, least capable of determining what they should be.

Managing aid is a challenge for recipient countries and many have taken useful steps. Unfortunately, aid analysts more often cite these steps as evidence of the need for coordination than as evidence that recipient countries are capable of doing it. Developing country business schools should do case studies of aid management, train developing country managers.

Centad: Do you support a legally binding multilateral agreement on Aid for Trade? Do you think the WTO is an appropriate forum for such an agreement?

At the WTO? What I support is irrelevant, WTO members have already rejected the idea. The WTO Task Force on Aid for Trade came after Ricupero's suggestion for implementation audits, after several proposals had been tabled to create "platforms" through which WTO legal obligations to implement and to provide assistance could be forged and linked. The Task Force Recommendations – endorsed by the General Council on 10 October – mention neither implementation audits nor such platforms. That is "No!" (To Pascal Lamy's subsequent report

(Contd. on page 22)

Too Much Talk! Too Little Walk!

Aiding development through Trade Safety Net

Linu Mathew Philip and Ashutosh Kumar Tripathi

The first lessons of swimming class start with the floating gear fastened tight on the chest. The instructor takes adequate care that the beginner does not drown in the attempt to tread in water. Trade process in all its goodness brings in wealth and prosperity but comes along with loss in revenue, lack of assured market, price volatility and unemployment.

Contrarily, these risks are generally overlooked in the traditional model of trade. There is more emphasis on efficiency, lower prices and increased consumer choices for goods. The existing global trade has neither been fair nor free and the gains as promised have not trickled to the desired level, as expected. This has arisen on account of three main factors. First, the level of distortion prevailing in the global agricultural market has not allowed fair competition and allocation of resources. Second, the gains are not properly distributed throughout the domestic economy; and third, the cost of increased imports has resulted in displacing the rural economy along with persistent unemployment and low farm values not keeping abreast with the pace and growth of the industrial and service sector. In the game of trade there are both winners and losers and unless proper care is taken to protect the losers there is risk of discontentment or disillusionment fomenting into a grave crisis.

Trade, as percentage of the total GDP, is increasing over the years for the whole South Asian region indicative of the growing integration of the regional economy with the global economy. The effort to crystallise some of these protective measures as a proper framework herein are referred to as trade safety systems (See Box 1).

Trade and the Need for Safety System

A commonly held view among neoclassical economist is that a country's domestic prices should be equated to world prices. Indeed two policy measures which they usually advocate, namely that an economy should be 'opened up' for trade, and that tariffs, as far as possible, should be progressively eliminated. Such trade policy measures which partially or totally insulate an importing country from rest of the world increases the amount of price instability compared to free trade. This line of thinking was also expressed during the Uruguay Round negotiation on agriculture. It was expected that once the Agreement on Agriculture (AoA) managed to remove the distortions, which have so far plagued global farm trade, more countries would be in a position to participate in international trade in agricultural goods. It was hypothesised that by increasing the number of countries that would be open to world price signals, the "shocks" (arising, say, from unexpected production shortfalls) would be absorbed by a greater number of markets, thus cushioning the effect of such shocks on world prices and bringing down price instability in global farm trade.

However, the data reveals that agricultural prices have remained quite volatile during the post-WTO period for many agricultural commodities. A number of factors, both from the supply side as well as the demand side, contribute to this high volatility. From the supply side, a distinguishing feature of international agricultural trade is that only a limited number of exporting countries dominate international trade. The share of the top five exporters

Box 1

Farm Safety Net Instruments

Farm safety net is defined as public policy to assure farmers of at least minimal economic security in the face of uncertain markets and forces of nature. Programmes directed at supporting commodity prices, yields, revenue or whole-farm gross or net income and other instruments like recourse or non-recourse loan rates, supply management, crop yield or revenue insurance, ad hoc disaster assistance, coupled or decoupled compensatory payments, market orders, stock accumulation, import restraints, export subsidies and promotion and long-term land retirement.

Source: Tweeten Luther (2002) No Farm Safety System www.farmfoundation.org/2002_farm_bill/tweeten.pdf remained as high as 98 percent of global exports. Even for a widely produced crop like rice, the share of the top five exporters is more than 76 percent and for all cereals the share of the top five is almost 75 percent.[1] To some extent, the dominance of few players in world agricultural commodity markets is attributable to the fact that domestic and export subsidies undertaken by these countries. Subsidisation results in depressed world prices and keeps many potential exporters away from the international market.

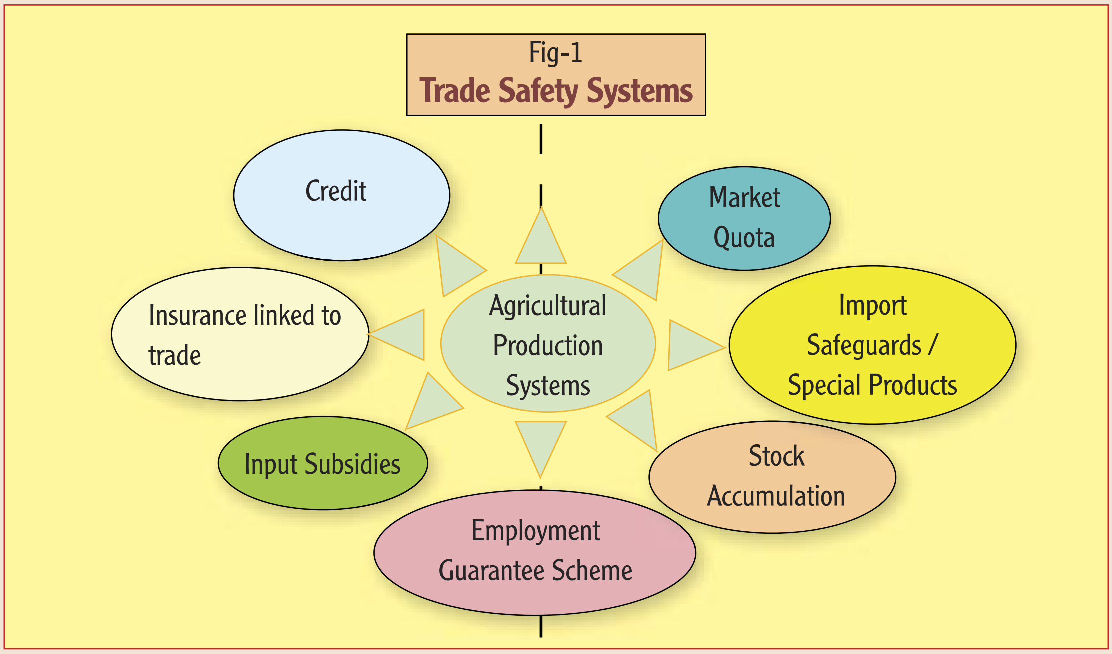
The agrarian crisis that seems to precipitate in the farming communities of these regions is someway or the other linked to trade flow pattern which in many ways is affecting the price value realisation. For example, in August 1999, soybean and soy oil import policy was liberalised in India. As a result, subsidised imports of soybeans imports totaled three million tonnes in one year (a 60 percent rise compared to earlier years) and cost nearly US$1 billion. Within one growing season, prices crashed by more than two-thirds and millions of oilseed-producing farmers lost their market, unable even to recover what they had spent on cultivation. Depression is pushing these farmers to the edge wherein all institutional support like credit, insurance and procurement system is getting out of reach. Debt liability or rural indebtedness is a stark reality of the rural economy and very low level of investments insulate the farmers in participating and making gains from trade. Plight of farmers has worsened by the indiscriminate and forced integration into an unfair global system.[2] Another characteristic feature worth noting is the declining level of agriculture in the domestic product while at the same time maintaining a high level of dependence, which makes policy makers extra cautious in treading further and making trade safety system a pre-condition before pursuing any further liberalisation.

The coping protective and welfare strategies during era of highly distorted trade regime are different across the globe. Some developed countries have the safety systems enshrined in the normal day to day operations like the Trade Adjustment Assistance (TAA) safety net in the form of trade protection wherein financial assistance is provided to the manufacturing firms or workers in US affected by import competition. Though institutionalised in the US by Kennedy in 1962 and widely criticised on account of the rigid eligibility criteria, the implementation systems of TAA have been very poor and the actual beneficiaries get excluded on account of stringent pre conditions. Such instruments have been criticised on account of the loss to taxpayers and the impact on the consumers by way of increase in the prices of the commodities. The agricultural practice in developing countries is essentially subsistence agriculture, unlike commercial agriculture prevalent in developed countries The pattern of agriculture farms operating in the developed countries are predominantly large farmers operating with high capital turnover while in countries in South Asia the average size of holding falls below one hectare (small farmers cultivating less than four hectare constitutes more than 70 percent). Their average monthly incomes fall in the range of US$ 20-30 per month and farmers of the region are attached to their farms for subsistence. Providing livelihood security to the millions of small and marginal farmers of the region would require special package and the current aid of trade package may seem fairly inadequate. Even if cost adjustments accommodates these concerns implementation of such schemes on a wide cropping system pose serious challenge.

The Way Forward

The implementation of safety systems in the same format as that which exists in developed countries may not work on account of the scale of operation, the level of capital use and the share of workers dependence. Flexibility in market access commitment seem the best possible means to provide congenial environment to secure food and livelihood access. Other remedial measures as provisioned through the GATT have not found popular acceptance on account of the difficulty and other market evidence based safeguards. Most victims of trade injuries do not have the wherewithal to testify or draw evidence to support the damage sustained through the process of trade. A bottom up approach instituting safeguards at sub-region would find better and effective protection besides contributing immensely in trade policy formulation and effective participation. Most domestic policies are not geared to the dynamics of the trade agreements and this has widely contributed to the shocks arising from trade. If domestic policies can incorporate some of these trade safeguards like Special Safeguard Mechanisms (SSM) and Special Products some amount of fairness in trade will emerge with lesser exposure of farmers to unfair competition (See Fig 1).

Severance allowance and other bank insurance systems may not be operational as most farming in the region is out of tax net and other supporting institutional instruments like credit, insurance and employment schemes could fill the policy gap. Credit system can provide the best solutions but most farm holdings on account of the small asset value, are out of reach from formal credit and are indebted to informal credit system. Re-capitalisation of the



existing debt capital could act as succour to the capital starved farms of the region along with assurance that trade disruption of value chain would be supplemented by loan waiver to small farmers. Special Employment Guarantee Scheme linked to trade could also act as a safety net for poor peasants in the field.

Other option that countries can bank on are market base transitional safeguard mechanism instituted under the trade agreement which can provide the best safety net, e.g., local producers in New Zealand affected through the Closer Economic Partnership (CEP) Act, 2002 are protected. If reduction or elimination of tariff results in increased imports originating from Thailand to such an extent as to cause or threaten serious injury to a New Zealand industry, the tariff may be reinstated temporarily to a previous level. Such temporary reinstatement of a tariff would allow an industry time to adjust to the new competitive situation.[3] Thus a combination of such instruments including market supply guarantees and provision to allow sub-regional domestic tax at a time when the international price is low, should act as corpus and ploughed back to the production system in times of high production. Special aid package could be generated from TRQ's on tariffs over and above the quotas and efforts to reallocate resources could supplement delivery of Aid for Trade. Adjustment costs are a special component in the Aid for Trade and domestic policies need to design special safety nets to balance the deleterious effects of trade. For developing countries proper reallocation of resources along with transparency in trade policy formulation would serve the development interest. There is need to reexamine the safety systems as an important pre-condition to further trade liberalisation – an initiative in this direction could provide the needed fairness and equity along with better participation in trade. The policy gap in trade seems to expose developing countries to the vulnerabilities of trade and place the small farmers at a disadvantageous position and an effective safety net could provide a Win-Win trade scenario.

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Changing the Terms of Globalisation

Dev Nathan

After having dealt with some problems in globalisation in Globalisation and Its Discontents, Joseph Stiglitz turns to analysing some policies that can make Globalisation Work. It is in the sense of (1) enabling more countries and people to benefit from globalisation, and of (2) linking globalisation with a concern for other values, critically a concern for the environment, that the author approaches the way in which Another World Is Possible, a slogan from the World Social Forum (WSF) at Porto Allegre, Brazil, and Mumbai, India. This other world is one that can be arrived at within the context of globalisation of capitalism, i.e. of an increasingly interdependent and even globally organised capitalism and with more countries and people being drawn into capitalism. It might be preferable to call the approach one of "Changing the terms of globalisation", rather than "Another world", which can have the connotation both of a change within capitalist globalisation and that of a non-capitalist world. The changes proposed by Stiglitz, or for that matter, by the World Social Forum, are changes or reforms within the ambit of global capitalism, and not alternatives to global capitalism.

Stiglitz puts forward a series of proposals to deal with specific problems in the manner in which globalisation is now taking place: making trade rules more fair (Chapter 3); dealing with the trade-off between drug companies' profits and the right to life (Chapter 4); overcoming the "resource curse", or increasing the income of resource-rich countries, while also enabling them to utilise the resulting income for the development of their peoples; (Chapter 5); overcoming global market failure in the case of environmental public goods (Chapter 6); increasing corporate social responsibility (Chapter 7); establishing an orderly process of sovereign debt restructuring (Chapter 8); reforming the global reserve system (Chapter 9); and reducing the democratic deficit in globalisation (Chapter 10).

This is a large menu of recipes for reform of global capitalism, too large to be adequately dealt with in a review. Consequently, this review will concentrate on the proposal to reform the basic trade rule, a proposal both critical and likely to be controversial from the point of view of setting the agenda of global civil society organisations. The proposal to make trade fairer was developed in the author's joint book with Andrew Charlton (Stiglitz and Charlton, 2005).

With the failure of the Doha Round of trade talks, there is bound to be a search for alternate rules that might meet the needs of a development round, as Doha was touted to be. Of course, there are those who oppose any kind of rule setting in international trade. But this would only expose the developing countries even more to the rule of economic and political force, unmediated by any possible recourse to the rule of law.

The implementation of law is bound to be asymmetric, with economic and political power playing their roles. But, as the author points out, "Even so, an imperfect rule of law is better than none" (Stiglitz, 2006, p.76). The rule of law in international trade does allow developing countries to take developed or big countries to court or to utilise the threat of retaliation, as allowed by WTO rules. Where individual countries are too small to make a credible threat, a combination of them might to able to make such a threat.

A Rule for Fairer Trade

In the market system there is a manner of equality that has both positive and negative effects. As compared to feudal or casteist systems that prescribe who can consume what, the market does not recognise the individual behind the buyer. This is a positive advance due to the market system. At the same time, the market is blind to the strengths and weaknesses, the capabilities that the buyer and seller bring to the market. Equality of access is taken to be equality of opportunity.

The perniciousness of this doctrine of equality of access is seen vividly in the case of international trade. Does equal access mean equal opportunity? In the current version of the Three Worlds (developed, developing and least developed (LDC) countries) equal access to each other's markets, in the absence of equal capabilities, is likely to lead to highly unequal outcomes in terms of both market shares and incomes.

Take the case of garment exports. In the MFA quota regime, countries like Bangladesh and Cambodia were able to utilise their quotas to develop some segments of garment manufacturing. It is highly unlikely that they would have been able to make this advance in the absence of export quotas, which both set limits to exports from countries with scale advantage, like China, and enabled LDCs to pick up some market share. This is an example of infant-industry protection, not through tariffs but through quotas, and not for imports but for exports.

There have been many systems of differential access. In the colonial period colonies had preferential access to empire markets. The now defunct MFA was the best such example of differential access. More recently the EU's Everything But Arms (EBA) and USA's African Growth and Opportunity Act (AGOA), give some limited preferential access to a number of African and small island countries, though often with rule of origin restrictions that serve as a method of protection. How can one generalise a system of differential access? This is the key problem that Stiglitz and Charlton deal with and they come up with a solution that is not only elegant in its simplicity, but also workable.

Discussions on differential access have usually focused on developed country markets. Among those for whom this access is sought, a distinction might be made, and nowadays is commonly made, of LDCs within the broader group of developing countries. Stiglitz and Charlton go beyond that to raise the issue of access even to some developing country markets so as to promote South-South trade. The problem in developing countries utilising market access lies not only with developed countries with better developed technological capabilities, but also with large economies like India and China, which are able to achieve significant economies of scale. Both technological advantage and economies of scale can allow some producers to sell more cheaply than others from less developed or smaller economies. What the authors propose is: "…all WTO members commit themselves to providing free access in all goods to all developing countries poorer and smaller than themselves" (Stiglitz and Charlton, 205, p.94). This rule would apply to all countries, developed and developing alike. Consequently, all developing countries could expect free access to all countries with (1) a larger GDP, and (2) a larger GDP per capita.

The second clause would provide all developing countries access to all developed country markets, while the first clause would, in addition, provide smaller and poorer countries, including but not limited to LDCs, access to large developing country markets, like China and India. This is not a position taken by these large developing economies. India, for instance, seeks full access to developed country markets, but does not want to provide the same to poorer and smaller countries, like Bangladesh. In trade between India and Bangladesh there are specific restrictions to counter likely Bangladeshi garment exports to India. The Stiglitz-Charlton proposal would both give India access to developed country markets, and, in addition, give Bangladesh free access, without tariff or quota restrictions, to the Indian market.

The Stiglitz-Charlton proposal transforms discretionary schemes into well-defined obligations within the WTO. Rather than the current patchwork of discretionary schemes, often arrived at with great political cost, there would be clear rules and obligations. This is the advantage of a rule-based system of international trade.

The Stiglitz-Charlton scheme also includes an in-built flexibility that removes the need for renegotiation over time. "As countries develop and overtake others, they will, after an implementation period, lose some preferences and accept obligations to poorer countries. Alternatively, the scheme could be designed to include a 'one-way' provision so that free trade would increase monotonically in a dynamic world where rankings change" (Stiglitz and Charlton, 2005, p. 102).

In what manner does the Stiglitz-Charlton proposal represent "fair" trade for all? The proposed reform of the system of international trade would certainly qualify as an improvement under the Rawls Difference Principle with its focus on producing "the greatest benefit of the least advantaged" (Rawls, 1971, 90) provided that trade is of benefit, which is not always the case with LDCs as pointed out in UNCTAD (2004), then the Stiglitz-Charlton does constitute an improvement in trade rules, in a manner that the poorest benefit the most. If such an improvement were taken to be what constitutes fairness, then the proposal is fair. That a proposal leads to an improvement for the least advantaged can be ground for preferring this over other proposals that do not lead to such an improvement.

The implementation of the Stiglitz-Charlton proposal does not necessarily lead to the achievement of decent work for the export producers. One might say, it is a necessary but not sufficient condition for an improvement in the conditions of living and work of producers. Producers from developing countries may be integrated into buyer-driven supply chains in such a manner that the income benefit is very little, or even none at all. Or, producers in one country may be undercut by producers from another country willing to accept a lower standard of living. The proponents of the various "fair trade" movements might hold that for trade to be fair, prices paid to the producers (small producers or employees) must meet certain norms of standards of living, in community management or benefits, and so on.

But there can be no doubt that the Stiglitz-Charlton proposal needs to be taken seriously and would institute a system of rules of access to international markets which would benefit more the least advantaged. It is certainly superior to the equal access rules that are sought to be implemented under the WTO or the patchwork of schemes under various bilateral and regional trade agreements.

At the same time, in order to change the terms of globalisation for labour, it is necessary to go beyond the system of trade rules to deal with the changes in the forms of existence of labour. Globalisation and the mobility of capital have changed the context of labour. As trade unions and other producers' and civil society organisations grapple with globalisation, they need to take account of the changes that are occurring in the forms of existence of labour in order to fashion their own policies so that an improvement in trading conditions leads to an improvement in living and working conditions of the producers. How to respond to the changes in the context of labour is not something analysed in either of the two books, and it is to this that this review will now turn.

Global Labour

Labour is becoming more and more globally social, cooperating in productive networks that span the globe. The social nature of labour is easily seen in immaterial production – ideas develop in a social, collective process. There is individuality but also a collectivity in this process. The spread of production processes in material production now makes more obvious the social nature of labour in material production, as it is brought together in a hierarchically structured division of labour that spans the globe.

The inter-connectedness of different parts of social labour means that the remunerations of these sections of labour are again related to each other. Initially the connection seemed to work only at the national level, so that the level of productivity in agriculture, for instance, set a floor to the level of wages in industry. Unions tried to protect their members against pressures to reduce wages where owners used the competition from the unemployed, from the so-called reserve army. The mobility of capital, however, has extended such competition among sections of workers to the global level. Labour costs in India or China now figure in conflicts with labour in North America or Europe. Unions in developed countries are trying to protect against competition from workers in developing countries. There is a link between workers' conditions in different countries, as also between conditions of workers and other producers, whether in agriculture or so-called informal sector.

Consequently, the floor at the bottom affects the height of the ceiling for workers, though not for the owners of capital, and not as much for internationally mobile as for immobile workers. In the 19th century, and through the first half of the 20th century, this relationship between different sections of producers, worked within a country. It is the basis of the Keynesian model of social welfare, which as Nancy Fraser (2005), points out, works with the Westphalia model of the nation-state, to produce the Keynes-Westphalia model of national social welfare. But the mobility of capital and the development of various national sites where capital can find workers with the required knowledge has extended this relationship between different sections of producers and capitalists to the global level and very clearly brought the Keynes-Westphalia model of social welfare under increasing stress.

This has important implications for organising to secure minimum conditions for working people. The struggle for such a minimum, for minimum labour standards, must now extend to all parts of the globe. It is not enough for workers in developed countries to try to defend their gains. The availability of adequately-skilled workers in other parts of the world, for whom it is still an improvement to be working for less than workers in developed countries expect, leads to an inevitable relocation of capital. As a consequence, workers in developed countries will have to look beyond their borders, and even beyond the boundaries of developed countries, to combine with workers in other parts of the world if labour standards are to be maintained.

Similarly, the threat to workers in any industry also comes from the possible outsourcing of large parts of relevant labour to producers in the informal sector, who again might be willing to do the work for less than what the factory workers are paid. This, in turn, requires that the ambit of labour organisation extend beyond the conventional factory or even industry union to include producers in the non-factory or informal sector. As the form of existence of labour itself is becoming globally social, encompassing not just conventional workers, whether producing material or immaterial products, but also those providing various forms of reproductive labour, and as commodity chains link agricultural and informal sector producers with those in the formal sectors, the forms of organising labour need to become networks that span all connected chains. As workers' conditions in any one country are affected by the conditions of workers in other countries, and by the conditions of those in agriculture, the informal sector and domestic service, the workers' minimum wage has to be transformed into a citizens' minimum standard, one that is even global in scope.

A citizen's minimum standard was more or less accomplished in developed countries in the post-Second War period. Most developing countries, however, have yet to develop the capacity to provide such a minimum, or if such capacity does exist, there is not a sufficiently strong lobby of the poor to press for such a citizen's minimum. Latin America is somewhat more advanced in having some kind of citizen's minimum (other than for the indigenous peoples), but Asia, as the late 1990s Asian Crisis showed, has not put such social welfare mechanisms in place, rather it still largely relies on rural women's labour to serve as a cushion in times of crises (see Nathan and Kelkar, 1998). In Africa and the indigenous peoples' regions of Asia and Latin America, traditional forms of social welfare have either collapsed or are in the process of collapsing, while new forms of state-based social welfare have yet to come up.

The shift from focusing attention on conventionally-called workers to all working people and the necessity of linking or networking working peoples across countries - these are changes in the forms of organising and the goals of organising that are facilitated by the globalisation of the forms of existence of labour that goes along with the globalisation of value chains. But it still requires that producers and civil society organisations related to them, understand themselves or imagine themselves, if you will, as parts of the global chains of working people.

The Stiglitz-Charlton proposal for differentiated access to different groups of countries would help to create a fairer system of international trade. When this is combined with producers who see and organise themselves globally, the benefits from trade could also be transformed into an improvement in working and living conditions for producers.

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A4T: Country Ownership Crucial!

Miguel Rodriguez Mendoza, Senior Fellow, International Centre for Trade & Sustainable Development (ICTSD)

Centad: How do you distinguish Aid for Trade from general 'developmental aid'? It is apprehended that the Aid for Trade money would be diverted and this would cut into the already low level of funds available for developmental aid to needy countries. Or in other cases, existing development funds could be rebranded as Aid for Trade funds, with no effective increase in the level of aid. What are the ways in which such scenarios could be avoided in a transparent, predictable and binding manner?

The Task Force recommendations, as approved by the General Council in October 2006, give a very clear-cut definition of the differences between projects which should be branded as Aid for Trade and other projects. The recommendations give a set of categories of activities which should be considered as Aid for Trade to help in this distinction, i.e. trade policy and regulations, trade development, trade-related infrastructure, building productive capacity and trade-related adjustment.

It remains unclear, whether the new thrust for A4T with regard to funds will result in "additional financing". Vagueness with respect to the freshness and additionality of funds announced towards A4T at the Gleneagles G-8 Summit and the Hong Kong WTO Ministerial Conference seems to be – for the moment – dispelled by the generally-held view on growth prospects of trade-related financing in the context of the overall increase expected in official development assistance (ODA).

Centad: Aid for Trade is perceived by many as a part of the overall strategy of the developed countries to divide the developing countries into blocks of competing interests, while trying to underwrite the existing asymmetries and imbalances in the global trading system. What is your take on the politics of Aid for Trade?

The A4T initiative is revolutionary in itself; the international consensus on the limitations of trade and the new role of the WTO in aid is an extremely significant step. A4T is important in its own right as vast investments in developing countries are necessary to make trade an engine of growth, development and poverty reduction. Even though a renewed and massive initiative on A4T could constitute a valuable complement to the Development Round, its fate should be separated from that of the Doha negotiations. Indeed, as now agreed by all WTO members, it would be better not to consider A4T as a substitute for enhanced agricultural and industrial market access, the core expected deliverable of the Doha negotiations. Similarly, using A4T to induce developing countries to open their markets or to divert attention away from the crafting of better trade rules would be adverse to their interest.

Centad: Do you think Aid for Trade can act as an effective instrument to help poor countries benefit from trade? If yes, in your opinion what may be the elements of an Aid for Trade strategy that could address the supply side constraints and other internal barriers to trade in developing countries? Do you have any specific proposals in this regard?

The whole rationale of A4T is to help countries benefit from trade; indeed, while trade can be a tool for development, countries will need infrastructure, institutions, and technical capacities to truly seize the opportunities any liberalisation under the WTO will bring. To that end, A4T can be an effective instrument to help developing countries manage their supply-side constraints to better benefit from the multilateral trading system, by helping them finance some trade-related projects to overcome those constraints, and help them cope with the adjustments they will be bound to make.

Centad: What is the institutional architecture you propose in order to strengthen the role Aid for Trade can play in complementing and not undermining a country's own policy space for addressing its developmental priorities?

With regards to the architecture of A4T, the Task Force recommendations detail three different levels of responsibilities: a national level, a regional level and a global level. Country ownership is very strongly underlined in the A4T initiative, and the identification of needs, and thus the identification of development priorities, lies in the hand of each specific country. In-country coordination between the various stakeholders is deemed crucial, as is the involvement of the private sector, in these needs-assessment exercises. At the same time, efforts should be directed to make greater use of regional initiatives which for many countries can play an important role in facilitating trade and strengthening economic development.

Centad: There seems to be resumption of the Doha Round talks now, post the Davos meeting. Concerns however continue over the stance of the developed countries in aggressively pushing for increased market access with little regard towards the developmental content and safeguards needed by developing countries. What do you think is the future of the Doha Round and its chances of ensuring a course correction of the multilateral trading system?

The Doha negotiations have resumed, but differences remain, making it difficult to conclude them. A combination of enhanced market access for products of particular interest to developing countries, significant reduction of agricultural subsidies and A4T would give some meaning to the development dimension of the negotiations. However, agreements on those areas remain elusive, and developing countries need to continue their active participation in the negotiations to make 'development' an integral component of the final Doha deal.

(Contd. from page 13)

Aid for Trade : Bonanza for Consultants, Nothing for Development!

of WTO "progress and momentum" on Aid for Trade, I would ask, "What part of 'No!' do you not understand?)

Worse than not doing the right thing, the report goes on to actively do the wrong thing. In its list of thirteen "major challenges/gaps" twelve are administrative matters such as mainstreaming, linking mechanisms, monitoring, coordination, and coherence. (Resources for infrastructure and enterprise capacities, alas, ranks no better than second-to-last on the list.) Its flagship recommendation is an annual debate on Aid for Trade in the WTO General Council. This debate is to be supported by a published global review of Aid for Trade by a new WTO monitoring body. The global report would draw on aid-for-trade reports from recipient countries (the OECD/WTO data base lists 174 of them), donor countries (the OECD/WTO data base lists 27 plus the European Union), regional entities (the WTO web page lists 33 regional agreements), international agencies (the WTO/OECD data base lists 26), and the private sector. A bonanza for consultants, nothing for development.

Centad: The World Bank has been active in supporting infrastructure development projects, with an aim to tackle supply side constraints. What is your evaluation of the World Bank's role in aiding developing countries and LDCs to trade? What future role do you envisage for the Bank?

The attitude reflected in the World Bank's "Doing Business" data base is constructive. Aid for Trade is aid for doing business. This motivation is widely shared and is critical to donor support, as well as to effective use of resources in recipient countries. The WTO/OECD data base shows that Aid for Trade has increased significantly and that there are many providers: 26 regional and multilateral international agencies; and 28 countries, including four developing and transition economies. Assistance to least developed countries for infrastructure increased 2001-2004 by almost 70 percent.

Given the ineffectiveness of the WTO as a venue for addressing even the development problems created by the WTO's Uruguay Round Agreements – most recently demonstrated by the fact that this issue was not even addressed by the WTO Task Force charged to find ways to operationalise Aid for Trade – the development community should focus elsewhere its efforts to expand Aid for Trade. There is a lot going on elsewhere.

Aid for Trade Statistics

Centad Team

Less than Peanuts

Subsidy given to farmers in a single developed country (US) in 2005

US$ 21.1 billion

≃

Aid for Trade for developing countries

US$ 22.8 billion

Source: The Financial Architecture of Aid for Trade, April 2006, International Lawyers and Economists Against Poverty (ILEAP) Working Paper.

Aid for Global Consultants

Share of International Consulting Firms in Aid money

US$ 20 million

=

40%

x

Approximate Global Aid Budget

US$ 50 billion

Source: *Guardian, Sunday May 29, 2005, Nick Mathiason 'Consultants pocket $20bn of global aid'*

Trading Elephants for Ants

Estimated Reduction Gains from Trade in tariff revenue of developing countries by application of Swiss Formula* for manufactured goods

US$ 156 billion

=

7

x

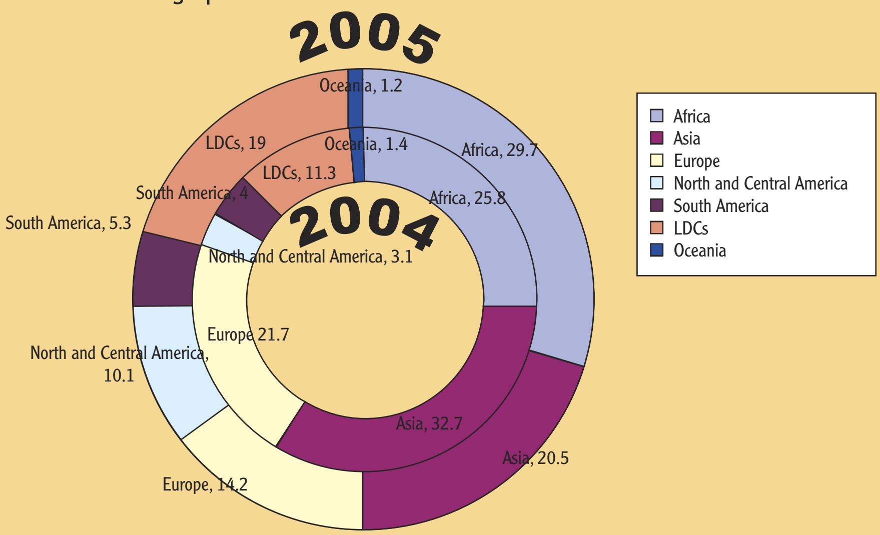
Total Aid for Trade for Developing Countries in 2004

US$ 22.8 billion

*Coefficient of 10.

Source: Third World Network (2006) and Carin Smaller (2006) 'Can Aid Fix Trade: Assessing the WTO's Aid for Trade Agenda', Institute for Agriculture and Trade Policy.

Geographic Distribution of Technical Assistance



Demystifying Aid for Trade

Centad Team

What is Aid for Trade under the WTO?

Ever since Uruguay round negotiations adopted the single undertaking on obligations and commitments, the developing countries were presented with an enormous challenge in putting in place the necessary administrative, legal and institutional machinery to implement these commitments. The declaration at Marrakesh in 1994 acknowledged the need to provide trade related technical assistance to least developed countries to help them in overcoming implementation difficulties and associated adjustment costs. The main concern for the developing countries was the loss of preference in light of the multilateral trading system, loss of tariff revenue on account of commitments from MFN concessions and lack of capacity to capture the gains from the emerging market access opportunities. The Doha Round Agenda highlighted the trade related institutional, human resource and supply capacity needs as an integral part of the WTO negotiation.

The Hong Kong WTO Ministerial Meeting declaration finally endorsed the Aid for Trade mandate to help developing countries, particularly LDCs to build the supply capacity and trade related infrastructure to help them benefit from the WTO agreement and further expand trade.

What developments have so far been made at WTO on Aid for Trade?

Since the HKMD a task force was constituted by the Director General Pascal Lamy of WTO to operationalise the Aid for Trade programme. The task force submitted its first set of recommendation on 27 July 2006, covering two broad heads: 1) Covering the traditional form of technical assistance and capacity building like trade policy and regulation providing training to trade officials helping government implement agreements and comply to rules and standards; and 2) Expanding general Aid for Trade agenda like building infrastructure, production capacity and financial assistance to meet adjustment costs.

It recommended that this aid should build on the existing trade related assistance mechanisms like IF (integrated framework), and the JITAP (Joint Integrated Technical Assistance Programme) on the guidelines of aid delivery by the Paris declaration on Aid Effectiveness. It even recommended strengthening country ownership of aid programme, donor response to needs and priorities (country, regional and global level), and review through monitoring and evaluation.

Though the Task force highlighted some of the pressing needs on Aid for Trade and development it has been widely criticised for not coming up with a definite recommendation on the quantum of money that would be needed for this assistance and neither how it should be prioritised and implemented.

How Aid for Trade is different from the normal aid for development?

Aid in the normal sense accounts for any humanitarian assistance given to people in distress and development aid most often refers to assistance provided to people to remove poverty or reduce adverse condition on account of vulnerability from natural or unforeseen calamity. The Aid for Trade is a similar form of assistance emerging from the implementation experiences of countries that have participated in the process of trade. Aid for Trade comprises of all forms of assistance provided to countries to take care of their developing interest, equipping countries to participate in the process of trade. Aid for Trade encompasses five main activities:

- Technical assistance: in the form of providing technical assistance, advice, and expertise to assist countries confronted with the complexities of modern trade.
- Capacity building: building the capacity of developing countries to deal with trade issues, for example, through the training of government officials.
- Institutional reform: helping to create a framework of sound and well-functioning institutions for trade—in customs, quality assurance, and other areas.
- Infrastructure support : improving roads and ports to link the poor and the goods they produce to markets through investment in infrastructure helping overcome supply constraints.
- Assistance with adjustment costs: fiscal support and policy advice to help countries cope with any transitional adjustment costs from liberalisation.

All these activities are made to bring about primary change in social indicators and the presumption that trade openness is a powerful driver to growth and indispensable to bring reduction in hunger poverty and unemployment. But on account of asymmetries in development from trade there has been evidence of unsuccessful stories from trade outcomes and aid addressing these issues would serve a better purpose. Aid is often criticised for having a specific ownership conflict wherein conditionalities have quite often stringent constrain in effective implementation of development objectives.

It is generally agreed that Aid for Trade should in fact complement and not supplement the existing resources available for development aid. Aid for Trade should be able to channelise resources to help low income countries to engage in more effective participation in trade along with economic growth and thereby bring about reduction in poverty and general development.

What is Paris Declaration and how is it related to Aid for Trade?

A high level forum was organised at international level to increase the effectiveness of aid in a way that they are disbursed in the present context and how these can be aligned, harmonised such that these the results of the aid are perceived through development impact on social indicators. The meeting hosted by the French Government on February 28 - March 2, 2005 was attended by many development officials and ministers from ninety one countries, twenty six donor organisations and partner countries, representatives of civil society organisations and the private sector. It highlighted several indicators like ownership, alignment, harmonisation, managing of results and mutual accountability.The declaration suggested the broad guidelines through which the aid can serve the intended purpose and recipient country can improve the institutional capacity. Even the Aid for Trade WTO report endorsed the mechanism and all guideline and it is yet to be seen how these principles would be adopted in the aid disbursed for building capacity of countries to make trade work in the lives of people.

What is Integrated Framework to Aid for Trade?

The Integrated Framework is an approach for Trade-Related Technical Assistance for Least Developed Countries which was inaugurated in October 1997 by six multilateral institutions: IMF, ITC, UNCTAD, UNDP, World Bank and the WTO. Its original purpose was to help least developed countries to identify their needs for trade-related assistance and to bring the governments together with potential donors to develop a programme of support. It has since been modified to include support to help LDCs “mainstream” trade into the national development

(Contd. on page 27)

Washingtonned!

Glossary

Centad Team

Voluntary Aid: Aid sent through voluntary organisations and charities also known as Non-Government Organisations.

Aid Conditionality: Actions or policies that a country must take or implement in order to qualify for debt relief. Damaging conditions are those which are imposed above general levels of transparency and accountability, and are detrimental to the country in some fashion.

Integrated Framework (IF): The IF for Trade Related Assistance to Least Developed Countries (IF) is a multi-donor initiative aimed at (1) assisting LDCs in mainstreaming trade priority areas of action into their national plans for economic development and Poverty Reduction Strategy Papers (PRSPs); and (2) encouraging the coordinated delivery of trade-related technical assistance and capacity building, in response to needs identified by the LDC. The IF was launched in 1997 by 6 core agencies -the IMF, World Bank, ITC, UNCTAD, UNDP, and WTO- and revamped in 2001, in order to increase its effectiveness.

Paris Declaration: The Paris Declaration, endorsed on 2 March 2005, is an international agreement to which over one hundred Ministers, Heads of Agencies and other Senior Officials adhered and committed their countries and organisations to continue to increase efforts in harmonisation, alignment and managing aid for results with a set of monitorable actions and indicators.

Debt Relief: Debt Relief may take the form of cancellation, rescheduling, refinancing or reorganisation.

Debt Cancellation: Debt cancellation is relief from the burden of repaying both the principle and interest on past loans.

Debt rescheduling: Debt rescheduling or reorganisation is a form of relief by which the dates on which principal or interest payments are due are delayed or rearranged.

Aid Coherence: is the streamlining of different aid processes and policies to a uniform objective of development. For trade to result in gains to the stakeholders there is a need to synergise the overall economic policies along with aid delivery mechanism.

Adjustment Cost: is the cost accounting to retribute or financially compensate the potential downside effects of trade liberalisation, such as preference erosion, higher food prices or loss of government revenue. It an important component in the Aid for Trade

Poverty Reduction Strategy Papers (PRSP): Studies undertaken by international institutions to assess the level of poverty across different countries and these paper are important in planning the development programmes and packages granted by multilateral development agencies

Diagnostic Trade Integration Studies (DTIS): The studies undertaken by international organisation to understand the trade linked fall outs as part of the MDG programme and the Campaign on making poverty a history.

Official Development Assistance (ODA): It denotes all kinds of monetary assistance that flows from various donors, bilateral, multilateral and other relief assistance and grants from different countries

Special and Differential Treatment: It refers to the principle adopted at the WTO accepting the difference persisting between countries and the capacity to trade. These differences in capacity

Aid Harmonisation: is the process wherein aid process, procedures and practices would be streamlined such that aid coming from different sources will have common arrangements, simplified procedures and at the same time shared information for aid utilisation and disbursement.

Aid Alignment: It is another principle of making effective aid delivery and streamlining the required assistance with the priorities with result oriented strategies. This would entail lining of systems in a way that donor agency would find it easier to route the funds through recipients own system of building capacity to trade.

Mutual Accountability: It is another principle of making effective delivery by committing donors and partners in a resource sharing framework with emphasis on transparency level. The participatory mode would involve formulation and assessing progress in the national development strategies.

Generalised System of Preferences: It refer to a trading system prevailing in the importing country generally in developed country granting special concession to a particular country over and above the general MFN principle. The system is phasing out arising a loss of preference among the least developing countries.

Trade Adjustment Assistance (TAA): It is a special programme providing financial assistance to farmers incurring loss on account of trade. The assistance can take the form on unemployment allowance or a severance allowance mitigating the risks from trade and building confidence among the farming community.

Special Safeguard Mechanisms (SSM): It is a special instrument designed to provide flexibility to developing countries to impose additional duties over and above the bound level of duties in the even of surge of imports.

Special Products (SP): These are self-designated products which get additional flexibility to developing countries to avoid strict reduction commitment. These products would serve development interests of food security, livelihood security and rural development purposes.

WTO Plus clauses: These are extra provisions which are over and above the framework agreed through the WTO agreements. These are suggestive of more stringent provision like competition providing more protection –TRIP strengthening more stringent patent regime – safeguards providing lesser provision of protection.

Trade Integration Mechanism (TIM): It is a special initiative by the IMF in the year 2004 to support countries to cover the balance of payment crisis on account of multilateral liberalisation. The main objective of this initiative is to provide a predictability and accessibility of resources as available in the situation prior to liberalisation. Only two countries viz Bangladesh and Dominican Republic have obtained support under this scheme.

Washington Consensus: A set of economic practices and reforms deemed by international financial institutions (located in Washington, D.C.) to be helpful for financial stability and economic development; often imposed as conditions for economic assistance by these institutions. Phrase coined by John Williamson (1990).

Structural Adjustment Programme: The list of budgetary and policy changes required by the IMF and World Bank in order for a developing country to qualify for a loan. This "conditionality" typically includes reducing barriers to trade and capital flows, tax increases, and cuts in government spending.

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Demystifying Aid for Trade

plans such as the Poverty Reduction Strategy Papers (PRSPs). One of its major instruments is the preparation of Diagnostic Trade Integration Studies (DTIS). The main idea of integrated framework is to generate a broad based policy agenda for trade and growth consistent with a country's development strategy and to prioritise capacity building exercise combining both multilateral and bilateral as well as unilateral donors. The integrated approach has also been criticised on account of conditionalities that can possibly be a pre-condition for aid. It is understood that involvement of many international institution would build in more transparency but it could push the aid mechanisms with procedural delays and risk diversion of already existing development aids.

Can Aid for Trade Usher in Development?

Aid for Trade is specific fund to help build technical capacity of developing countries to overcome the implementation difficulties and associated costs arising from trade but it could also pushes the countries to further liberalise besides putting other stringent condition which in many ways give a feeling of loss in sovereignty. There is ambiguity wherein practice of paying compensation (transfers) that is called for often does not occur domestically, and barely occurs at all internationally, as reflected in low official development assistance (ODA) levels — $69 billion in 2003—relative to the estimates of the net income gains associated with past multilateral rounds (in the $200–$500 billion range), the magnitude of total support to farmers in OECD countries (currently some $350 billion), or the potential gains from further global liberalisation (upward of $500 billion, especially if services trade is included). Under the present circumstances the amount of pledged support adds to close to $ 4 billion dollars which seems fairly inadequate in terms of the quantum of gain countries are set to make in the coming years.

There seems to be lack of alignment wherein most countries pledging support seem to prefer traditional trade related assistance, and there are few takers on adjustment costs. Thus many issues in trade and development seem to get sidelined in the process. Though WTO has come up with a report empowering the Director-General to take the pro-active step on further extending the Aid for Trade package there is a criticism that it may not be forum to handle development driven agenda as WTO is represented by trade ministers and focus would shift to a trade driven approach.

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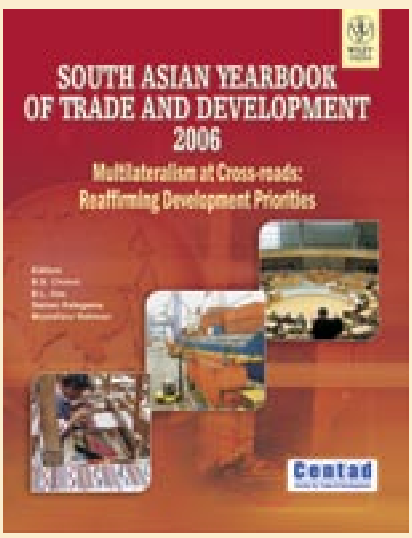

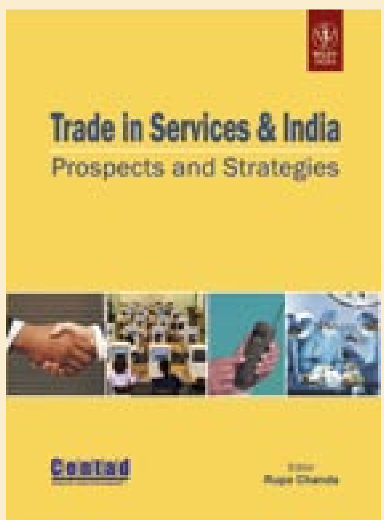

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