

SYMPOSIUM
IRELAND'S POLICY TO AFRICA: TRADE AND AID

Trade and Development: The Challenges facing the WTO Doha Development Road

(read before the Society, 6 April 2006)

John Morahan
The Department of Foreign Affairs,

1. INTRODUCTION

The importance of the relationship between development, trade and the integration of developing countries into the world economy has in recent years been the subject of some very important commitments by developed countries within international institutions. For instance:

- Heads of government agreed at the UN Millennium Summit in New York in September 2000 on a number of Millennium Development Goals (MDGs). The MDGs set targets for the halving of world poverty by 2015.
- The WTO Ministerial meeting in Doha in November 2001 launched a new Round of world trade talks known as the Doha Development Agenda or Death DDA represents a new approach to the goal of integrating developing countries into the world trade system. The Doha Declaration put the focus clearly on development and on the need for capacity building to help countries to participate effectively in the Doha negotiations. This was a departure from the practice under previous Trade Rounds of simply giving developing countries more time to implement agreements reached. The Doha Declaration stated unambiguously in its second article:

International trade can play a major role in the promotion of economic development and the alleviation of poverty. We recognise the need for all our peoples to benefit from the increased opportunities and welfare gains that the multilateral trading system generates. The majority of WTO members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration.

- A third seminal meeting was the UN conference on Financing for Development in Monterrey, Mexico in March 2003, at which developed countries, under very strong EU leadership, agreed on a major scaling up of resources for development. Monterrey also underlined the importance of removing supply side constraints to trade, and of effective, secure and predictable financing of trade related assistance and capacity building.

We should also recall other major developments such as the Johannesburg World Summit on Sustainable Development in September 2002, and the entry into force in 2003 of the Cotonou Agreement between the EU and 77 African, Caribbean and Pacific countries which committed 13.5 billion euro to the ACP countries for a five year period to end 2007.

This new and unprecedented sense of collective responsibility by governments to address poverty in developing countries has been complemented by the very effective engagement of

development-oriented NGOs. These NGOs have both influenced the thinking of governments on the issues involved and have played a major role in generating a strong public concern for development matters across much of the developed world.

2. THE CHANGING SHAPE OF THE MULTILATERAL NEGOTIATING ENVIRONMENT

How have these events affected the relationship between development and international trade policy? I think it is generally agreed that the intersection between these two policy areas has now become critical. This is because of the increasing participation of developing countries in world trade, plus a growing awareness that development assistance alone will not bring countries out of poverty. The Doha Development Agenda reflects the significant role which developing countries are now playing in world trade, by comparison with, say, 1990, the year before the previous Uruguay Round was launched under the GATT. In 1990 the share of developing countries in world trade was 23.4%: today the figure is 31%. Over 40% of imports into the EU are from developing countries.

A striking example of the changing role of developing countries in world trade is the emergence of such new trading powers as Brazil, China, India and South Africa. These countries are rapidly becoming serious global players in agriculture and other areas: information technology, for instance. In the WTO, they have formed a strong alliance known as the G20, which has changed the power balance in that organisation. The G20 was first set up in response to an EU-US proposal on agriculture prior to the WTO Ministerial meeting in Cancun, Mexico in 2003. Since then the G20 coalition has become a rallying point for developing countries in relation to all issues in the current round.

Furthermore, Brazil, India, China and other leading G20 countries are now joining the traditional key players, in particular the so-called Quad countries, consisting of the US, EU, Canada and Japan, in multilateral negotiation. At the recent WTO Hong Kong Ministerial meeting last December, the G20 successfully mobilised a large number of developing, and specifically least developed, countries around the case that the terms of the Doha deal an offer from developed countries did not answer their legitimate concerns. Let us now ask what are these concerns? And are they the same for *all* developing countries? Within the Union and in the WTO, Ireland has strongly underlined the importance of assisting the Least Developed Countries (LDCs) in particular to integrate into the world economy as a necessary condition for their future development. Such integration, which is *one* element in the process of poverty reduction in the LDCs, will in our view be deeper and fairer if it can be anchored in the WTO multilateral trading system. That is a major challenge to the current WTO Round.

3. PROBLEMS FACING LEAST DEVELOPED COUNTRIES IN INTEGRATING INTO THE GLOBAL ECONOMY

Least Developed Countries are not able to fully exploit existing trading opportunities because of their low level of overall development, which has marginalised them from the global economy. In order to help these countries to integrate into the global economy, we need to offer them more than an opening of our markets. Increased school enrolment rates, higher quality education, functioning health systems, good governance, sound economic management are basic requirements for their economic development and integration into the global economy.

Beyond these basics, the Least Developed Countries have huge needs in trade capacity building. These range from transport infrastructure, port facilities and modern customs facilities to export

promotion and access to information and communications systems. Ireland has over the past decade been contributing financially towards trade capacity building in developing countries and especially in the Least Developed Countries.

The private sector in many Least Developed Countries is greatly underdeveloped. The integration of Least Developed Countries into the global economy will need to be supported through a high level of Foreign Direct Investment, which would bring much needed capital, new technology and training and jobs to economies which are underdeveloped. However, foreign investors will only invest in countries where the climate – political, economic and security – is attractive. Many Least Developed countries continue to be affected by conflict, have corrupt regimes, non-transparent laws governing the rights of investors, high tariff rates on the import of investment goods, and workforces decimated by the spread of HIV/AIDS. Sub Saharan Africa, where most of the Least Developed Countries are located, attracts less than 3% of global Foreign Direct Investment and most of this is into oil or mineral production. These factors have resulted in a situation where the share of Least Developed Countries in global exports has fallen steadily, from 3% in the 1950s to a current figure of around 0.5%. This deterioration has happened in a context in which developing countries generally are playing an increasingly important role in world trade.

While the European Union is by far the largest recipient of exports from Least Developed Countries, notably via its duty and quota free *Everything but Arms* initiative, it is clear from our brief survey of structural and institutional constraints in the poorest countries especially, that improved access to developed countries markets is, on its own, no panacea for them. In order to be able to exploit market access concessions, these countries need to reform and enlarge their trade capacity. This effort will have to be assisted financially by developed countries, in tandem with their provision of increased market access opportunities. We need to be clear that the costs for poor developing countries of adjusting to a new WTO post-Doha trading regime will be substantial. They will lose their trade preference advantages because preferences will be gradually phased out under new liberalisation. They will also lose some of the revenues currently acquired from trade taxes, etc. Developing countries facing sudden surges in imports following trade liberalisation will have to be provided with the resources to offer credit for the creation of new enterprises. In addition, these countries will need assistance to develop the necessary physical and institutional architecture to adapt to the new multilateral trading environment and to adjust to the impact of trade preference erosion.

4. THE DONOR “AID FOR TRADE” EFFORT

I would like now to describe the process through which donor structural funding to developing countries is being mobilised. Since the mid 1990s there has been a general acknowledgement of the need to help Least Developed Countries in the task of implementing the trade-related commitments which they made under the 1994 Uruguay Round. Since then donor assistance has gradually expanded from helping developing countries to make trade policy at national level, to participate in WTO negotiations and implement WTO agreements-- called capacity building-- to include assistance targeted at managing adjustment costs arising from trade liberalisation and addressing supply side constraints. A major landmark in this joint donor and partner country effort was the establishment in 1996 of the so-called Integrated Framework, in which six agencies have pooled their expertise with the object of integrating trade into the national development plans of selected LDCs. The agencies concerned are the International Monetary Fund, the International Trade Centre, UNCTAD - which is the UN Conference on Trade and Development -, the UN Development Programme, the World Bank and the World Trade Organisation. The overriding objective of the Integrated Framework is to strengthen the capacity of LDCs to trade. The increasing recognition of the need for technical assistance, capacity building and adjustment

assistance for developing countries to integrate into the world economy gained momentum in the course of 2005.

In response to a specific request from the Gleneagles G8 Summit, the World Bank and the IMF jointly proposed an Aid for Trade package. The package recommended not only traditional trade-related technical assistance and institutional and supply side capacity building, but also assistance to help developing countries adjust to possible revenue losses as a result of cuts in tariff revenues and preferential margins, or more generally to permit adjustment to international competition. In the autumn, donors agreed on the need for an enhanced Integrated Framework to address a number of shortcomings in the Framework. An ongoing problem with the Integrated Framework has been its inability to ensure implementation of trade reforms at the country level. This reflects the fact that unfortunately in most developing countries trade ministries and trade related issues do not figure prominently in government development strategies.

A Task Force has been set up to provide recommendations on how to secure more funding for the IF, how to strengthen the IF in-country, including by mainstreaming trade into national development plans and poverty reduction strategies, and how to improve management of the IF. The Task Force will report later this month and the enhanced IF will be in place no later than 31 December 2006. 2005 ended with agreement by Ministers in the Hong Kong Declaration 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. Aid for Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the DDA, particularly on market access. However, it can be a valuable complement to the DDA.

I have briefly sketched the mechanisms through which donor funding for what is now called Aid for Trade is being mobilised. Irish Aid is contributing to the Aid for Trade effort with a doubling of our Aid for Trade funding to €2.93 million in 2006. The chief focus of Ireland's Aid for Trade assistance is on the LDCs which, as we have seen, are in urgent need of assistance if they are to regain the ground they have lost in the global trading system over the past three decades. At EU level, the Commission and Member States together have promised to provide annual Aid for Trade funding of €2 billion by 2010, again with the principal focus on the LDCs.

The overriding goal of the Irish Aid programme is to contribute towards poverty reduction and achievement of the Millennium Development Goals in the world's poorest countries. What remains to be seen now is whether the donor Aid for Trade package can serve as a trigger for trade growth and economic development. Of course Aid for Trade cannot be a substitute for progress in the Doha negotiations themselves, but if it is well targeted, it can play its part in bringing about real improvements in people's lives in the LDCs and other developing countries.