

6

Making Global Partnership for Development More Effective

Some Recommendations

6.1 IS THERE A 'GLOBAL PARTNERSHIP FOR DEVELOPMENT'?

UNCTAD (2008) devoted Chapter 3 to a discussion of changes in development partnership. Its finding (p.93) that “the fundamental priority of LDC governments is to formulate and implement national development strategies that effectively promote development and poverty reduction” is certainly unexceptionable, if not altogether banal. This book argues (something the UNCTAD report does not refer to at all) the major constraints on the LDC governments in delivering the suggested development strategies are of domestic political economy. UNCTAD’s recommendations for what it calls ‘development partners’ relate to foreign aid, trade and investment, and these recommendations place a great deal of importance on country ownership, a concept which UNCTAD (2008) itself deems elusive. This book finds country ownership to be less important, but emphasises the contents of development assistance and its uses. However, the discussion in UNCTAD (2008, Chapter 3) presumes the existence of a partnership. Does one indeed exist or can one be put together if it does not?

Any partnership necessarily involves, first of all, some shared objectives that are well defined. Second, there has to be a clear understanding among partners, not only on the set of actions that will further the shared objectives, but also an agreement on the actions that each of them is responsible for implementing and the shares of each in the cost of financing such actions. The shared objectives as well as the set of actions are quintessentially inter-temporal, more often than not involving fairly long time horizons. This being the case, sustaining the partnership over a long enough time horizon, so that the shared objectives are attained,

requires that the commitment of each partner to the partnership and the actions and cost shares that the partner is responsible for are credible, which is a difficult task to accomplish. For example, in the development context, the so-called 'aid fatigue' and the failure to reach the aid target of 0.7 per cent of GDP (even after several decades), let alone increasing that target, is an indicator not only of the lack of credible commitment of aid donors in the partnership, but also of their rethinking of their not-so-credible, earlier commitments.

Some might even deny the existence of a meaningful global partnership for development in the sense of the last paragraph, and the feasibility of ever putting one together. This is for several reasons, the primary one being that development is multidimensional and reasonable people could, and often do, disagree not only on its contents but, more importantly, on the relative importance of its many components for each of the many heterogeneous set of developing countries. Indeed, one could go further and point out that the multidimensional character of development raises problems in defining a developing country, since a country could be developed in some dimensions and not in others. Even if there was universal agreement on the relevance and relative importance of a subset of dimensions, such agreement is very unlikely to extend to the actions that each partner should undertake in promoting them.

In the author's view, it is futile to talk about a hypothetical partnership for development in all its aspects. It is better to start from the reality that many, by no means all, developed and developing countries (and more precisely the governments in power in them) have common interests in some aspects of development. So too have a whole host of multilateral institutions and non-governmental organisations (national and transnational) of various political hues. While it is appropriate to exploit the existence of such common interests for furthering development, it would be far-fetched to the point of being meaningless to call this a 'global partnership for development'. However, there is no denying that often a large number of countries and organisations come together in promoting particular aspects of development. If this is a reasonable approximation of ground-level reality, one has to focus on a considerably more modest objective of how to make existing groups that are interested in development—some of which may be cohesive enough to be called

coalitions, if not partnerships, while others are much looser—more effective. Since such groups are likely to be issue-specific, it is impossible to make concrete recommendations in order to make them more effective. Instead, this book starts with existing groups or categories (though some happen to be analytical categories and not necessarily ones that have formed around an objective or course of action) and asks whether they could become more effective (and if so how)? At the same time it recognises the potential achievements of such realistic groups will be issue-specific, not necessarily coordinated in their actions and together will not span development in all aspects, so will necessarily fall considerably short of what could be achieved by a group that not only covered all aspects, but had a coordinated programme of action. Still, such a comparison is meaningless, since realistically there is no chance of forming the latter such group.

6.2 SOME RECOMMENDATIONS

The book concludes with the following recommendations, in no particular order of priority or relative importance. It begins with intergovernmental international organisations that provide financial assistance of various kinds to developing countries, such as the IMF and the World Bank and others, such as UNDP, the UN Children's Fund (UNICEF), the UN Industrial Development Organization (UNIDO), the World Health Organization (WHO) and others of the UN family that carry out some financing. In addition to these, individual country governments and non-governmental groups also provide development finance. An issue that is well known, and also commented upon in several documents of aid agencies and by NGOs engaged in development,¹ is the problem of coordination among aid providers so that the potential benefit to developing countries is maximised. The growing literature on aid ineffectiveness, at least that part which sees no hope ever of making aid more effective, also cites coordination failure among providers as a source. The coordination problem is repeatedly mentioned in the discussion on assistance to LDCs, SIDS and SVS, and attempts are made to address it in some way through collaboration among

1. Two of the most felicitous phrases coined by Paul Collier (2007) are "Development Bliss", consisting of agencies doling out aid and the companies and individuals they contract in aid projects, and "Development Buzz", which consists of rock stars, celebrities and NGOs.

agencies—for example in the IF for technical assistance. Yet the problem continues to be a serious one and is not easy to eliminate.

Even within the bureaucracy of a single national government, coordination among different ministries and departments is difficult. One oft-cited example is that the trade or commerce minister (or their civil servants) of a government participate in WTO ministerial meetings and high-level international trade negotiations, while finance ministers participate in meetings of the World Bank and the IMF. The positions of commerce and finance ministers on an issue that comes up at such meetings are often not coordinated. The problem is particularly acute for LDCs and small economies, where a relatively small number of competent politicians and bureaucrats have to deal with a plethora of aid agencies, both official and private. Clearly the problem of coordination has to be addressed if an effective global partnership is to be formed (assuming it can be). The chances of this are not high.

Institutions such as the World Bank and the IMF have assumed roles that have gone way beyond their original mandates. To some extent, such ‘mission creep’ in these organisations (as it is derisively called) is understandable for good and bad reasons. Their mandates were set in the late-1940s when they were founded, and some such mandates may no longer be relevant in a rapidly changing global environment. A classic example of irrelevancy is that of the UN Trusteeship Council, which still exists long after its function ceased to exist—the reason being that it cannot be abolished without amending the UN Charter! Since such charter amendments and mandate revisions, like changing constitutions, are difficult and time-consuming, it is natural that institutions do not attempt them, but instead creatively respond by reinterpreting old mandates to fit new circumstances.

On the other hand, the vast bureaucracy of such organisations will (in its own self-interest) resist changing mandates it is accustomed to addressing, particularly if such change would potentially reduce its perquisites and size! In the author’s view, both the IMF and the World Bank have gone way beyond creative responses. With far more capital available now from the global private market, and relatively more advanced developing countries, including emerging markets having access to such

capital at reasonable terms, there is no need for the World Bank to lend to such countries (e.g., China, Brazil, India and others) or to have field offices there. Certainly, these countries could benefit from any tried and tested policy advice from the Bank based on its experience. However, there is no reason for lending to be linked to the provision of such advice.

A first step in the formation of a global partnership that includes the World Bank would be to reconstitute the Bank into a smaller institution that caters only to the needs of those developing countries that do not have access to world capital markets and/or attracting significant capital inflows. These countries would certainly include LDCs (other than those with petroleum and natural resources) and perhaps few others. A large majority of these countries will be in sub-Saharan Africa. A similar reform of regional development banks, including the possibility of closing ones that have not been effective, should be considered.

The IMF has also gone way beyond its mandate. Its forays into structural adjustment (which were a consequence of the slow response of the World Bank to mount such programmes after the oil crisis of the 1970s) have been limited in their success. Its current intrusion into poverty alleviation, through requiring PRSPs as foundations for its involvement with a developing country, is totally unwarranted. It is certainly the case that the task of keeping the global financial system, including financial markets, stable needs a global institution, and the IMF already has this mandate—although its influence on its richer members is considerably weaker than on its borrowers. This imbalance needs to be addressed. Moreover, the fact that many developing countries have accumulated a vast stock of exchange reserves since the East Asian Financial Crisis of 1997 (China's reserves exceeding \$1.7 trillion currently, is a spectacular example) illustrates that they feel the need to 'self-insure' themselves, because they have lost faith in the ability of the IMF to reduce the probability of severe shocks to global financial markets and provide assistance if shocks occur. The author would argue that building confidence in a reformed IMF is essential. For this task, it is essential to ensure that the mandate of the IMF does not extend beyond keeping the global financial system stable and whatever is needed for this purpose. A second step in making a global partnership that includes the IMF is to make the primary mandate of that institution the responsibility for the stability of the global financial system.

The IMF should continue providing advice on macroeconomic, exchange-rate and financial-sector policies to its members through its mandated consultation with them under its Article IV.

The ongoing crisis in financial markets, which began August 2008, has already led to demands for reforming the global financial architecture, including reform of the IMF. The British Prime Minister, Gordon Brown, was the first to propose on 15 October 2008 a summit of global leaders to discuss the global financial architecture with a view to rebuild the IMF for the purposes of the modern world, including an early warning system. The next day the leaders of the EU Summit adopted the Brown proposal. President Bush has invited the leaders of G-20 nations, which include the developing countries Brazil, China, India, Indonesia, South Korea, Mexico, Saudi Arabia, South Africa and Turkey, for an international meeting on the global economy. The broad agenda for the meeting will invite the leaders to agree on a common set of principles for reform of the regulatory and institutional regimes for the world's financial sectors (*New York Times*, October 23, 2008). It is to be hoped that proposals for long-term reform are not distorted by the need to resolve the current crisis.

This book has already referred to the weighted voting in the decision-making of the World Bank and the IMF. Of course, the convention (it is only a convention and not an article in their founding charters) that the president of the World Bank is nominated by the US, while the managing director of the IMF is nominated by Europe, no longer has any rationale if it ever did. It should be replaced by transparent mechanisms that would select the most qualified candidates for these posts, this together with reform of the decision-making apparatus of the two institutions, including their executive boards and voting (as noted earlier, the quotas governing voting rights have been revised recently). These reforms would be the third step and a prerequisite for making global partnership more effective.

The reform issues relating to the WTO are well known and less complicated than those relating to the World Bank and the IMF. First, the WTO, unlike the Bank, IMF and other agencies, does not dispense financial resources to its members. Not being able to 'put money where its mouth is', to use a cliché, could potentially limit the adoption of its advice. Nonetheless, as long as the convention (and not a rule) that its

decisions are made by consensus continues, with every member having an equal voice (in principle), its advice potentially has greater credibility, provided that voice is exercised. However, exercising that voice requires capacity in several dimensions, which LDCs in particular lack. Capacity building is firmly on the agenda of the WTO, with several rich countries already contributing resources for the effort. Meanwhile, however, capacity constraints in LDCs restrict not only their effective participation in the WTO, but also their interaction with other international institutions and the rest of the world. For this reason, the fourth step has to be effective capacity-building efforts in LDCs. These efforts should be multidimensional and the assistance to capacity-building efforts must be much broader based than only in the WTO or World Bank. Again, such assistance has to be coordinated, focused and flexible to respond appropriately to the enormous diversity of the LDCs, including with respect to their weaknesses in various dimensions of capacity.

Unless the LDCs themselves willingly undertake capacity-building efforts and create an environment in which assistance to those efforts can be utilised effectively, such efforts will fail. However, the notion that reluctance to undertake such efforts on their own is due to lack of 'ownership' on the part of LDCs is exaggerated. The more severe constraints on development are of domestic origin and involve difficult issues of political economy, including issues of political and administrative corruption and governance. In addition, domestic armed conflicts, including ethnic conflicts and insurgencies, some of which have escalated into almost full-scale civil wars, plague many countries. If the conflicts that are severe and of long duration continue, and if distributional and other conflicts of interest among social groups are not addressed peacefully through participatory domestic political processes, a sustained development process is unlikely to start, or to be continued even if it does start. To what extent external partners of a global partnership can help resolve such issues of domestic political economy and conflict is an open question, since attempting to do so will invariably infringe on sovereignty. However, current rethinking of sovereignty in situations where many human lives (millions in some situations) are threatened by a particularly brutal regime, offers the possibility that a similar rethink could be extended to cases where respect for sovereignty is keeping many humans in an extremely

poor state of development. Unfortunately, rethinking has not led to taking action in recent cases that clearly call for such action. For this reason, and because it is an extremely sensitive issue that involves possible misuse, the author would tentatively list as a fifth step for consideration, infringing sovereignty, if needed, in order to help millions living in a poor state of development, with international agreement and proper safeguards against misuse. However, he would reject attempts to adopt a universal charter of rights to development, analogous to universal human rights, and make it obligatory on states to ensure its observance, for the reason that such rights are not only incoherent, but certainly not universal as states could legitimately differ on their relevance and content.

Within the WTO, the rule-making body is the ministerial conference, while changes in existing rules emerge out of the agreements concluding each round of multilateral trade negotiations. Not only are the rounds initiated after long intervals of time but, once initiated, each round can take a long time to conclude. For example, it took seven years to conclude the Uruguay Round, and the Doha Round, initiated seven years ago in 2001, is yet to be concluded. The dispute settlement body of the WTO pronounces its findings on disputes between members based on existing rules. Thus, with no equivalent of a parliament or legislature to make, amend or repeal laws, WTO rules could remain on the books for a long time after they have become irrelevant or are in urgent need of amendment. A way out of this should be considered, such as making the WTO Council, in which all members are represented, a legislative body, and perhaps restricting the consensus convention to only such decisions that the Council deems appropriate. The author is suggesting this as the sixth step for making a global partnership that is effective in trade issues.

In the author's view (Srinivasan, 2007) the ultra-legalistic dispute settlement mechanism of the WTO is a drastic shift from the political one of GATT. It has involved, in particular, the reversal of the consensus required in the GATT to approve the appointment of panels to hear disputes and, if appointed, their recommendations. Although in general a legalistic dispute settlement system based on law and rules protects the weak (and in the WTO, the developing countries are the weaker members) better than a political system, which is susceptible to manipulation by the politically powerful, in the author's view the WTO system actually

penalises the weak. In the WTO system, the appointment of panels is automatic if the consultations between the plaintiff and the defendant failed to resolve their dispute. The decisions of the panel, and of the appellate body if they are appealed against, can be overturned only by a consensus of the WTO Council. This retrograde shift came about in the Uruguay Round, largely at the insistence of the developed countries (particularly the US) who wanted it because, in their mistaken view and against the evidence, the GATT system had failed to resolve disputes. The WTO legalistic system in effect penalises the poorer members of the WTO, because they have limited capability to identify violation of commitments by others or to argue their case before the panels and appellate bodies. Although it has its own problems, going back to the GATT system may be better from the perspective of LDCs and other poor members of the WTO. The author puts this as the seventh step worth considering.

Thus far, labour standards have been kept out of the WTO and firmly in the mandate of the International Labour Organization (ILO). However, the US and the EU are pushing labour and environmental standards as part of any preferential trade and economic cooperation agreements (ECAs) they conclude with developing countries. The US is also pushing TRIPS-plus clauses in such agreements. Already the mutual consistency of international agreements on trade and the environment is on the WTO work programme, the responsibility of a specific committee.

Attempts to use multilateral trade agreements as devices to intrude into the non-trade-related domestic regulatory arena began at the WTO Singapore ministerial conference of 1996. These domestic regulatory issues, since then known as 'Singapore Issues', include investment, competition policy, transparency in government procurement and trade facilitation. After the Cancún ministerial meeting of 2003, of the Singapore Issues only trade facilitation remains on the Doha negotiating agenda. It is arguable whether the success of the developing countries in keeping labour standards and Singapore Issues (other than trade facilitation) from the WTO is only a temporary one. The author's eighth step is for the global partnership to preclude these issues from ever being raised in any future WTO negotiations.

Regional and other preferential trade agreements (PTAs) have been suggested as a way for LDCs, particularly SIDS and SVSs, to overcome

constraints on their integration with world trade. It is claimed that contemporary PTAs go beyond trade liberalisation and involve ‘deeper integration’ of members in other areas including, in particular, investment and technology transfer. The classic analysis of Jacob Viner long ago noted the trade creation (i.e., increasing trade among members) and trade diversion (i.e., diverting trade away from low-cost non-members to higher-cost trade among members) effects of CUs and FTAs. Whether the beneficial trade creation is more than offset by the loss from trade diversion would depend on the characteristics of particular agreements and their membership, and whether or not they include non-trade provisions.

The empirical evidence on the benefits from PTAs is contradictory—the conclusions depend on the empirical methodology, the database used, the countries and the time periods included in the analysis. Adams *et al.* (2003) examined both theoretically and empirically, the effects of the trade and non-trade provisions of PTAs on the trade and foreign direct investment (FDI) flows of member and non-member countries of those PTAs. They found that of 18 recent PTAs, 12 (including the EU, the North American Free Trade Agreement [NAFTA] and the Common Market of the South [MERCOSUR]) have diverted more trade from non-members than they have created among members. Although, they also found that FDI responds significantly to non-trade provisions of PTAs, the economic costs of trade provisions of PTAs are magnified by greater capital mobility, so that the benefits from increased FDI could be offset by the losses from trade diversion. De Rosa (2007), on the other hand, using a different variant of the Adams *et al.* (2003) gravity model of trade flows, comes to the opposite conclusion that the majority of the current PTAs are trade creating.

The author used just the coefficients for logarithms of GDP and for geographical distance from the paper of Adams *et al.* (2003) to predict the bilateral trade flows for 2005 for 164 countries, of which 38 were LDCs. Since the other possible explanatory variables of trade flows are excluded from this prediction exercise, one would expect the predicted trade flows to fall short of their actual values. Table 6.1 presents the results of the exercise. It shows that it is indeed the case that for non-LDCs an overwhelming majority—101 out of the 126—their actual trade flows exceed their predicted values from the gravity model. Interestingly,

however, the opposite is true for the LDCs: for an overwhelming 31 out of 38, their actual trade flows fall short of their predicted values. This seems to confirm that constraints other than low income and remoteness from their trading partners (capacity constraints, for instance) are far more significant in restricting their trade. It is extremely unlikely that entering into a PTA or EPA will alleviate these constraints. Moreover, if a country becomes a member of more than one PTA, the task of devising their complicated rules of origin would be beyond the capacity of these countries to address. On the other hand, domestic efforts, particularly in addressing political economy constraints, augmented by effective multilateral efforts (particularly through the WTO) could help.

Table 6.1

Actual Trade Flows—Predicted Trade Flows for 2005

	<i>Positive (>0)</i>	<i>Negative (<0)</i>	<i>Number of observations</i>
LDC	7	31	38
non-LDC	101	25	126
TOTAL	108	56	164

Source: Predictions based on the gravity model of Adams *et al.* (2003).

The author concludes from the ambiguous empirical evidence and the strong theoretical presumption in favour of multilateral, rather than preferential, trade liberalisation, that LDCs should avoid getting into PTAs and EPAs. The ninth step would require rich countries of the global partnership not to offer such disabling PTAs and EPAs with non-trade provisions to the developing countries of the partnership, and to persuade them not to enter into ones offered by others. The partnership should focus its efforts exclusively on multilateral agreements and work towards concluding the Doha Round satisfactorily and soon.

In the author's view, the WTO should remain an organisation whose members are entirely states and independent customs areas within states (e.g., Hong Kong). The somewhat heated debate on the so-called 'democratic deficit' in the WTO is, in his view, fundamentally devoid of content. The concept of participatory democracy is not easily extended to inter-state organisations. This not to say, of course, that rules of membership and of decision-making in such organisations do not matter—they do, as discussed

in Section 4.6. However, participatory democracy is a meaningful issue for individual member states and not for the WTO. As long as universality of membership of WTO is the goal, as it should be, and is in the United Nations, any state willing to undertake the obligations of membership in the WTO should be free to apply for membership. These obligations are mostly in the arena of trade, and arise from various agreements to which the members are parties. Extending the obligations to the political arena of democratic participation in each member state is inappropriate. For this reason, the author is sceptical of the utility of observer status in the WTO already granted to NGOs. It is perhaps impossible to reverse it. The tenth step for the global partnership should be to oppose firmly and decisively any extension of participation, beyond submission of *amicus curiae* briefs to private parties and NGOs in the dispute settlement process, as well as to ensure that the current status of membership and processes of the WTO remain.

This book has already alluded to the concern about preference erosion arising from the fact that preferential access, by way of lower tariffs applicable in some rich countries to exports from developing countries, is becoming less 'valuable' as tariff barriers in the rich countries fall. The value of the preferences, such as the generalised system of preferences (GSP), is vastly exaggerated. In a paper for the Inaugural Conference of the Society of International Economic Law in Geneva during 15-17 July 2008, Dowlah (2008) concludes: "There can be little doubt that the available GSP schemes have largely been a failure in respect to LDCs. None of the professed objectives, which legitimised the adoption of such schemes in the first place—such as industrialisation, exports and economic growth through trade rather than aid—has materialised in the context of the LDCs. Three major factors can be held responsible for such an abysmal performance of GSP schemes: the unilateral and arbitrary character of GSP programmes; built-in as well as discretionary lapses which conditioned GSP schemes over the decades; and crippling supply constraints in the LDCs." He proposes some remedies to overcome the utter failure of GSP and ends with a plea: "In the end, the world community must come up with a bold and pragmatic plan to revamp GSP schemes on the one hand, and remove the supply constraints on the LDCs on the other, to lift the

LDCs from the morass of poverty and helplessness.” The author of this book is not persuaded that such a plan can be devised.

In the author’s view, retaining GSP and de-linking the levels of preferential access to tariff levels in export markets is counterproductive. It will blunt the incentives of developing countries to reduce the higher domestic costs that limit their exports. These high costs were the rationale for tariff preferences in the first place. The global partnership should focus on reducing these costs permanently through effective support for capacity-building efforts in the LDCs, rather than perpetuate counterproductive, preferential access through GSP. This is the eleventh step.

The author concludes this book with one final thought about what Brown and Stern (2005) call “Fairness of the Global Trading System”, as embodied in GATT/WTO, and its relevance. These authors judge fairness on the basis of two criteria: equality of opportunity and distributional equity. These criteria are well defined in assessing the fairness of a system that defines opportunities available to individuals in a society and the fairness of the distribution of incomes or wealth that result from those opportunities. The authors extend their assessment to trade negotiations and agreements under GATT/WTO among countries, and argue that equality of opportunity for members prevails “when there is reciprocity in the reduction of trade barriers, when there is adherence to most favoured nation (MFN) treatment, when any biases in initial conditions are removed, where the rules supporting market access are not only seen as equivalent, but also consistent with national preferences within countries, and when procedural justice is respected, especially in such matters as dispute settlement and the use of trade remedy measures”. On the other hand, they find meaning for distributional equity in only one sense in the context of the global trading system, which is “whether the trading system gives preference to the efficient growth of production...through sales in foreign or domestic markets, the reason being the global trading system is not a vehicle for income transfers across countries.”

The use of individual-based standard concepts of equity and efficiency for assessing the fairness of the global trading system, in the author’s view, is analytically confusing. Nation states are aggregates and not individuals, and as such, fairness among aggregates would remain

a problematic notion unless diverse preferences of individuals within a nation can be meaningfully aggregated so that each nation is treated as an individual with the aggregated preference. As is well known, such aggregation is possible only under very strong and unrealistic conditions. Moreover, even with a well-specified aggregate welfare, whether or not the welfare actually attained is the maximum attainable given the governing rules of the world trading system, would in general depend not only on these rules, but also on the domestic system of resource allocation. Be that as it may, deep philosophical issues arise in attempting to extend a theory of justice developed in the context of a given society or people to societies and peoples. A less-widely discussed work of John Rawls than his justly-celebrated book *A Theory of Justice* (Rawls, 1971) is his much later short book *The Law of Peoples* (Rawls, 1999), which attempts such an extension. Not being a philosopher, the present author cannot evaluate the success of his effort. However, it is fair to say that the attempt drew more extensive and significant critical comments from other philosophers than his *Theory of Justice*. This suggests that the extension that Brown and Stern (2005) propose of fairness and equity concepts across individuals in a society to a global trading system consisting of nation states needs careful reconsideration.