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Mainstreaming Development in Trade and Finance: A Key to Global Partnership

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If the current slogan of "mainstreaming trade in development" is to stress development, it demands a focus on mainstreaming development concerns in trade and trade policy. This kind of emphasis points to reforming current policies, rules and conditionalities in international trade, finance, investment, intellectual property rights and aid. WTO processes should become more transparent and participatory and the Organisation's mandate on non-trade issues needs to be reconsidered. The global financial architecture also requires reform, especially with regard to capital flows and investment.

Goal 8 of the MDGs, *Develop a global partnership for development,* is critical to the overall scheme of the Millennium Declaration, as it is the only goal devoted entirely to international relations. Successful development efforts require appropriate policies at both domestic and international levels. International factors have become proportionately more important in recent years as a result of the globalisation process. Developing countries have generally become more integrated in the world economy and thus their development prospects and performance are more dependent on global economic structures and trends.

More importantly, many policies that used to be made solely or primarily at the national level are now very significantly influenced or shaped at international fora and by international institutions. This applies especially to those developing countries that depend on the international financial institutions for loans and debt restructuring and have to abide by loan conditionalities. However, it also applies to most developing countries that are members of the World Trade Organisation (WTO), as they are obliged to align or realign national laws and policies to be in line with the WTO's legally binding agreements. Thus, the "external economic environment" (comprising global economic structures and trends and the policies determined or influenced by international agencies such as the IMF, the World Bank, WTO, the UN and developed-country groupings such as the Group of Eight, OECD and bilateral aid agencies) has tremendous impact on a typical developing country.

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In the context of the MDGs, the extent to which a developing country is able to make progress on many of the goals (especially Goal 1 on eradicating poverty and hunger, but also Goals 4, 5 and 6 relating to health and Goal 7 on environmental sustainability) depends not only on domestic policy choices, but also on how "friendly" or "hostile" the external economic environment is to that country. Four examples illustrate this point:

- The continuous fall in prices of export commodities has caused tremendous income and foreign exchange losses to many developing countries and is a major cause of persistent or increased poverty at the local and community levels.

- The financial instability and sharp currency fluctuations caused by large inflows and outflows of external funds have led many developing countries (including those considered the most successful among them) into financial and economic crises, with dramatic and sudden increases in poverty rates.

- Many developing countries have suffered declines in or threats to their industrial jobs and farmers' livelihoods as a result of inappropriate import liberalisation policies, partly or mainly due to external policy influences resulting from loan conditionalities or multilateral trade rules.

- Cutbacks in social sector expenditures arising from structural adjustment programmes, as well as the introduction of the "user-should-pay" principle, have been identified as a significant factor in the deterioration of the wellbeing of vulnerable and poor groups in several developing countries.

These examples, as well as the continuation of the debt crisis in many countries, show that attempts to improve domestic policies, however exemplary, are insufficient if developing countries are to attain the MDGs. Thus the importance of developing a "global partnership for development" to underpin or at least to accompany the other efforts for attaining all the other goals.

In the effort to meet the MDG targets, "getting policies right" is also of crucial importance. If economic and social structures are inequitable and if policies (either for preserving the status quo or for reform) are inappropriate, then the mere expansion of funds and programmes in a country would not be enough — and may indeed increase the problems. This applies to structures and policies at both national and international levels. Efforts to attain Goal 8 for developing global partnership should therefore focus, as a priority, on getting international economic structures, policies and rules right.

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Integrating Developing Countries into the World Economy

Perhaps the most important — and most difficult — set of development policies that a developing country has to decide on lies in the interface between domestic policies and the world economy. Whether, how, when, to what extent, in which sectors and in which sequence to integrate the domestic economy and society with the international economy and society, are simple but large questions that face developing countries. In the international discussion on these issues, there is no consensus. Instead, there is much debate and many controversies on the definition, nature and consequences of globalisation.

The dominant approach of the past two decades, favoured by the "Washington Consensus", is that full, rapid and comprehensive integration of developing countries into the global economy is both beneficial and essential for their development. The dominance of this paradigm is now rapidly eroding, due to the empirical record of developing countries that have followed (or attempted to follow) the policies of rapid liberalisation. The East Asian financial crisis of 1997-99 and other subsequent crises (including those in Argentina and Uruguay) have undermined the policy prescription that developing countries should rapidly liberalise their financial system. It is now more widely recognised that financial liberalisation is qualitatively different from trade liberalisation and that developing countries should be cautious in how to (or even whether to) open their capital accounts.

In the area of trade liberalisation, there is also empirical evidence that excessive import liberalisation has caused dislocation to local industries and farms in several developing countries; at the same time, there has not been an increase in export opportunities or performance to offset these adverse developments. There is now an emerging trade-policy paradigm that stresses the importance of addressing other factors, such as the need to tailor the rate of import liberalisation to the increase in competitiveness of local firms and the need to increase the supply-side capacity of local firms in order to realise the country's export potential. Failure to address these factors can lead to serious problems of domestic economic dislocation and worsening trade imbalances, should a country liberalise its imports.

In the area of foreign direct investment, host developing countries are now being cautioned to take an even-handed approach and to have policies that seek to maximise the benefits (for example, through equity-sharing and profit-sharing and technology transfer arrangements) and to take account of risks and minimise them, especially potentially large drains on foreign exchange through high import content and large profit repatriation.

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The emerging paradigm calls for developing countries to take a pragmatic approach to globalisation and liberalisation and to be selective and deliberate in choosing how and when and in which sectors and to what extent, to integrate their domestic economy with the global economy, in the areas of finance, trade and investment. This approach recognises that interaction with the global economy can benefit (and potentially be of significant benefit) to a developing country. However, the terms of interaction are crucial if the potential benefits are to be realised and if costs and damage are to be avoided. Too rapid a rate of integration, or integration in the wrong areas and in the wrong way, can be harmful rather than helpful. For example, too great a dependence on commodity exports and an increase in export volume when there is a global oversupply of a particular commodity, can be detrimental. Excessive financial liberalisation (for example, in allowing local institutions to freely borrow from abroad in foreign currency) can lead to a debt repayment crisis if the right regulations and conditions are not in place. The approach of selective integration, done carefully and appropriately, suited to the needs and particular conditions of a country, is therefore of the utmost importance. It should replace the still-dominant approach of "big-bang" liberalisation carried out inappropriately in a one-size-fits-all manner.

This change in paradigm and approach should firstly be considered at the national level, when governments choose their development strategy. However, it must be recognised that most developing countries do not have the "luxury" or space to choose their approach on economic integration, because of the determining influence of loan and aid conditionalities, or because of the rules they had agreed to in WTO. Thus, Millennium Development Goal 8 assumes central importance. In developing a global partnership for development, there is an underlying need for an understanding that developing countries should have the right to take an appropriate and pragmatic approach towards selectively integrating their domestic economy with the world economy. This understanding should be the basis for the systems of international trade, finance, investment, aid and intellectual property rights. The policies, rules and conditionalities arising from these systems should reflect these realities facing developing countries and their needs. Without this change in attitude and approach at the international level, it would be difficult or even impossible to attain Goal 8. It would also be difficult for developing countries to attain the other MDGs.

Trade, Development and Reform of the Multilateral Trading System

Ideally, trade and trade policy should serve the needs of development within a county's overall policy framework. There is thus the need to "*mainstream development concerns in trade and trade policy*." In practice, development needs are often compromised when a developing country participates in an inappropriate way in international trade (for example, by being too dependent on export commodities whose prices are on a trend decline) or when domestic policies and laws are amend-

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ed in line with the country's obligations to meet the rules of the WTO or to meet loan conditionalities (and where aspects of the rules or policy conditionalities are unfavourable to the country's development interests). *"Mainstreaming trade in development"*, which is a recent slogan in international agencies, can inadvertently have adverse effects, if the policies underlying trade (or if the international trade rules) are inappropriate and damaging to development needs. In considering the policy approach for Goal 8, a distinction between *"mainstreaming development in trade"* and "mainstreaming trade in development" should be carefully kept in mind.

The international trading system has brought benefits in various ways to several countries, especially the developed countries and some developing countries that have managed to take advantage of it. However, the system is also imbalanced in ways that disadvantage many developing countries. We therefore need to examine two aspects of that imbalance: the decline in commodity prices and the rules of the WTO.

The Commodities Problem

The continuous decline in prices for export commodities is possibly the most important trade issue for most developing countries. It has led to falling incomes for millions of small commodity producers and deprived developing countries of export earnings, as well as worsening their debt repayment capacity.

Between the 1960s and the 1980s, attempts to stabilise commodity prices at reasonable levels were perhaps the most concrete manifestation of a "global partnership for development". This partnership took the form of several producer-consumer commodity agreements under the UNCTAD umbrella and the establishment of a Common Fund for Commodities. Many agreements succeeded in price stabilisation. However, most of the agreements closed or became ineffective after the withdrawal of interest and commitment by the consumer countries. As a result, commodity prices are now mainly determined by the vagaries of demand and supply of market forces.

The serious downgrading of the commodity problem in the international agenda is unfortunate, since the problem has not gone away, but has remained just as serious, if not more so. According to UN data, the terms of trade of non-fuel commodities vis-à-vis manufactures fell by 52% between 1980-1991, with catastrophic effects. A paper by the secretariat of the UN Conference on Environment and Development (UNCED) in 1991 showed that for Sub-Saharan Africa, a 28% fall in terms of trade between 1980-1989 led to an income loss of $16 billion in 1989 alone. In the four years 1986-1989, Sub-Saharan Africa suffered a $56 billion income loss, or 15-16% of GDP in 1987-1989. The UNCED study also showed that for 15 middle-income highly indebted countries, there was a combined terms of trade decline of 28% between

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1980-1989, causing an average of $45 billion loss per year in the 1986-1989 period, or 5-6% of GDP (Khor, 1993).

In the 1990s, the general level of commodity prices fell even more in relation to manufactures and many commodity-dependent developing countries have continued to suffer deteriorating terms of trade. According to UNCTAD's *Trade and Development Report, 1999* (UNCTAD, 1999 p. 85), oil and non-oil primary commodity prices fell by 16.4% and 33.8% respectively from the end of 1996 to February 1999, resulting in a cumulative terms-of-trade loss of more than 4.5% of income during 1997-1998 for developing countries. *"Income losses were greater in the 1990s than in the 1980s not only because of larger terms-of-trade losses, but also because of the increased share of trade in GDP."* Moreover, the prices of some key manufactured products exported by developing countries have also declined. For example, the Republic of Korea experienced a 25% fall in the terms of trade of its manufactured exports between 1995-1997 due to a glut in the world market (UNCTAD, 1999 p. 87).

The great loss of opportunity for growth represented by the fall in terms of trade can be seen in the following. In 1989, gross domestic saving was 15.8% of the GDP of African countries as a whole and the gross domestic investment rate was 20.4% of GDP. As mentioned above, Sub-Saharan Africa suffered a loss of income due to terms-of-trade decline equivalent to 15-16% of GDP in 1987-89. Taking the 1989 Africa savings rate as the reference, it can be concluded that the Sub-Saharan African countries in the late 1980s were losing income equivalent to the amount of their entire savings level, as a result of terms-of-trade decline. If the terms of trade had not declined and if the income lost had been added to savings, then the value of savings could have doubled. If the savings had been all invested, the investment level in the region could have increased by 76%. These tremendous increases in savings and investments could have contributed to significant increases in the overall rates of economic growth.

The world trading system has been favouring the developed-country exporters of manufactured goods, while proving to be disadvantageous to the many developing countries whose main participation in global trade has consisted in the export of raw materials and commodities and the import of finished products. Many Southern countries have also lost their self-reliance in terms of producing their own food, as lands were converted to farm export crops that in many cases yielded unsatisfactory results in terms of instability of price and demand. Moreover, in recent years, even the prices of manufactured products exported by developing countries are showing disturbing signs of price decline.

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Proposals

The decline in commodity prices suppresses the incomes of millions of commodity producers, thus making it difficult for Millennium Development Goal 1 (eradicating poverty and hunger) to be realised. It is imperative that such huge income losses incurred by poor countries be stemmed and if possible reversed. There should thus be a Target under Goal 8 to *"Address the problem of commodity-exporting developing countries through international measures to ensure commodity prices are stabilised at levels enabling adequate incomes for the countries and producers."* The need for action on commodities was also recognised in the Implementation Plan of the World Summit on Sustainable Development. One possibility is for countries to initiate a new round of producer-consumer commodity agreements aimed at rationalising the supply of raw materials (to take into account the need to reduce depletion of non-renewable natural resources) while ensuring fair and sufficiently high prices (to reflect ecological and social values of the resources).

If it is not possible to initiate joint producer-consumer attempts to improve the commodity situation, producers of export commodities could take their own initiative to rationalise their global supply so as to better match the profile of global demand. The increase in the price of oil as a result of better coordination among producing countries is a good reminder of the benefits that producers can derive from greater cooperation. If the developed consumer countries do not wish to participate in joint producer-consumer initiatives, it is important that they do not discourage producers from having their own arrangements to improve their commodity prices.

Reforms to the WTO System

Problems Facing the Developing Countries

There is at present considerable rethinking of the nature of the multilateral trading system embodied in the WTO by the Organisation's developing country members, many of which have become disillusioned by various aspects of the system. Meanwhile, there is also a high and growing level of criticisms from public interest groups worldwide.

There is now widespread acceptance that the rules and processes at the WTO are imbalanced and that much needs to be done to improve the situation. Perhaps the most important decision to be taken is whether the next few years will see the WTO members doing their best to rectify the problems and imbalances in the existing rules and system, or whether the developed countries succeed in their proposals to add more new issues (such as investment, competition and government procurement) to the WTO ambit. The addition of these non-trade issues is likely to distort the trading system and add to the existing imbalances.

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Among the concerns of the developing countries are the following:

- *Non-realisation of the expected benefits of the Uruguay Round.*

  The developing countries' main expectation of benefit from the Uruguay Round was that the developed countries would open their agriculture and textiles markets to their products. However, there has been little progress. In agriculture, tariffs of many agriculture items of interest to developing countries are prohibitively high (some are over 200% and 300%). Domestic subsidies in the industrialised countries of OECD rose from US$275 billion (annual average for base period 1986-88) to US$326 billion in 1999 (according to OECD data) instead of declining as expected; the increase in permitted subsidies more than offset the decrease in subsidy categories that are under discipline in the WTO Agriculture Agreement. The recent decisions of the US Administration to increase subsidies under the US Farm Bill and of the European Union leaders to continue its level of subsidies under the Common Agriculture Policy have dashed expectations of a serious reduction in domestic support by the US and EU.

  In textiles, only very few items that the developing countries export have been taken off the quota list, even though more than half the implementation period (for the phaseout of the restrictions) has passed. According to the International Textiles and Clothing Bureau in June 2000, only a few quota restrictions (13 out of 750 by the US; 14 out of 219 by the EU; 29 out of 295 by Canada) had been eliminated (WTO 2000). This raises doubts as to whether all or most of the quotas will really be removed by 2005, as mandated under the WTO Agreement on Textiles and Clothing.

  There is thus an important asymmetry here: the developed countries have not lived up to their liberalisation commitments, yet the assumption they press on the developing countries the liberalisation of their imports and investments – as fast as possible – will unquestionably benefit their development. Developing countries are asked to bear for a little while the pain of rapid adjustment that will surely be good for them after a few years, whereas the developed countries ask for more time to adjust in agriculture and textiles, which have been protected for so many decades.

  Developed countries also have tariff peaks and tariff escalation in other products that are of export interest to developing countries, along with non-tariff barriers that have hampered the exports of the developing countries. These include the use of anti-dumping measures and countervailing duties on the products of developing countries.

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The tariff and non-tariff barriers in the North are costly to the developing countries in terms of the potential exports forgone. According to an UNCTAD report: "*Developing countries have been striving hard, often at considerable cost, to integrate more closely into the world economy. But protectionism in the developed countries has prevented them from fully exploiting their existing or potential competitive advantage. In low-technology industries alone, developing countries are missing out on an additional $700 billion in annual export earnings as a result of trade barriers. This represents at least four times the average annual private foreign capital inflows in the 1990s (including FDI)*" (UNCTAD, 1999).

- *Problems faced by developing countries in implementing their WTO obligations*

Implementing their obligations under the WTO agreements has created many problems for developing countries. The prohibition of investment measures (such as local-content policy) and many types of subsidies (under the trade-related investment measures agreement and the subsidies agreement) has made it harder for developing countries to adopt measures to encourage domestic industry.

The Agriculture Agreement enables the developed countries to maintain high protection while also continuing with large subsidies. This enables them to export agriculture products at artificially cheap prices. However, many developing countries have low tariffs (in many cases, reduced under structural adjustment programmes) and low or no domestic subsidies and are not allowed to increase the tariffs (beyond a certain rate) or increase their subsidies. There is thus a basic imbalance in the Agriculture Agreement. Many developing countries are facing problems from having liberalised their agricultural imports, as cheaper imports are threatening the viability and livelihoods of small farmers. A Food and Agriculture Organisation (FAO) study of the experience of 16 developing countries in implementing the Agriculture Agreement concluded that: "*A common reported concern was with a general trend towards the concentration of farms. In the virtual absence of safety nets, the process also marginalised small producers and added to unemployment and poverty. Similarly, most studies pointed to continued problems of adjustment. As an example, the rice and sugar sectors in Senegal were facing difficulties in coping with import competition despite the substantive devaluation in 1994*" (FAO, 2000; FAO, 2001).

An ideal regime of intellectual property rights (IPRs) would strike an appropriate balance between the interests of owners and users of technology and between the IPR holder and the consumer. However, the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) has heavily tilted the balance in favour of the IPR holder, causing difficulties for technology users and consumers. The effects of a high-standard IPR regime in developing countries have included: high and often exorbitant prices of medicines, reducing access of the consumer

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to affordable medicines; high pricing (due to monopolies created by IPRs) of other consumer items, including computer software; the patenting by Northern corporations of biological materials originating in the South (often referred to as "biopiracy"); and higher cost for and lower access by developing countries to industrial technology (Khor, 2001).

The services agreement has many imbalances. Service enterprises in developed countries have far greater capacity to export and to invest abroad, while developing countries' services firms lack the capacity to operate in developed countries; thus, there will be an unequal outcome in benefits. The right of capital to move across frontiers (which is favourable to developed countries, the main providers of capital) is given far more weight than the movement of natural persons (where developing countries have an advantage). The agreement also puts pressure on developing countries to liberalise various services sectors, which could lead to the smaller local services enterprises in developing countries losing their market share or even becoming non-viable. At the same time, developing countries' service providers are generally unable to penetrate the markets of developed countries.

These problems raise the serious issue of whether developing countries can currently or in future pursue development strategies or meet development needs (including industrialisation, technology upgrading, development of local industries, food security and maintenance of local farms and agriculture, survival of local service providers and fulfilment of health and medicinal needs). These problems arise from the structural imbalances and weaknesses of the WTO agreements. There is now an urgent need to redress the imbalances and problems.

The developing countries have put forward their problems of implementation and their proposals for redressing these problems in the WTO. These requests have been taken up under the rubric of "implementation issues" during the past several years. They have been discussed on numerous occasions in the WTO General Council special sessions on implementation and in various Committees and Councils. Unfortunately, the developed countries have so far not responded positively. Their attitude seems to be that the developing countries entered into legally binding commitments and must abide by them, however painful; any changes require new concessions on their part. Such an attitude poses a challenge to the WTO, for it implies that the state of imbalance will have to remain and if developing countries "pay twice" or "'pay three or four times", the imbalances will become worse and the burden heavier.

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- *Proposals by developed countries to expand the WTO's mandate to "new issues"*

The biggest immediate problem facing the developing countries in the WTO is the immense pressure on them to accept the proposals by developed countries to expand the WTO's mandate to non-trade issues, including establishing new agreements on investment, competition and transparency in government procurement. Developing countries are being asked to accept these new obligations as an exchange for developed countries opening their agriculture markets or for favourably considering the "implementation issues". However, the new agreements and obligations in these new areas would be detrimental to the developing countries' development prospects and, at the same time (given the past poor record of the developed countries), it is uncertain that the developed countries will really provide more meaningful market access to the developing countries or resolve their implementation problems.

The three proposed new agreements have a common theme: increasing the rights of foreign firms to have much greater access to the markets of developing countries. The investment agreement aims to expand the right of foreign firms to enter, invest and operate in developing countries with minimum regulation (as performance requirements would be prohibited) and to be given "national treatment" (treated at least as well as locals). The competition agreement is meant to oblige developing countries to adopt competition laws and policies, which would result in "effective equality of opportunity" for foreign firms vis-à-vis local firms. In effect, this would mean that governments would not be able to assist local firms.

The proposed agreement on transparency in government procurement is planned as the first stage of an eventual agreement that would grant foreign firms the same right as local firms to bid for the business of government supplies, contracts and projects. These agreements would seriously tie the hands of government, preventing it from regulating foreign firms while preventing it also from providing assistance or preferences to local firms and other productive units. It would severely restrict the ability of developing countries to build the capacity of their domestic sectors, enterprises and farms.

The WTO System and the MDGs

In the context of the MDGs, there is a clear rationale for improving and reforming the WTO system of multilateral rules and decision-making process. The developed countries need to provide greater opportunities for developing countries so that the latter's export opportunities can expand. If this is done properly, it can lead to increased export earnings, foreign exchange and income, thus helping provide the extra resources for financing measures to meet the MDGs. However, it must be

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recognised that many developing countries will be unable to take up the opportunity because of supply side constraints. On the other hand, the problems caused to developing countries by the existing agreements are necessary to rectify. Failure to do so can adversely affect the realisation of several of the Goals. It would hinder Goal 8's striving for a global partnership for development, as the WTO rules are today recognised as representing an unequal partnership between North and South.

The Agreement on Agriculture, by allowing artificially cheap subsidised imports to threaten small farmers' livelihoods in developing countries, would threaten the realisation of Goal 1 (eradicate poverty and hunger). Unless there is a satisfactory clarification or amendment of the TRIPS agreement, access to health care and other services will be adversely affected, thus threatening Goal 6 on combating HIV/AIDS and other diseases. The pressures for liberalising services under the General Agreement on Trade in Services (GATS) could adversely affect the access of the public, especially the poor, to essential services such as education (thus affecting Goal 2), health care (thus affecting Goal 4, 5 and 6) and water supply (thus affecting Goal 7 on environment). The following measures are therefore proposed to further the goal of developing global partnership for development:

- Developed countries should commit to meaningfully opening their markets to developing countries in sectors, products and services in which the latter are able to benefit. These include textiles, agriculture and products processed from raw materials, as well as labour services. A meaningful expansion of market access for developing countries will be able to provide large opportunities for earning more revenues that could be the basis for significant extra financing for meeting the MDGs.

- The process in the WTO of reviewing the implementation problems arising from the existing agreements should result in appropriate changes to the rules or authoritative interpretations of the rules that help resolve the imbalances and the problems facing developing countries. For example, the following are among the changes that should be considered:

  - Developing countries should be given adequate flexibility in implementing their obligations in the Agriculture Agreement on the grounds of the need for food security, defence of rural livelihoods and poverty alleviation. In developing countries, food produced for domestic consumption and the products of small farmers should be exempted from the Agriculture Agreement's disciplines on import liberalisation and domestic subsidies.

  - In the Agreement on Trade-Related Investment Measures (TRIMs), "investment measures" such as the local-content requirement (obliging firms to use

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at least a specified minimal amount of local inputs) and foreign exchange balancing (limiting the import of inputs by firms to a certain percentage of their exports), have been prohibited. Such measures had been introduced to protect the country's balance of payments, promote local firms and enable more linkages to the local economy. Prohibiting them causes developing countries to lose some important policy options to pursue their industrialisation. The TRIMs Agreement should be amended to provide developing countries the flexibility to continue using such investment measures to meet their development goals.

- The TRIPS Agreement should be amended to take into account development, social and environmental concerns. For example, full clarification or amendments are still required to ensure that Members can effectively take measures to provide medicines at affordable prices. Members should also be allowed to prohibit the patenting of life forms and to protect the traditional knowledge and practices of farmers, indigenous people and local communities. Other amendments are also needed to rebalance the Agreement towards the interests of consumers and technology users in developing countries. The issue of whether IPRs should be covered at all under the WTO should also be reviewed.

- It should be clarified that essential services required by the public and especially by the poor, such as water supply, healthcare and education, should or can be exempted from the general rules and the specific sectoral schedules of the GATS.

There should be a re-orientation in the operational principles and rules of the WTO so that the development principle is accorded the highest priority. The preamble to the Marrakesh Agreement recognises the objective of sustainable development and also the need for positive efforts to ensure that the developing countries secure a share in international trade growth commensurate with the needs of their economic development. The objective of development should become the overriding principle guiding the work of the WTO, and its rules and operations should be designed to produce development as the outcome. Since the developing countries form the majority of the WTO membership, the development of these countries should be the first and foremost concern of the WTO.

The test of a rule, proposal or policy being considered in the WTO should not be whether that is "'trade distorting" but whether it is "development distorting". Since development is the ultimate objective, while the reduction of trade barriers is only a means, the need to avoid development distortions should have primacy over the avoidance of trade distortion. So-called "trade distortions" could in some circumstances constitute a necessary condition for meeting development objectives. From

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this perspective, the prevention of development distorting rules, measures, policies and approaches should be the overriding concern of the WTO.

The re-orientation of the WTO towards this perspective and approach is essential if there is to be progress towards a fair and balanced multilateral trading system with more benefits rather than costs for developing countries. Such a reorientation would make the rules and judgement of future proposals more in line with empirical reality and practical necessities. Taking this approach, the goal for developing countries would be to attain "appropriate liberalisation" rather than to come under the pressure of attaining "maximum liberalisation". The rules of WTO should be reviewed to screen out those that are "development distorting" and a decision could be made that, at the least, developing countries be exempted from being obliged to follow rules or measures that prevent them from meeting their development objectives. These exemptions can be on the basis of special and differential treatment.

The next phase of the WTO's activities should focus on the above three areas, in order that the review of existing rules, the realising of opportunities in the developed countries' markets and the reorientation of the WTO to developing countries' needs and interests, can be carried out. These processes would in themselves be a massive task, requiring the commitment, energy and resources of WTO Members. However, this is needed to build a mutually beneficial multilateral trading system.

The proposal to begin negotiations on "new issues" (especially investment, competition, transparency in government procurement) after the next WTO Ministerial Conference in Cancun in September 2003 should be withdrawn, as this would not only distract and detract from the tasks of reform detailed above, but also add new heavy obligations onto developing countries and render the WTO system much more imbalanced.

The process of decision-making in WTO must be democratised, made more transparent and enable the full participation of developing countries. The so-called "consensus system" enables the developed countries to pressure developing countries to accept what has been agreed among the developed countries. Moreover, non-inclusive and non-transparent processes are used, especially surrounding the Ministerial Conferences during which the key decisions are taken. For example, at the Singapore Ministerial Conference in 1996, only 30 countries were invited to the "informal" meeting where the major decisions were taken and the remaining countries were asked to accept the decisions on the last night. At the Doha Conference in 2001, the proposals of a majority of developing countries on key subjects were not included in the drafts of the Declaration, despite their objections. This put them at a great disadvantage.

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The decision-making processes should therefore be reformed; the absence of such reform would make it difficult or impossible for the other improvements being suggested to be realised. At the least: (a) all members must be allowed to be present and participate in meetings; (b) the views of all members must be adequately reflected in negotiating texts; (c) pressure should not be applied on members to accept views of other members; (d) adequate time must be given to all members to consider proposals being put forward; and (e) the practice of late-night exclusive meetings at Ministerial Conferences should be discontinued.

There should also be a rethinking on the scope of WTO's mandate over issues and the role of other agencies. It is misleading to equate WTO with the "multilateral trading system", as is often the case in many discussions. WTO is less than — and more than — the global trade system. There are key issues regarding world trade that the WTO is not seriously concerned with, including low commodity prices. On the other hand, the WTO has become deeply involved in domestic policy issues, such as intellectual property laws, domestic investment and subsidy policies. There are also proposals to bring in other non-trade issues, including labour and environment standards, as well as investment and competition.

WTO and its predecessor, GATT, have evolved trade principles (such as non-discrimination, MFN and national treatment) that were derived in the context of trade in goods. It is by no means assured or agreed that the application of the same principles to areas outside trade would lead to positive outcomes. Indeed, the incorporation of non-trade issues into the WTO system could distort the work of WTO itself and the multilateral trading system. Therefore, a fundamental rethinking of the mandate and scope of WTO is required. Firstly, issues that are not trade issues should not be introduced in the WTO as subjects for rules. Secondly, a review should be made of the issues that are currently in the WTO to determine whether the WTO is the appropriate venue for them (the obvious issue to consider here is IPRs).

The processes of reviews, reforms and changes suggested to the WTO above are important elements of contributing towards Goal 8 of "*developing a global partnership for development*." In fact, the above measures could be included as new Targets, with accompanying indicators. Within its traditional ambit of trade in goods, the WTO should reorientate its primary operational objectives and principles towards development, as elaborated in the sections above. The imbalances in the agreements relating to goods should be ironed out, with the "rebalancing" designed to meet the development needs of developing countries and to be more in line with the realities of the liberalisation and development processes.

With these changes, the WTO could better play its role in the designing and maintenance of fair rules for trade and thus contribute towards a balanced, predictable

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international trading system that is designed to produce and promote development. WTO, reformed along the lines above, should then be seen as a key component of the international trading system, coexisting, complementing and cooperating with other organisations and, together, WTO and these other organisations would operate within the framework of the trading system, in a "global partnership for development".

Reforms to the Global Financial System

The Need for Global Financial Reform

In working towards Goal 8, a major element is the reform of the global financial architecture. This reform is embedded within the first Target accompanying Goal 8: "*Develop further an open, rule-based, predictable, non-discriminatory trading and financial system*." A note under the Target says that this "includes a commitment to good governance, development and poverty reduction, both nationally and internationally."

It can be argued that the present global financial system is not open (many financial transactions, including those involving speculative activities, highly-leveraged institutions such as hedge funds and derivatives, are non-transparent and non-accountable); it is not adequately rule-based (there is absence of or inadequate regulation over many kinds of activities of the financial institutions and over the massive international flows of funds); and it is also not predictable (as witness the volatility, fluctuations and unpredictability of exchange rates and inflows and outflows of funds that countries are subjected to).

The lack of regulation and predictability of the global financial system has been a source of financial and economic destabilisation for many developing countries. In recent years, there has been a continuous series of devastating financial and economic crises, including those that hit Mexico, Thailand, Indonesia, South Korea and Malaysia, Russia, Turkey, Argentina, Uruguay and Brazil. There have been conflicting reasons given for these crises. One of the dominant explanations is that the affected countries suffered from bad political and economic governance. This is quite remarkable, as most of the affected countries had been praised just prior to their crises as examples of good economic management.

A more accurate and credible explanation is that these crises were caused by the financial liberalisation and deregulation that has swept the world since the early 1970s, when the Bretton Woods system of fixed exchange rates collapsed. As a result, there has been an explosive increase in financial speculation as investment funds and speculators move rapidly across borders in search of profits. In recent years, many developing countries were also advised to deregulate and liberalise their financial systems. The controls over the inflow and outflow of funds, which these

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countries previously had, were relaxed very significantly. This led to excessive short-term borrowing by local firms and banks, as well as the entrance of international funds and players that invested, speculated and manipulated currencies and stock markets in these countries.

The prevailing mainstream view that liberalisation was beneficial and posed little danger to developing countries had been promoted by the international financial institutions and the major developed countries. The latter were eager to obtain more market access for their financial institutions to the emerging markets. It is now widely recognised that when crisis struck the East Asian countries in 1997, the IMF made it worse by mis-diagnosing its causes and promoting even further financial liberalisation as part of its loan conditionality, as well as a policy package (that including high interest rates, tight monetary and fiscal policies and closure of local financial institutions) that converted a financial debt problem into a structural economic recession. A report of the IMF also denied that hedge funds and other highly leveraged institutions had played a destabilising role in the Asian crisis; it took the near-collapse of Long-Term Capital Management to expose the extremely high leverage and market power of these speculative funds.

International Actions

In order that a global financial system can be developed as part of a "global partnership for development", two categories of measures are required at the international level in the interests of developing countries.

The first set of proposals involves the need to avoid new policies or agreements that would "lock in", oblige or pressurise the developing countries to adopt policies that further financial liberalisation. Each developing country should be enabled to decide on its own, without pressure, the degree, rate and type of financial liberalisation it should undertake. Moreover, the country should have the degree of flexibility to "backtrack" and reintroduce regulations, should it decide that this is in its interests, due to a change in circumstances or judgement. The following are proposed:

- The IMF should no longer pursue the goal of amending its Articles of Agreement to give it jurisdiction over capital account convertibility, with the aim of disciplining developing countries to open up their capital accounts and markets. The IMF had been pursuing the amendment until the series of financial crises beginning in 1997 slowed down the process.

- OECD countries should stop altogether any attempt to revive their proposed Multilateral Agreement on Investment, which would have given unfettered free-

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dom of mobility to all types of capital flows. The negotiations stalled in 1998 following discontent by civil society organisations and the withdrawal from negotiations of France.

- The proposal for a multilateral investment agreement under the aegis of the WTO should also not proceed, as such an agreement would put intense pressures on developing countries to deregulate the flows of investments and financial flows into and out of their countries. This will make them more susceptible to the instability of financial flows.

- There should be a review of the financial services agreement in WTO to take into account the understanding gained and lessons learned from the negative effects of financial liberalisation resulting from the latest round of financial crises. Developing countries should not be pressured in the present or future rounds of services negotiations in WTO to further liberalise their financial sectors. The decision to liberalise should be left to the developing countries to make. Developing countries should be cautious about liberalisation commitments.

The second set of proposals relates to international policies and measures that are required in order to develop a stable and development-oriented global financial system:

- The development of measures and guidelines to assist developing countries to prevent or avoid future debt and financial crises. These should include measures that regulate and control the type and extent of foreign loans that the public and private sectors are allowed to obtain, along with regulations to prevent speculation and manipulation in the stock market and the currency markets.

- If, nevertheless, a financial crisis breaks out, in which a country is unable to service its external debt, international measures and mechanisms are required to enable the affected country to manage the crisis effectively and in which the debtors and creditors share the burden equitably. At present, there is no systemic treatment for debt workout, rescheduling and relief. Usually the debtor developing countries are left carrying an unfairly large share of the burden and the outstanding debt in many cases remains or even grows. The measures required include an arrangement in which a country in financial trouble can opt for a debt standstill and have recourse to an independent international debt arbitration court or panel; this body would then arrange for a debt workout that fairly shares the cost and burden between creditors and debtors and also facilitates the provision of fresh credit to aid the affected country's recovery. This proposal for an "international bankruptcy mechanism" had been notably put forward in detail by UNCTAD in its Trade and Development Reports 1998 and 2001 and the IMF Secretariat has in the past

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year also been actively promoting the concept. It would be a major breakthrough towards a new financial architecture.

- A framework that allows and freely permits developing countries, without fear of attracting penalties, to establish systems of regulation and control over the inflow and outflow of funds, especially of the speculative variety.

- Governments of countries that are the sources of internationally mobile funds should be obliged to discipline and regulate their financial institutions and players to prevent them from unhealthy speculative activities abroad and from causing volatile capital flows.

- Systems of international regulation need to be developed to control the activities of hedge funds, investment banks and other highly leveraged institutions, offshore centres, the currency markets and the derivatives trade.

- An international monetary system that enables the stability of currency exchange rates is also urgently required.

- A reform of the decision-making system in international financial institutions, especially the IMF and the World Bank, is required, so that developing countries can have a fairer and more effective role in the policies and processes of these institutions that have so much influence and power over their economic and social policies. The distribution of quotas in the equity of the IFIs should be reviewed and reformed, so that developing countries are enabled to have a greater proportion of the total shares (for example, half or more than half).

- A review of and appropriate changes to the set of conditionalities that accompany IMF-World Bank loans is urgently required, as it has become increasingly obvious that in many cases the sets of policy prescriptions have had adverse rather than positive effects, specifically as well as overall. Recent UN reports have pointed out criticisms, including by Finance Ministers of heavily-indebted poor countries (HIPC), that some elements of macroeconomic conditionality have focused on reducing inflation at the expense of growth and employment. Although the previously termed “structural adjustment policies” have now been re-named, the newly established Poverty Reduction Strategy Papers (PRSPs) that are meant to be oriented towards poverty reduction, also contain policy elements that are very similar to the macroeconomic and structural adjustment programmes implemented in many poor countries over the past two decades (United Nations 2002a, UNCTAD 2002). The scope of conditionality should be streamlined and reduced to appropriate topics and the appropriateness of the policy assumptions and the policies themselves should be openly debated and the

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needed corrections made, so that the economic frameworks are growth- and development-oriented rather than have contractionary effects. Recipient countries should be enabled to "own" the process of establishing the priorities, assumptions of the policy frameworks and the policies themselves. Civil society should also be adequately consulted. The recipient countries should have options to choose among appropriate financial, monetary, fiscal, macroeconomic, trade, ownership and other economic and social policies, instead of being obliged to merely follow the IMF and World Bank prescriptions..

- As recognised by Target 15 under Goal 8 of the MDG, there is a need to "*deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long run.*" The comprehensive treatment needs to cover all types of debt (private, public bilateral and multilateral); it should apply to low as well as middle-income developing countries facing debt servicing problems and other developing countries that are on the verge of debt-repayment crisis. The HIPC initiative has had only limited effects and its coverage, framework, procedures and content of conditionality should be reformed to give much deeper relief to many more HIPC countries. A more serious and systemic approach to debt relief and fair creditor-debtor burden sharing should be made for middle-income developing countries. The mechanism for debt arbitration or an international insolvency court could be an important part of the resolution of the debt crisis.

- To prevent future debt problems and financial crises, the possible sources of these problems and crises should be identified, including outside of the financial arena. For example, there should also be a review of the appropriateness of trade policies. The decline in commodity prices, the lack of export opportunities and inappropriate import liberalisation (and especially the combination of all these three factors) can cause, contribute to or worsen a financial crisis. For example, when a country liberalises its imports when its local sectors are not yet prepared to compete, while at the same time it is unable to earn more export revenue, the country's trade and balance-of-payments deficits may worsen significantly, adding to debt pressures and possibly triggering a full-scale external financial crisis.

National Actions

In the absence of such international measures as outlined above, developing countries may have no choice but to institute domestic measures to protect themselves from conditions that can lead to financial crisis and debt-repayment problems. In particular, they should consider instituting regulations that control the extent of public and private sector foreign loans (for example, restricting them to projects

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that yield the capacity to repay in foreign currency); that prohibit manipulation of their currencies and stock markets; and that treat foreign direct investment in a selective way that avoids build-up of foreign debt (that could result from heavy imports or large profit repatriation by the foreign firms).

The array of national policy instruments from which a country can choose should include capital controls (on both inflows and outflows) which would assist the country to avoid an excessive build-up of external debt, to curb volatility of the flow of funds and to enable the country to have more scope to adopt macroeconomic policies that can counter recession (such as lower interest rates or budget expansion) while reducing the risks of volatility in the exchange rate and flow of funds.

In this respect, it is essential to recognise and reiterate that developing countries have the right to adopt capital controls of their choice (which is sanctioned by Article VI of the IMF Articles of Agreement). It is an integral part of a nation's right to economic self-determination and no pressure should be brought to bear on any state to refrain from making use of such controls, or on a state that resorts to such controls, to abandon them. In particular, international financial institutions must desist from attempts to dissuade developing countries from having recourse to such controls by threats (overt or veiled) of the withdrawal of credits or other financial support.

In short, the crucial question of when or how a state wishes to liberalise its capital account, or whether it wishes to embark on such liberalisation at all, should be left to its sole determination, without outside pressure.

While this discussion of the global financial system has only outlined some of the critical areas where reform is required without the level of detail devoted to the trading system and the WTO, it is clear that reforms are urgently required in both areas at both international and national levels. A great number of developing countries are still heavily indebted even after a decade or two decades or more in that situation, whilst increasing numbers of other developing countries (including the more developed among them) have also become heavily indebted. The financial system as a whole, which is increasingly characterised by liberalised cross-border flows of funds, by the absence of regulations, transparency or a fair rules-based way of resolving the burden between debtor and creditor countries, requires an overhaul. In the reforms, the interests of developing countries should be given the highest priority.

In the context of the MDGs, Goal 8 does not have a detailed enough Target to capture the manifold objectives and actions that are needed in the area of global finance, including the problem of debt, capital flows and a healthy system of financ-

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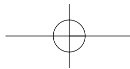
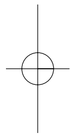
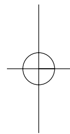
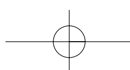


ing for development. Therefore, more detailed Targets in this field should be developed, as well as more and better indicators. Most important, however, is the need to flesh out in more detail and greater accuracy the various measures, policies and frameworks required to make the financial system a key component to a "global partnership for development" rather than the problem it now is.







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