

## Annex to Chapter 15

**A Summary of Commonwealth Roundtable with Joseph Stiglitz, on *Aid for Trade – Perspectives on Progress and a Way Forward*, held at Marlborough House, Commonwealth Secretariat, London, 29th August 2012**

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### 15A.1 Introduction

The roundtable provided an opportunity for Professor Joseph Stiglitz to present the main arguments and findings of an ongoing study that he was undertaking in collaboration with Dr Andrew Charlton entitled ‘The Right to Trade’, and to receive comments and suggestions from participants. Their study examines the emergence of Aid for Trade (AfT), evaluates its performance to date, and then outlines an alternative path for AfT as part of a pro-development multilateral liberalisation agenda. They propose two new initiatives. First, the World Trade Organization (WTO) would enshrine a ‘Right to Trade’ operational within the WTO dispute settlement system. This right would give developing countries legal recourse against advanced countries whose policies materially affect the development of poor countries by restricting their ability to trade. Second, dedicated funds committed by rich countries to a ‘Global Trade Facility’ would be administered by the United Nations Conference on Trade and Development (UNCTAD) and dispersed through a competitive and transparent process based on needs and impact.

This report provides a summary of the presentation by Professor Joseph Stiglitz (further details can be found in his draft paper). It then presents in detail the feedback from participants. These took the form of short presentations by five discussants, questions and comments from other participants, and some additional written comments. The designated discussants were Professor Alan Winters, University of Sussex; His Excellency (H.E.) Wayne McCook, Ambassador and Permanent Representative of Jamaica to the WTO in Geneva; H.E. Faizel Ismail, Ambassador and Permanent Representative of South Africa to the WTO in Geneva; H.E. Anthony Maruping, Ambassador Extraordinary and Plenipotentiary Permanent Representative of Lesotho in Geneva; Dr Richard Kozul-Wright, Director, Unit on Economic Cooperation Integration among Developing Countries UNCTAD, Geneva.

### 15A.2 Presentation by Professor Joseph Stiglitz: ‘The Right to Trade: a report for the Commonwealth Secretariat’

Professor Stiglitz’s presentation was structured in three sections. First, he analysed the history of AfT, and this set the scene for understanding why it has become so significant, and helped provide a framework for evaluating its successes and failures. Second, he presented an evaluation of the extent to which AfT has succeeded in

meeting its core objectives. Third, he made two bold proposals that were designed to stimulate a critical discussion on how to move forward.

### 15A.2.1 The emergence of 'Aid for Trade'

Examining the history of AfT, Stiglitz argued that it was the product of challenges faced in both the trade and aid communities. In the trade community, the AfT discussion emerged from a period of crisis in multilateral negotiations. By the end of the 1990s, there was a realisation that the previous rounds of trade negotiations, particularly the Uruguay Round, had not been really fair in some fundamental way, as the greatest share of benefits accrued to rich countries (and some studies even suggested that the least developed countries would be significantly worse off). Although the Doha Round was launched with a promise to put development at its centre and redress some of the imbalances of the past, rich countries reneged on their promises, prompting developing countries to walk out of the negotiations, a move from which the round never fully recovered.

During the same period, there was a rethinking of the trade agenda itself and its impact on development. The Washington Consensus began to break down as researchers questioned whether or not trade liberalisation increases trade, increases growth and reduces poverty. Moreover, some arguments suggested that trade liberalisation, as it had been carried out, might impair poverty reduction. Together, these factors reduced developing countries' willingness to participate in the institutions of global trade. In parallel, the aid and development community was facing challenges: donors were under pressure to increase aid, and to show stronger results from aid programmes.

AfT was a convenient response to the simultaneous challenges facing the aid and trade communities. For the trade community, it was a means to deliver a 'development dividend' to entice poor countries back to the negotiating table; for the aid community, it was a channel to absorb growing aid flows, while also potentially showing greater development impacts. In effect, AfT was the product of a 'marriage of convenience' between the trade and aid communities.

### 15A.2.2 An evaluation of AfT

Professor Stiglitz posed two questions to evaluate whether or not the AfT initiative has lived up to its promise: Has it delivered *additional*, *predictable* and *effective* resources for developing countries? Have these resources been a *complement* to pro-development multilateral liberalisation?

On both counts, he argued that there have been serious shortcomings. Although a significant proportion of aid is now labelled 'Aid for Trade' (approximately 25% of total official development assistance), it is not clear that it is additional. Indeed, donors have failed to deliver on their overall aid commitments. In terms of the ways in which funds have been used, although some AfT initiatives have been successful (including some infrastructure projects), aid continues to be disbursed through bilateral channels according to the priorities of donors, not recipients. Most importantly, AfT was supposed to be a complement, not a substitute, for a pro-development round, but this has not happened. The promised pro-development Doha Round liberalisation

never occurred, and so AfT is coming to be seen as a pecuniary payoff to compensate for undelivered promises.

Overall, he concluded, AfT has been a disappointment.

### 15A.2.3 Proposals on the way forward

Professor Stiglitz made two proposals for the way forward: establishing a 'Global Trade Facility'; and enshrining the 'Right to Trade' in the WTO's dispute settlement system.

#### *Global Trade Facility*

This would be a dedicated AfT fund established at the global level, to which countries would contribute an agreed amount of resources. Advanced industrialised countries would contribute 0.05 per cent of their GDP, about 7 per cent of their total aid commitment (0.7 per cent of GDP). There would be an additional commitment of a small percentage of the value of advanced countries' exports to developing countries, as a partial substitution of the revenues forgone as the result of liberalisation. Finally, countries would make an additional commitment of 5 per cent of agricultural subsidies, partially reflecting the costs that these impose on developing countries. It would be administered by an organisation that can speak forcefully for developing countries (perhaps UNCTAD). Resources would be allocated to development organisations for disbursement, based on a process of these organisations competing to offer the most efficient AfT programmes and projects. They would be distributed to developing countries based on need and impact.

#### *The 'Right to Trade'*

Professor Stiglitz advocated enshrining the 'Right to Trade' into the WTO, enabling developing countries to bring an action against any advanced country if three conditions are satisfied:

- A specific group of poor people within a developing country (or the country or group of countries as a whole) can be identified as being significantly and directly affected by a specific trade or trade-related policy (or policies) of an advanced country.
- The effect of the policy is to materially impede the economic development of those poor people (or the country or group of countries as a whole).
- The impediment operates by restricting the ability of the people (or the country or group of countries as a whole) to trade or to gain the benefits of trade.

Professor Stiglitz noted that a challenge with sanctions is that poor countries do not have resources to bring action. In addition, poor countries worry about rich countries retaliating. To help address these problems, he made three proposals. First, developing countries should be able to club together to bring joint sanctions where they are affected, with the 'Global Trade Facility' providing them with the financial support to bring cases. Second, any group of poor individuals, such as a group of African cotton farmers, harmed by a trade policy of another country should have the right to bring a

case before the WTO. (This would be a mechanism similar to the right of private parties to initiate actions against states under investment agreements.) The advantage is that such groups may be willing to bring a case in instances where developing-country governments are intimidated by imbalances in political and economic power. Third, an office 'Defender of the Rights of Trade' located, potentially within UNCTAD, would have the right to bring suit against any country seen as violating the Rights to Trade as defined above.

With regard to the remedies that would be available to a developing country (or countries) that brought a successful action under the right to trade, Professor Stiglitz proposed three types: *elimination or change* to the offending policy; *bilateral sanctions*, including increase in tariffs against the advanced country; and *compensation* from the offending advanced country. He noted that bilateral sanctions are often a problem for developing countries, as a small country imposing sanctions against a larger country can be hurt most. For this reason, Professor Stiglitz argued for tradable sanctions. So, for instance, if a country were granted the right to impose US\$100 million of tariffs, it would be able to trade them, so they are used by another country that is less dependent.

### 15A.3 Feedback from participants

A rich discussion followed the presentation by Professor Stiglitz. Overall, participants felt the report is timely. They noted that a critical evaluation of AfT is invaluable, and has not been adequately carried out to date. Moreover, as the multilateral trading system is in crisis, this is an opportune moment to take a step back, look at the ideological underpinnings and put forward new concepts and proposals.

In general, participants welcomed the thrust of the report, noting that it raises pertinent issues, including ones regarding the opportunities and challenges faced by the AfT, and makes bold proposals. Words used to describe the report included 'eloquent', 'stimulating', 'excellent', 'a bit mischievous' and 'fairly persuasive'. The main comments are presented below.

#### 15A.3.1 The emergence of 'Aid for Trade'

Participants made a number of comments on the way that the report captured the history of AfT, and these can be divided into three themes: the role of developing countries in WTO negotiations over AfT; the dynamics in the aid community; and the wider global context in which AfT emerged.

##### *Developing country participation*

- Several participants noted that developing countries were strong *advocates* of AfT, and there was concern that the report does not recognise this sufficiently.
- One participant noted that AfT was, and still is, a progressive idea, as it acknowledges the need to build the capacity of developing countries to trade if they

are to benefit from the multilateral trading system. Many OECD (Organisation for Economic Co-operation and Development) countries had strongly opposed including AfT in the WTO texts, and the fact that it has become part of the architecture of the WTO is significant progress. It needs to be recognised as the result of sustained advocacy by developing countries and some development organisations.

- To this end, it was suggested that the report reflect to a greater extent the process through which AfT was integrated into WTO texts, including the creation of a dedicated work programme and taskforce during the Hong Kong Ministerial in 2005. It was noted that, although specific AfT monitoring responsibilities were assigned to the WTO, the WTO has no mandate for managing AfT, which limits its ability to assist with increasing aid flows, or assessing effectiveness. Moreover, some progress was made in integrating capacity-building support into the negotiating process. In the negotiations on trade facilitation, it was agreed in July 2004 that any obligation undertaken by least developed countries would be justiciable by the WTO dispute settlement mechanism only if adequate support had been provided for implementation.<sup>1</sup>
- There were significant divergences and differences among developing countries, which the report does not adequately acknowledge. For instance, one participant observed that it was the advanced developing countries that were dissatisfied with the Uruguay Round and wanted the Doha Round, whereas the least developed countries were ambivalent.

### *The aid dynamics*

- One participant suggested that the report address the ‘schizophrenia’ in the aid community to a greater extent. In particular, the donor community has channelled the majority of funds into social activities (education, health etc.) and has paid little attention to supporting the development of productive capacities, yet, at the same time, donors claim that they want to end aid dependence.
- Related to this, several participants suggested that AfT is a welcome corrective to the recent neglect of productive activities by the aid community (rather than a possible additional conditionality as the draft report suggests).

### *The wider context*

- One participant requested that the paper situate the historical account of AfT in the wider context of a crisis in multilateralism, rather than just the collapse of WTO negotiations. Moreover, he suggested that the paper recognise that trade is a minor part of the current globalisation story; finance is the major driver of globalisation and it has distorted trade. These links between finance and trade could be elaborated in the report.
- Another participant noted that the report focuses exclusively on AfT in the context of WTO negotiations. However, related discussions are taking place in the context

of the numerous negotiations on preferential trade agreements and these could be included. In general, greater mention could be made of regional trade integration initiatives, both North–South and South–South, and their links with AfT.

### 15A.3.2 Links between trade, growth and development

A number of comments questioned the report's analysis of the reappraisal of the Washington Consensus.

One participant suggested that the authors are overly optimistic in suggesting there has been a rethink about the trade–growth–development links. He noted that advanced countries are still promulgating Washington Consensus policies, including through the recent Economic Partnership Agreements and the Trans-Pacific Partnership.

Several comments referred to the need to update the analysis of the academic literature on the links between trade liberalisation, growth and poverty, providing greater detail and citing additional sources. Particular comments included:

- *The impact of standards:* The report suggests that sanitary and phytosanitary standards are making it harder for producers in developing countries to export. Although this may be the case in some instances, surely standards are needed and legitimate? What is the alternative? Moreover, there is some evidence that standards have the opposite effect, and boost exports by reducing information asymmetries.
- *The outcome of the Uruguay Round:* The report states that 'some estimates suggested' that least developed countries lost 5 per cent of gross domestic product (GDP) as a result of the Uruguay Round. What are the sources for this figure?
- *The link between trade liberalisation and growth:* One participant noted that Rodriguez and Rodrik (2000), cited in the report, correctly criticised the literature before 1999. However, the science has improved since then and more recent studies need to be incorporated. Moreover, he argued that, on balance, studies show that increased trade is associated with increased income (except perhaps for the very poor).
- *The link between aid and growth:* The paper suggests the evidence is weak and ambiguous. However, recent work by Finn Tarp shows that, although the impact of aid is not as large as was hoped, it is there; aid induces some degree of growth.

#### 15A.3.2.1 Response by Professor Stiglitz

During the discussion, Professor Stiglitz replied to some of these concerns. He argued that, although aid can be effective and trade sometimes promotes growth, it is clear that the combination of aid and trade liberalisation ('Aid for Trade') has not led to the kind of export diversification and growth in developing countries that people had hoped for. One of the reasons for this is the problem of pervasive market failures in developing countries, which AfT should address. Although there is the need for adjustment assistance in terms of loss of revenue, there are far greater and more general needs resulting from the fact that developing-country markets do not work

effectively. As a result, when countries liberalise and jobs are often destroyed, if the financial sector does not function properly and the government does not provide support, then people move from unproductive jobs into unemployment. He agreed that the literature is mixed and remains controversial.

With regards to the role of finance he noted that, in the WTO financial services agreement, there are many restrictions on finance, which run counter to the interests of developing countries. They were adopted in an era when people believed that financial markets worked well, yet there is growing evidence that financial market liberalisation and opening to foreign banks has weakened domestic financial markets and reduced lending to small firms. Paradoxically, this is exactly the type of finance needed to support adjustment to trade liberalisation.

### 15A.3.3 The evaluation of AfT

In his presentation, Professor Stiglitz posed the question: Has AfT delivered *additional*, *predictable* and *effective* resources for developing countries? Participants had several responses:

#### *Additionality*

- Most participants who commented agreed with the report's scepticism that the AfT initiative had raised significant additional funding. They noted that the evidence was 'opaque at best' and that there had been lots of relabelling. One participant suggested that the argument could be made more robust.
- Another participant noted that the WTO is doing little to mobilise additional funds for AfT.

#### *Effectiveness*

Participants made several observations about the shortcomings of AfT, and suggested ways in which it can be made more effective:

- *Structural transformation*: AfT has focused on the provision of infrastructure and trade facilitation, and participants agreed that this has been useful. However, several participants raised concerns that AfT not paid sufficient attention to supporting countries to diversify their exports. This gap could be emphasised in the report.
- *Support to firms*: On a related note, several participants noted that AfT has provided too little support at the firm level, yet this is needed if developing countries are to become competitive. However, two participants questioned if developed countries really have an incentive to see AfT used in this way: if firms from developing countries become more competitive, does this not pose a threat to firms in developed countries?
- *Adjustment*: Although one of the main rationales for AfT was to support the adjustment of developing countries to trade liberalisation (including the erosion of preferences), very little financing has been provided for adjustment. It was proposed that the report highlight this gap.

- *Value chains, services and emerging markets:* Although the implicit focus of the report is on boosting exports of goods to developed country markets, participants noted the importance of using AfT to foster the production of goods that can be plugged into the more dynamic supply chains in emerging markets. In addition, AfT should be used to improve the competitiveness of domestic services sectors, which in turn bolster export competitiveness.

### *Governance*

- *Ownership:* Whereas donor countries are fully engaged in AfT initiatives, there is still little awareness in developing-country capitals. Related to this, there is a need for AfT projects to be better tailored to the needs of individual countries.
- *Allocation:* Concern was raised that the allocation of AfT across developing countries is highly skewed.
- *Paris Principles:* One participant advocated that AfT initiatives should be evaluated against the Paris Principles on Aid Effectiveness.
- *Lead institution:* Participants noted that the WTO should not be the focal institution for the evaluation of AfT. The WTO secretariat lacks the skills and capacity, and, more importantly, whereas it interfaces with Ministries of Trade, it is Ministries of Finance that make the key decisions on aid.

### *Public goods and market failures framework*

- One participant noted that both the justification of AfT and its evaluation could be based around a public goods and market failure framework.

## 15A.3.4 The Global Trade Facility

The proposal for a ‘Global Trade Facility’ (GTF) was welcomed. Participants had a series of comments on how it might be operationalised:

- *Multilateralisation:* There was general agreement that a move towards greater multilateralisation was to be welcomed, particularly as bilateral aid can be manipulated. (This said, multilateral organisations are not ‘beacons of efficiency’.)
- *Widening recipients:* The proposal to make all developing countries potential recipients was welcomed (the Enhanced Integrated Framework focuses exclusively on least developed countries).
- *Institutional home:* There was general agreement that the GTF should not be housed with the World Bank or International Monetary Fund, and no objection was raised to the proposal of UNCTAD.
- *Enforcement:* The report suggests that aid commitments should be made enforceable. Does this not run the risk of *reducing* aid, as donors will be reluctant to make commitments? Moreover, is it politically feasible – would developed countries ever agree to this?

- *Fundraising*: One participant raised concern about the idea of levying a fee on exports to developing countries, as this implies that import trade imposes costs. Similarly, he raised the concern that the proposal to levy a charge on agricultural subsidies ignores the fact that many developing countries are net food importers and benefit from subsidies.
- *Size of the fund*: One participant suggested that the size of the GTF could be specified. In making the case for the fund, analogies could be made to the US domestic trade adjustment facility (approximately US\$2 billion).

### *Response by Professor Stiglitz*

During the discussion, Professor Stiglitz responded to some of the questions raised. He agreed that the main point of the proposal was that AfT should be multilateralised. On the question of where the GTF should be located, he agreed with participants that oversight should not be with the World Bank or WTO. In terms of funding, he responded to the concern about placing a tax on exports to developing countries, noting that this would be a very small levy (a fraction of 1 per cent) so it would not distort trade.

### 15A.3.5 The ‘Right to Trade’

The ‘Right to Trade’ proposal prompted a series of questions and significant debate over its viability. Some were strongly opposed to the proposal; others broadly welcomed it. Indeed, one participant noted that, whereas the WTO legal framework has a general exception (GATT Article 20) that covers health, security and the environment, there is no ‘escape clause’ for development. As drafted, the ‘Right to Trade’ could help address this gap.

A series of specific questions and concerns were raised.

#### *Defining the right*

- What does the ‘Right to Trade’ constitute? Is it merely declaratory, or is it actionable? For instance, in the UN Declaration on Human Rights, there is the ‘right to development’ but there have been no court cases on this right. One participant noted that second- and third-generation rights can be made actionable. For instance, the South African constitution includes the right to housing and health, and, although the country does not have the means to provide these for all, South Africa has found a way to make it justiciable.
- How should it be circumscribed or limited? The WTO dispute settlement mechanism only enforces commitments that countries have entered into. One participant raised the concern that, as proposed, the ‘Right to Trade’ appears to be the right to complain about, and change, everything. He emphasised the need to be careful about establishing a precedent of the WTO being able to march into a national capital and demand that a policy be changed, even if a parliament passed it.

- Another participant raised concern that this proposal has the potential to undermine certainty and predictability, which are central to the functioning of the multilateral trading system. Moreover, it could adversely affect the WTO bargaining process. In trade there are always winners and losers, and bargaining allows countries to bargain across issue areas in order to reconcile this: countries lose in one area, but gain in another. If countries can come back and challenge the terms that were negotiated, this could undermine the political bargaining process.
- How would causation, responsibility and liability be determined? Would we have to show that these communities/countries were ready, willing and able to trade? How would we adjudicate on whether a standard caused more harm to poor producers than benefit to rich consumers?

#### *Links to existing international law*

- How would the 'Right to Trade' relate to existing WTO jurisprudence? How would it link to international human rights law?

#### *Empowering individuals or communities*

- Concern was raised that investor–state dispute settlement is not a model to emulate, and that it might not be wise to empower communities or private individuals in this way.

#### *Possible unintended consequences*

- Is there a risk that this initiative could come back to haunt developing countries? What obligations would the 'Right to Trade' confer on developing countries? Could cases be brought against developing countries under the 'Right to Trade', either by communities in advanced countries or by communities in other developing countries?

#### *Tradable sanctions*

One participant noted that there is already a precedent of a country 'carouselling' its sanctions. The USA created havoc in European trade by moving its sanctions across products. The implications of enabling countries to transfer sanctions would raise serious implications for trade law and would have to be carefully thought through.

Another participant raised the concern that, in a world with vast income inequalities, monetary sanctions have clear limits. For instance, Antigua can impose all the sanctions it likes on the United States, but the United States will not feel it. One option is to adopt a system that links the size of sanctions or fines to the income of the country reneging on its commitments.

#### *Response by Professor Stiglitz*

During the discussion, Professor Stiglitz responded to some of the questions raised. On the question of whether the 'Right to Trade' would be a declaratory or actionable right, he pointed out that, even as a declaratory right, it could have an impact. However, he

argued that the right could be made actionable, and acknowledged that one option might be to add the 'right to development' as an exception under current WTO laws. With regards to the many questions on how the right should be defined, Professor Stiglitz accepted that the current articulation is too broad and needs to be narrowed, but noted that in all legal structures there is ambiguity to start with: the challenge is to define it in keeping with the spirit of the proposal.

## 15A.4 Conclusion

Overall, the roundtable prompted a rich and thought-provoking debate, and generated a series of comments, questions and suggestions for refining the proposals tabled by Professor Stiglitz. There is a general sense that, although AfT could be extremely valuable for developing countries, it is underperforming, in terms of both the amount of resources allocated and the ways in which resources are used. Although the momentum in multilateral negotiations has dissipated, the needs of developing countries remain acute. Now is an opportune moment to stimulate fresh debate and new actions on AfT; judging from the response at this roundtable, the report by Professor Stiglitz and Dr Charlton will do just that.

## Note

- 1 See WT/L/579. (2 August 2004). 'Decision Adopted by the General Council on 1 August 2004' (Annex D).