

# **"Building Poor Countries' Trade Capacity"**

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### **Abstract:**

This is a background paper prepared for an informal expert meeting of the Development Assistance Committee of the OECD. It discusses technical assistance on trade for the least developed and poorer countries and tries to explore alternative partnership approaches for building new trade capacity. It focuses on trade policy more than on trade promotion strategies. The paper identifies four different types of technical assistance:

1. Raising the awareness of key policy makers and actors both of how trade policy operates globally, and what the options are.
2. Help with the implementation of multilaterally or regionally agreed trade arrangements.
3. Help to deal with export related implements in foreign markets.
4. Enhancement of negotiating capability, both multilaterally and regionally.

It emphasizes how a ranking across these types of assistance needs to be informed by a sense of the trade situation for these countries. The pattern of poorer country trade has been changing in recent years, with sharp export growth in countries such as Bangladesh, and also some African countries (such as Uganda). This is beginning to generate trade conflicts with OECD countries in areas such as textiles and apparel (MEA) and even antidumping. Poorer countries are also increasingly becoming involved in outsourcing trade (relocation of assembly operations to a poorer country by a large OECD company, possibly in an export processing zone); and trade between poorer countries and other developing countries is growing more rapidly. After many years of stagnant trade growth, poorer country trade is now growing at rates which compare to those of all developing countries. Special opportunities seem to be present in services trade (growing globally at rates higher than goods trade), and (in the future) electronic commerce.

Keywords: Developing countries, trade, capacity building

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## 1. INTRODUCTION AND SUMMARY

This paper discusses technical assistance on trade for the least developed and poorer countries and tries to explore alternative partnership approaches for building new trade capacity. It focuses on trade policy more than on trade promotion strategies.

The paper identifies four different types of technical assistance:

- Raising the awareness of key policy makers and actors both of how trade policy operates globally, and what the options are.
- Help with the implementation of multilaterally or regionally agreed trade arrangements.
- Help to deal with export related implements in foreign markets.
- Enhancement of negotiating capability, both multilaterally and regionally.

It emphasizes how a ranking across these types of assistance needs to be informed by a sense of the trade situation for these countries.

- The traditional view of poorer countries is as exporters of basic commodities, which are constrained by domestic bottlenecks and supply factors rather than barriers abroad, and with imports significantly financed by external assistance.
- The pattern of poorer country trade has been changing in recent years, with sharp export growth in countries such as Bangladesh, and also some African countries (such as Uganda). This is beginning to generate trade conflicts with OECD countries in areas such as textiles and apparel (MEA) and even antidumping.
- Poorer countries are also increasingly becoming involved in outsourcing trade (relocation of assembly operations to a poorer country by a large OECD company,

possibly in an export processing zone); and trade between poorer countries and other developing countries is growing more rapidly.

- After many years of stagnant trade growth, poorer country trade is now growing at rates which compare to those of all developing countries.
- Special opportunities seem to be present in services trade (growing globally at rates higher than goods trade), and (in the future) electronic commerce.

The picture portrayed therefore is one in which access related issues are likely to be more important than in the past for the trade performance of these countries; hence, understanding how trade policy operates globally will grow in importance for country policy makers; and new areas and opportunities (such as services and electronic commerce) will be increasingly important.

In selecting a trade technical assistance portfolio among the options outlined, the paper offers the following suggestions:

- The payoffs to donors from each type of assistance differ greatly in the tangibility of results, and the variance of payoffs. Working with key policy makers may yield impressive and hard to measure benefits relative to say, installing a new intellectual property regime to meet Uruguay Round commitments; but the average return per dollar of assistance may be higher.
- Assistance should be seen as delivery to a whole interconnected policy formation, design, implementation, and ongoing execution mechanism, and thus take account of the weakest links in that system. Consideration (or even design) of policies which cannot be implemented due to limited capability would obviously be ineffective use of support.

- Positions on OECD technical assistance can potentially be shaped by political factors within OECD countries. The commercial interests of OECD companies who have, say, filed antidumping petitions or who support MFA restrictions, potentially run in the opposite direction from the OECD interest in promoting the growth and development of poorer countries through export growth. There may be a natural tendency for OECD assistance to gravitate more towards helping countries implement open import regimes, than in dealing with export impediments in OECD markets. Awareness of this potential tension would seem helpful in assistance design.
- The spin-offs from one form of assistance to other areas of policy can be an important consideration. Though small and poorer countries may have little leverage in multilateral negotiation, involvement in such negotiations can serve to train negotiators for later regional negotiations where they do have influence. Such participation can also be the vehicle for learning how the system works, so that later they can use it to their advantage (such as in dispute settlement).
- Newer areas, such as services and electronic commerce, seem to be fruitful areas for assistance; since emerging regimes are still fluid, and being ahead of developments will allow new opportunities to be better seized.
- The overriding considerations in choosing a portfolio across these approaches would seem to be a benefit/cost calculation in terms of growth and development benefits to poorer countries per dollar spent. If benefits to OECD countries and companies through improved market access or strengthened legal regimes enter the calculation, they should be flagged as such, and treated in a transparent and explicit way.

## 2. THE POORER AND LEAST DEVELOPED COUNTRIES AND THEIR TRADE PERFORMANCE

The term poorer countries is widely used in this paper, but prior to a discussion of their trade performance, it might help to clarify its relationship to the more commonly used, and somewhat narrower term, least developed countries.

The least developed countries are a group of countries defined by the UN Statistical Office for statistical purposes. They are listed in Table 1, and largely comprise countries with per capita incomes (in 1995) below \$500; even though a number of the smaller countries in the group are above this threshold (Cape Verde at \$858; Guinea at \$550; Maldives at \$1069; Solomon Islands at 882; and Vanuatu at \$1095).<sup>2</sup> The lowest per capita income countries are Mozambique (\$92), Ethiopia (\$96), and Rwanda (\$144).

For many years, because of this statistical definition, poorer and least developed countries have been thought of as countries largely concentrated in Africa, with the major exception of Bangladesh. In reality many of the former Soviet Republics also probably fit within the definition of least developed. The data available for them is poor and statistical definitions are slow to change; included here would likely be Georgia, Turkmenistan, Tajikistan, Albania, Armenia, Moldova, Vietnam, and Romania.

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<sup>2</sup>See “Basic Data on the Least Developed Countries”, Table 1, p. 155, UNCTAD (1997).

**Table 1**

**Least Developed Countries as Defined  
by Statistical Office of the United Nations February 1995**

Afghanistan		Madagascar	
Angola		Malawi	
Bangladesh		Maldives	
Benin		Mali	
Bhutan		Mauritania	
Burkina Faso		Mozambique	
Burundi		Myanmar	
Cambodia		Nepal	
Cape Verde		Niger	
Central African Republic		Rwanda	
Chad		Samoa	
Comoros		Sao Tome and Principe	
Djibouti		Sierra Leone	
Equatorial Guinea		Solomon Islands	
Eritrea		Somalia	
Ethiopia		Sudan	
Gambia		Togo	
Guinea		Tuvalu	
Guinea-Bismark		Uganda	
Haiti		United Republic of Tanzania	
Kiribati		Vanuatu	
Lao People's Democratic Republic		Yemen	
Lesotho		Zaire	
Liberia		Zambia	

With the onset of the recent financial turbulence, even countries such as Indonesia who have suffered large declines in their exchange rate have now also fallen back into the category of least developed from which they had escaped some fifteen or twenty years ago. At current exchange rates, the GDP per capita of Russia could even approach \$500 (presumably temporarily). This is all to indicate that, despite the provision of a UN statistical definition, poorer and least developed countries are in reality a somewhat amorphous and continually changing group of countries which should not really be thought of as so African dominated as they sometimes are. In what follows, I will use the term in the broad sense indicated above, assuming that its meaning and intent is clear from the context; though it remains a somewhat vague term.

## **2.1 *Growth Performance***

For most of these countries there has been a combination of weak growth and trade performance over long periods of time.<sup>3</sup> For the majority, their growth performance has been poor and in some periods, as Table 2 indicates negative growth rates of real GDP per capita have occurred. Some of these are countries have at times been afflicted by civil war, domestic political instability and other ills, as well as serious macro economic instability.

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<sup>3</sup>The performance of smaller developing countries in the trading system has also recently been discussed by Armstrong and Read (1998).



In the last few years, however, as Table 3 highlights, the growth performance of the least developed countries has improved markedly. In 1995 (the latest year's data), the least developed countries experienced growth rates of GDP per capita almost equal to the average of all developing countries; and significantly in excess of those for market developed countries. Table 3 lists eight countries with sharply positive growth, in some cases (such as Bangladesh) sustained over a number of years. While this strong growth performance only holds for the UN definition of the group (including former Soviet Republics would lower the figure sharply), there is nonetheless evidence of considerable recent turnaround in the growth performance of the poorer countries.

**Table 2**

**Growth Rates of The Least Developed Countries  
(Annual Average Growth Rates of Per Capita Real GDP)  
1980-1990**

	<b>1980-1990</b>	<b>1990-1995</b>
All Least Developed (UN Defined)	-0.1	0.9
All Developing Countries	1.2	2.6
Developed Market Economy Countries	2.3	1.0
Countries in Eastern Europe	1.3	-7.8

Source: UNCTAD (1997a), Table 1, p.155.

**Table 3****Recent Growth Performance of Least Developed Countries  
(Annual Growth Rates of Real GDP Per Capita)**

<b>Country Groups</b>	<b>1994</b>	<b>1995</b>
All Least Developed (UN)	1.2	2.5
All Developing	2.9	2.9
All Market Developed	2.2	1.4
Eastern Europe	-9.0	-1.8
<b>Countries with Strong Growth</b>		
Uganda	2.8	7.9
Togo	9.7	5.1
Somalia	2.4	5.6
Maldives	3.3	3.9
Lesotho	15.1	7.7
Laos	5.1	4.2
Chad	5.1	2.0
Bangladesh	2.6	2.8

**2.2 Trade Performance**

The trade of the least developed countries has not shown the same dynamism as the trade of developing countries as a group. Their exports in 1995, as Table 4 indicates, were only \$18 billion (around 0.35% of world trade), and imports were nearly double exports. The larger import figure occurs because of developmental assistance which finances nearly one half of their import bill.

There are, however, a number of bright spots of late; countries who are beginning to grow and whose trade growth clearly outstrips their GDP growth. Some of these are also listed in Table

4. One example is Bangladesh for whom trade has been growing rapidly in recent years, with nearly 70% of exports concentrated in textiles and apparel. Within the poorer African countries one can also find examples of countries that have achieved both significant growth in both GDP and trade in recent years.<sup>4</sup> One is Uganda, Table 4 indicates export growth figures of 62% and 20% in recent years. Even countries such as Somalia have experienced strong recent export growth (see Table 4). Among the transition economies there are also counter examples to the often claimed characterization as poorly performing on the growth and trade front. Vietnam, for instance, has been growing at 8% since the late 1980's and trade has grown correspondingly, with significant increases in their exports of textiles and apparel and footwear to Europe.

Table 5 indicates that the exports of the poorer countries are dominated by oil products, gemstones, and copper. These three items made up nearly one third of export earnings. Other commodity or unprocessed food products (shrimp) are also high on the list. Exports of garments are largely accounted for by Bangladesh. Poorer and least developed country exports thus remain concentrated on basic commodities and raw materials, but the movement at the margin is away from these categories, and especially towards textiles and apparel. Opportunities to diversify and broaden their trade on the export side have long been believed to be limited in the poorer countries, but it is

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<sup>4</sup>See also Mwea and Muga (1998), who discuss how the global trading system has affected economic performance in Africa, focussing on Kenya.

precisely this diversification that the rapidly growing countries who have left this group (Mauritius, for instance) have achieved.

**Table 4****Trade Performance of the Least Developed Countries**

	<b>1995 \$bill</b>	<b>As % of World Exports</b>
Exports by Least Developed Countries	\$17.8	0.35%
Imports by Least Developed Countries	\$31.3	0.61%

**Growth Rates of Imports and Exports  
in Selected Countries**

	<b>Imports</b>		<b>Exports</b>	
	1993/94	1994/95	1993/94	1994/95
Bangladesh	17.5	38.2	17.1	19.3
Uganda	19.3	28.7	62.6	20.8
Somalia	-2.4	0.0	2.6	25.8

Source: UNCTAD (1997a), Tables 1.3 and 1.4.

**Table 5****Product Composition of Least Developed Country Exports in 1993/94**

	<b>\$bill</b>
All Commodity Exports	14.15
Oil/Oil Products	2.79
Pearls/Precious Stones	0.89
Copper	0.88
Cotton	0.75
Shrimp/Molluscs	0.66
Coffee	0.55
Undergarments	0.44
Women's Outer Garments	0.41
Radioactive Materials	0.38
Undergarments, Knitted/Crocheted	0.37
Wood Products	0.37
Metal Ores	0.36
Tobacco	0.33
Men's Outer garments	0.33
Floor Coverings	0.27

Source: UNCTAD Secretariat Computations, reported in UNCTAD (1997b).

Table 6 reports country market share characteristics of least developed country trade. The share of least developed country exports to other developing countries is roughly one-third, a little below the all developing country figure. Least developed are sharply above all developing countries on the import side. The implications are that the least developed countries seem to offer a growing market to the still poor but a little higher income developing countries close (usually geographically) to them, and that developing country markets are of growing significance to the least developed countries on the export side. There is also a sharply varied picture by country. Table 6, for instance, lists three countries for whom developing countries make up the majority of both export markets and import suppliers.

### **2.3 *Foreign Investment***

There has been rapid growth in foreign direct investment in the global economy in recent years and while much of this has involved investment flows to developing countries, relatively little has gone to the poorer and least developed countries (as Table 7 indicates). As a fraction of FDI to all developing countries, the amount going to least developed countries is negligible; but as a share of world totals it is of the same order of magnitude as for exports. What has been invested has been concentrated by country (Cambodia, Angola and Ghana account for over 80% of least developed FDI in 1995).

The FDI picture also needs to take account of the clear link between trade and investment for developing countries occurring through outsourcing exports. Outsourcing exports reflects relocation of production (typically by larger) OECD companies, who locate a portion of production in developing countries because of lower labour costs. Outsourcing generates trade, but of a different

**Table 6****Country Market Shares of Least Developed Country  
Imports and Exports (1995)****1. Shares of Exports Shipped To**

	<b>Developed Market Economies</b>	<b>Developing Countries</b>	<b>Other</b>
All Least Developed (UN)	63.7	34.0	-
All Developing	55.0	38.0	-
<i>Selected Countries</i>			
Djibouti	8.3	41.7	-
Cambodia	18.4	81.6	-
Benin	37.4	62.6	-

**2. Shares of Imports From**

	<b>Developed Market Economies</b>	<b>Developing Countries</b>	<b>Other</b>
All Least Developed (UN)	46.0	50.1	-
All Developing	59.3	34.1	-
<i>Selected Countries</i>			
Cambodia	16.1	88.8	-
Laos	18.9	80.9	-
Togo	32.2	67.4	-

Source: UNCTAD (1997b), Tables 17 and 18.



type from more conventional commodity and other trade. Table 8 indicates that in 1994, over 40% of developing country exports were foreign affiliate sales. These were concentrated in South East Asia, grew sharply for this region over the previous 20 years, but fell (in nominal dollars) in Africa.

Outsourcing is an area that poorer and least developed countries (like other developing countries) are increasingly attracted to in their trade promotion, even if, for now, the amount of outsourcing activity in these countries is quite small, because of limited infrastructure and policy framework issues which investing companies look to before making such investments. Outsourcing, in turn, is closely related to the use of export processing zones.<sup>5</sup> These zones, over the years, have had somewhat mixed history, being very successful in China and some of the South East Asian economies in generating export growth, but being relatively unsuccessful in India.

#### **2.4 Commodity Trade**

Commodities have long been the mainstay of poorer country exports, and back in the 1960's were also the mainstay of developing countries in general. These include such items as rubber, cocoa, coffee, tea and other products which have no direct substitute in production in the developed countries. Table 9 reports data on exports by the African countries of these commodities. These have fallen by nearly fifty percent in nominal terms since the early 1980's, because of price declines.

In the 1990's exports of these products accounted for nearly 80% of all developing country exports,

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<sup>5</sup>In these zones, imports enter free of duty and exports leave untaxed. Companies who operate get tax concessions and regulatory restraints are more limited, typically on the condition that the products which are produced are re-exported rather than sold to the domestic economy.

but are now down to around 20%, even though for the least developed these basic commodity exports still account for the majority of their trade.

A central issue over the years with commodity exports has been that of tariff escalation. This occurs when tariff rates by products areas higher stages of processing, creating disincentives to engage in value added upgrading of these commodities for export. Table 9 reports estimates of tariff escalation from the WTO Secretariat as they apply to least developed country exports, which suggest that the problem has become less severe over recent years. Supply bottlenecks rather than barriers seem the central least developed country issue in this trade.

**Table 7**

**Foreign Investment Flows to the Least Developed Countries**

	<b>1995 \$bill</b>	<b>As % of World FDI</b>
Foreign Direct Investment Flows to the Developing Countries	96.3	30.4%
Foreign Direct Investment Flows to all Least Developed Countries (UN)	1.02	0.3%
Of Which:		
Cambodia	0.35	
Angola	0.29	
Ghana	0.26	
Uganda	0.14	
Tanzania	0.19	
Myanmar	0.10	

Source: UNCTAD (1997b), Table A5.

**Table 8****Outsourcing Exports (Export Processing Zones)**

		As % of Total Developing Country Exports
Value of Exports of Foreign Affiliates Located in Developing Countries <sup>6</sup>	\$585 bill (94)	41.6%
Foreign Affiliate Export Sales From	1982 (\$bill)	1994 (\$bill)
Asia	110	431
of which S.E. Asia	95	408
Africa	23	15

Source: UNCTAD (1997c).

**Table 9****African Countries Exports of  
Commodities and Agricultural Products**

	1980	1994
African <sup>7</sup> Exports of Commodities	\$90.4 bill	\$54.4 bill

Tariff Escalation Against Least Developed Commodity Exports

**OECD Tariff Rates by Stage of Process**


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<sup>6</sup>These data include countries who are not in the UN group of least developed. There are no data separately available for the least developed countries.

<sup>7</sup>There are no separate figures available for the least developed countries, and Africa here includes some non least developed countries.

Raw Materials	0.1	0.0
Semi Finished	6.3	3.5
Finished Goods	6.6	2.6

Source: UNCTAD (1997a), Table A.12  
GATT (1994).

## 2.5 *Textiles and Apparel*

Table 10 deals with another aspect of poorer countries' trade, namely, textiles and apparel. Textiles and apparel become important in developing country trade as individual countries begin to grow and industrialize. A common experience is one of surges of exports of labour intensive manufactures, most of which are in textiles and apparel. As these grow, they are accompanied by significant shifts of the labour force out of rural into urban areas. Economies, such as Korea, which grew rapidly in the 1960's passed through a period during which textiles and apparel were over 50% of total exports, reflecting the same pattern seen in some of the OECD countries in their 19<sup>th</sup> century industrialization. In Korea these exports subsequently declined as other products (electronics, autos and computer equipment) took over as engines of trade growth, but today some of the least developed countries, such as Bangladesh and Nepal, receive well over 50% of their export earnings from textiles and apparel; while for most of the African economies the trade shares are small to inconsequential.

A related issue for the poorer countries are the quotas bilaterally agreed between developing countries under the framework of the Multifibre Arrangement (the MFA). These have often been given as a reason why African countries have been unable to attract large amounts of inward foreign investment. The expectation is that establishing textile and apparel plants in these countries would rapidly generate these trade restrictions on new exports. These country quotas increase over time, so that countries which acceded early to the MFA have accumulated large quota. For new countries entering this structure the quota which they are given in the early stages of this process is often small.

**Table 10****Textiles and Apparel Trade and the  
Least Developed Countries**

		<b>As % of All Developing Country Exports of Industrial Products</b>
Exports of Textiles and Apparel by all Developing Countries	\$173.5 bill (94)	40.1%
Shares of Textiles and Apparel Exports in Total Exports of Key Least Developed Countries (1993/94)		
Nepal (including floor coverings)	83%	
Bangladesh	61%	
Malawi	3.4%	
Myanmar	4.6%	
Togo	1.5%	
Tanzania, Uganda	< 0.5%	

**Table 11****Service Exports and Imports, and Tourism Receipts of  
Least Developed Countries**

Service Exports and Imports of Non South Africa/Non Egypt Africa	(90) 1.3% of World Service Exports (90) 2.3% of World Service Imports		
	<b>80</b>	<b>90</b>	<b>94</b>
Tourism Receipts of African Countries	\$2.7 bill	\$2.6 bill	\$6.5 bill

Source: WTO (1997)  
World Tourism Organization (1997).

Vietnam, for instance, in the early 1990's received only small apparel quotas in the EU and North American markets. Thus, the poorer and least developed countries, many of whom have yet to experience growth of labour intensive manufactured exports face the difficulty of acquiring sufficient quota to allow them to grow in this way. Textile quota arrangements also involve complex rules and procedures, including monitoring of country exports, which can require sophistication to deal with which can go beyond the capacity of some poorer countries.

The Uruguay Round, involves a commitment to phase out these quotas by the year 2004.<sup>8</sup> This was agreed in 1994 with a three part phase-out procedure, and there have been claims that developed country compliance with the early parts of these phase-outs has only met the letter and not the spirit of the agreement. This, in turn, has lead some to speculations as to the whole heartedness of the developed country commitment to eventually eliminate these quotas in a clean way in the year 2004. The belief is now widely held in the developing world that in 2004, while the MFA may disappear, it may well be replaced by a series of other trade instruments, possibly substantial increases in antidumping duties. These may then create a new series of trade difficulties in this area for the poorer countries.

## **2.6 *Services and Electronic Commerce***

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<sup>8</sup>Spinager (1998a) discusses this phaseout in more detail.

Table 11 also sets out information on a final dimension of developing country trade, namely, trade in services and the related issue of tourism receipts. Service trade relates to trade in banking, insurance, telecommunications, transportation and other intangible items which have been the subject of much discussion in the WTO as to how to liberalize, given existing domestic regulation. Data in this area are unfortunately only fragmentary, and also not fully up to date. The orders of magnitude for the African economies (excluding Egypt and South Africa) reported in Table 11 suggest that services are proportionally more important in trade than goods for the poorer and least developed African countries. It is also the case that the least developed countries are significant net importers of services overall.

While this picture on service exports largely reflects tourism receipts, service exports represent an area of opportunity for poorer countries because many of them are labour intensive. Opportunities can lie in such areas as processing of financial records, including credit card information, which is labour intensive and can be relayed by satellite or other telecommunications devices. Another is flight reservation systems for airlines, which can utilize phone attendants from lower wage countries with telecom communication through a home base in high wage countries.

The area of electronic commerce and trade is a newer area, and has been the subject of substantial attention. Essentially, the issues being debated mainly involve trade wholly completed by electronic means; and issues of whether tariffs should apply, how taxes can be collected, and other matters. For the poorer and least developed countries, however, both the issues and opportunities are much broader.

To the extent that electronic commerce represents an alternative (and for some products, cheaper) method of entry and penetration of markets, if harnessed appropriately it can yield



disproportionate benefits to poorer over other countries. One argument would be that through electronic commerce it is now easier to enter markets on a national basis rather than on a successive regional or city by city basis via retailing. Thus, if before electronic commerce marketing entry barriers were higher for products from poorer and smaller countries than for products from other countries, then a general lowering of entry costs for all products (via E commerce) would help these countries. A recent WTO (1998b) report on electronic commerce goes so far as to suggest that, for the reason above, smaller and poorer countries will benefit disproportionately more than other countries from the spread of electronic commerce. If this is so this is an issue on which poorer and least developed countries should be involved and take the lead.

## **2.7 Summary**

Overall then, while for most poorer countries their trade remains based on commodity exports, the trends apparent in higher income developing countries of a move towards manufactured exports are beginning to be seen. These offer opportunities for heightened trade growth in more countries, diversification in trade composition, and ultimately a further raising of their levels of development. The issues, then, are how best to facilitate future trade growth, how to shape the best policy regime, and how to target technical assistance.

### 3. POORER COUNTRIES AND THE TRADING SYSTEM

A central element in the design of technical assistance packages towards poorer countries on the trade front is both their interest in and their situation within the contemporary trading system. The trading system is a term widely used to represent the set of rules under which international trade is conducted, but encompasses all of the agreements in the WTO and GATT including the 38 Articles of the original GATT of 1947, now enshrined in GATT 1994, along with all the decisions of the various negotiating rounds including the Uruguay Round. But the system also encompasses various regional trade arrangements which have grown and spread throughout the system in recent years including both large country arrangements such as the EU and NAFTA and small country arrangements both within developing countries and between developing and larger countries. It also includes all of the unilateral trade regimes and a set of trade regulations which countries themselves operate. This is a system of rules within which developing countries both have to conduct and plan their future trade and also the context within which the relationship between trade and development strategies takes place.

It has long been argued in the literature that developing countries, particularly poorer developing countries, have a strong systemic interest in a clear rules based multilateral trading system (see Jackson (1969)). This is because with multilateral arrangements on such trade rules as MFN and most favoured nation status, smaller countries have a degree of protection from larger countries in terms of bilateral pressure and actions and in addition fully participate in any trade liberalization which occurs between larger countries. Generally speaking then, over the post war years the developing countries will have both been seen and see themselves as having this overriding interest in strong systemic rules, but at the same time with limited negotiating power and capability have in reality been

able very little to affect the evolution of these rules. In the 1960's the developing countries argued that they should receive special and differential treatment within this rule structure, special rights to protect their own industries, and preferential terms of access to developed country markets. This was to lead to the system now known as the generalized system of preferences in developed countries under which the preferential access arrangements would operate. But with the progressive reductions in tariff barriers in developed countries, such preferences are now of little significance, and anyway have been further limited by various conditions which have been placed on their applicability.

In addition, the trading system over these years, have come to embody what many people refer to as erosion. Erosion, the operation of the trading system relative to its underlying principles. This erosion is evident in special rule regimes in key product areas of interest to developing countries particularly in textiles and apparel, but also to a large degree in agriculture. It is also manifest in the operation of trade restricting practices quite outside the system of rules, such as voluntary export restraints, and other forms of quota restrictions on trade which have tended to limit developing countries export capability.

In the Uruguay Round, therefore, developing countries came into trade negotiations in the WTO more actively than had been the case in the post war years, in part with the idea of strengthening the trading system, strengthening the operation of basic underlying principles and rules in which they had an interest, particularly MFN. In looking, therefore, at overall trade assistance packages, this broad systemic picture within which developing countries operate, and particularly the poorer countries operate, is crucial to an assessment of the effectiveness of different forms of assistance and in turn what needs to be done within the system to improve trade performance, much of which lies within the orbit of the OECD countries. Today, this set of considerations are especially

important because of the potential emergence of a new round of trade negotiations under the label of the Millennium Round and a clear indication from the developed countries as seeking increasing participation and integration in developing countries into the trading system. The difficulty with this notion of integration is that the trading system itself is unfortunately not static but is continually changing. This changing nature of the system also enters any discussion or consideration of trade policy assistance to poorer countries. At present, the trade and environment within the system which developing countries face is seemingly emerging in new directions with some variance with what we have been used to in most of the post war years. Thus, for instance, in the 1950's and 1960's, only two countries, Korea and Taiwan, pursued outward oriented trade led growth and were able to be as spectacularly successful as they were in part because this same strategy was not adopted by other developing countries. Today, following the extensive liberalizations of the late 1980's and early 1990's, we have perhaps one hundred developing countries all simultaneously pursuing this objective. This in the minds of some has raised the issue of the fallacy of composition; is the absorptive capacity of the developed countries sufficient to allow for rapid and sustained expansion of trade by this number of developing countries? In particular, there are a small number of large developing countries which potentially would come to dominate this segment of the market. China, for instance, now has well over 60% of all developing country exports of textiles and apparel, and some have suggested that with complete elimination of all textile restrictions, this number could jump up into the 90% range.

These are daunting prospects, of course, for developing countries and the poorer countries seeking to pursue outward oriented growth. Beyond the fallacy of composition, however, there are other problems which lurk within the systemic view. In the post war years, following the high trade

barriers of the 1930's, the negotiating process within the GATT and since the WTO have been one of generally reducing trade barriers through exchanges and concessions among developed countries. These exchanges and concessions have been concentrated on manufactured products, but have led to a veritable explosion of global trade in manufactures, admittedly constrained in certain key product areas, such as textiles and apparel. This trade expansion has of course been fuelled by the underlying real income growth of these economies, as well as to the claim of some economists, significant reduction in transportation costs, reflecting in part the change in composition of trade away from heavy basic commodities towards higher valued light items, but at the same time it has clearly reflected significant reductions in trade barriers. In 1929 the ? tariff in the US reached levels of over 50%, whereas today, the average OECD tariff levels on manufactured products are in the region of 2%. These tariff barrier reductions have been so clear and marked that they in turn, through expectations of continued barrier reductions, have generated further increases in trade and trade penetration, but the obvious question that the current situation raises, is whether there is room left for significant further reductions in these barriers. There will clearly be a round of further tariff negotiations in the Millennium Round, but the scope which remains for significant reductions in barriers on manufactured products are relatively small.

Indeed, some have suggested that the potential is there for significant increases in barriers, because of the emergence of a new trend in trade policy to link trade policy actions to non trade matters such as compliance with intellectual property norms and standards, or potential compliance with labour standards and core standards defined over various labour related practices. Environmentally linked trade actions also fit within the same category. Thus, poorer developing countries not only face the concerns over the fallacy of composition, but also face the prospect over

the next twenty to thirty years, of trade barriers no longer continuing to fall, but even potentially rising because of linkage to other non trade related matters.

As if these changes in the structure were not enough to potentially intimidate developing countries, there appear to be other new departures underway. In the agricultural area, for instance, in the Uruguay Round, OECD countries agreed for the first time to tariffify their agricultural restrictions setting up the possibility of reciprocity based liberalization in agriculture. The scope of this tariffication has clearly revealed the prohibitive nature of these trade barriers; Japan, for instance, has recently tariffed some of its restrictions on rice at levels of over 1000%. Some have therefore argued that in a Millennium Round it is possible that we could have significant exchanges and concessions between negotiating parties which were concentrated on agriculture, residual tariffs in textiles and apparels, service related items, and even the developing countries themselves who bound their tariffs at historically low levels in the Uruguay Round of a little below 20%, but still leaving the room for negotiation.

This, in turn, raises the prospect that over the next twenty to thirty years, it could be in the agricultural areas where trade has been effectively prohibited through policies in grains and meats and other key products that large trade expansion occurs. If this is the case, the practices of the last thirty or forty years which have focussed on developing countries seeking outward oriented trade growth by large movements of resources out of agriculture into manufacturing for export of manufactured products could even prove to be misplaced.

All of these matters, therefore, reflect the fact that the trading system itself is not static, but other elements have come into play, and these changing elements suggest that countries need to be ahead of systemic developments. This same set of concerns then, ever changing trade system, are

also manifest in current debate on the architecture of the Bretton Woods institutions. Post war global institutions were born in the 1940's and largely designed to address the problems of the 1940's, the IMF through intervention and credit facilities to countries experiencing pressure on the exchange rates, to maintain the exchange rate regimes with a resumption that these fixed exchange rates at first had been set at realistic poweratives. The World Bank with its ability to generate financing on capital markets to fund infrastructure development within developing countries and the GATT to both generate a rule system for the conduct of international trade policy and also to generally liberalize international trade, both to prevent a return to the extremes of the 1930's when trade volumes fell by perhaps 75% in two years and also to generate forward momentum towards both trade liberalization and growth through progressive reductions in trade barriers.

Since the 1940's, however, the institutional process of these entities has greatly changed. Both the IMF and the World Bank have increasingly become involved with policy related conditional lending which has got them significantly away from their original objectives and the IMF of course found its mandate and positions greatly changed in 1971 when the US and effectively other OECD countries abandoned fixed exchange rate regimes. In the case of the WTO, the clear spread in the activities of the WTO outside of the original trade mandate, also are a source of concern for the developing countries.

However, in light of the events of the financial crises of the last 18 months, much discussion has got underway of potential recasting of Bretton Woods institutions. There is no global regulation of financial institutions, and had banks been regulated globally in the way they are nationally, many claim that many of the difficulties in the Southeast Asian experience would have been avoided. There is no global competition policy with antitrust statutes administered on a global basis, countries have

no extra territorial reach in their competition policy. The Bretton Woods institutions as originally conceived treated countries as only being interlinked through finance and trade not through physical interaction, and hence environmental issues do not arise. Recent calls for a world environmental organization are simply a reflection of these concerns.

The poorer countries clearly have an interest in these issues and these issues in turn affect, in fundamental ways, the form of trade strategy for which they are likely to benefit. The feasibility of outward oriented strategies and their focus on agriculture and manufacturing where the barriers are likely to be coming down or up and whether the rules of the game are likely to change with the global reconfiguration of the our institutional structure. All of these then, are matters which also affect the poorer countries.



#### 4. DELIVERING TECHNICAL ASSISTANCE ON TRADE

##### *4.1 Types of Assistance*

There are several different types of technical assistance related to policy formulation and overall regime management which could be delivered to the poorer and least developed countries in the trade area, with the aim of improving trade performance.

###### *(A) Raising The Level of Awareness of Key Policy Actors to the Overall Policy Framework*

The first type of technical assistance aims to raise the level of understanding as to how the global trade policy system operates; to help key actors assess what the risks and opportunities are for individual countries with different strategies.<sup>9</sup> The actors involved can be legislators trying to grapple with either domestic trade reforms, or endorsement of multilateral reforms; Ministers and political level actors who initiate policy in the area; or key officials charged with policy implementation and management of trade problems.

Within trade ministries in least developed countries, one often finds only limited awareness of the nuances of trade issues; how, for instance, the operation of such agencies as the WTO as well as regional trade agreements to which countries have acceded both impinge on and can be used by the country. By way of example and from personal experience, on a recent visit to Botswana (outside

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<sup>9</sup>See the recent discussion of the contribution the global economy can make to overall economic performance by Richard Blackhurst (1997), a former Director of Research at the WTO.

of the group of the least developed countries) there was much discussion of trade conflicts with South Africa and how best to deal with these. The central issue was duties which had been applied by South Africa against assembled auto units exported from an assembly plant in Botswana operated by a Korean auto manufacturer. The policy response in Botswana was how best to approach South Africa to discuss the issue. This had some merit, but Botswana having acceded to the WTO in 1992, also had rights under WTO dispute settlement procedures. If they had pursued this avenue the probability of winning seemed reasonable, given what seemed to be a violation of Botswana's WTO rights and obligations by the South African side. This seemingly had not occurred to officials in Botswana, due to unfamiliarity with the wider trade system. The lesson seem to be that choosing the best mechanism for dealing with any particular trade issue requires some degree of familiarity with how the whole global system operates, which is often not fully grasped within the poorer countries.

This type of technical assistance begins from the hypothesis that there is a need to raise awareness among key actors in the policy process as to how the whole global system operates, as well as particular issues and situations. These actors can be from the various levels identified above; legislative, political, and official-technical. Improved information flows on trade will hopefully improve decision making and enable opportunities to be grappled.

This assistance can involve several elements. There can be seminars and briefings; study tours for officials who can visit the key agencies in the developed world. It can involve maintaining rosters of trade experts to whom officials in poorer countries can turn when faced with particular trade problems so as to discuss how to proceed. It can also involve efforts to improve the proficiency of younger officials in trade related matters, although one difficulty is that after such training officials may move on to other ministries and take on non-trade tasks. Within the group of technical

assistance possibilities set out here, the budget implications of these efforts seem relatively small compared to more targeted efforts. The payoffs are potentially high, but the benefits are often intangible and have high variance. It may thus be difficult for donor groups to see a clear return for their investment, but it is a form of technical assistance which from my experience is sorely needed.

*(B) Helping implement multilateral or regional agreements*

This form of technical assistance has become popular in recent years and proceeds from the argument that implementing decisions agreed to multilaterally or regionally involves activities that poorer countries cannot execute on their own.

By way of example, in the WTO Uruguay Round, all developing countries acceded to the agreement on intellectual property, the so-called TRIPS Agreement (Trade Related Aspects of Intellectual Property Rights). Under this agreement, if found in violation of global intellectual property norms and standards (covering copyright, patent and trademarks), countries become subject to trade actions if they do not bring their intellectual property regimes into compliance. Such trade actions are not localized to intellectual property, they can also involve trade retaliation in goods. Developing countries were given ten years to comply with the TRIPS Agreement, but in many countries there is no preexisting intellectual property regime. As a result, many of them have been attempting to institute regimes which meet their obligations, and many are concerned that if they do not do so, they will eventually be subject to trade actions sanctioned by the dispute settlement body of the WTO.

Implementing these regimes has attracted substantial interest from donor agencies. Teams of lawyers have travelled to countries, designed new intellectual property regimes and discussed their implementation. The cost of the efforts has typically been high, since not only are design issues

involved, but also implementation issues; maintaining registration systems, establishing legal frameworks for the resolution of disputes, achieving international comparability and certification.

The implementation of these decisions has been something that developing countries have approached with trepidation. However, donor agencies have seemed keen to assist because of the tangibility of the technical assistance, through the enhanced intellectual property protection. The support of commercial interests in the donor countries in strengthening these regimes has been a further factor. While there are benefits to these countries from these strengthened intellectual property regimes insofar as they facilitate the use and dissemination of intellectual property, the payoff in terms of trade and growth performance relative to other forms of technical assistance is unclear, particularly given the large amounts of technical assistance resources which can be involved.

*(C) Dealing with export related impediments*

Another type of technical assistance starts from a recognition of the natural tendency for donor driven technical assistance to be more oriented to the import regime rather than the export problems of poorer countries. There are often quite understandable pressures from interests in the donor countries to seek improvement in the access which developed country exporters have, even to small developing country markets, via technical assistance. In contrast, efforts to assist countries in dealing with their own export related trade impediments, many of which are related to policies in importing countries can involve some degree of conflict with commercial interests in the developed countries which supported the policies in the first place.

These tensions, with their clear implications for delivery of assistance on trade, to poorer countries can be seen in a number of areas. One is in textiles and apparel. Textile and apparel trade

arrangements are complex, involving, among many other things, rules on trans-shipment and other devices used to circumvent the trade restraints.

Thus, under these arrangements, developing countries can be called for consultations to explain their shipments, and can encounter difficulties with the process. Least developed countries may be subject to tight export quotas, and may need help with negotiations. Little or no technical assistance is given to poorer countries in dealing with these matters.

Another example is in the antidumping area, where duties are used where exporting firms are deemed to be selling below cost. Although the rationale for using antidumping duties is a matter outside of the present discussion, many economists argue that there is no efficiency rationale for their use, even to offset predatory pricing. Quite apart from this debate, the use of antidumping has grown in the US and EU to a point that few are able to grasp the precise details of what is involved in dealing with each antidumping action. Rules cover cumulation, that is the aggregation of one country's exports with another for the determination of injury; constructed cost, the use of data constructed by the importing country in the event that the exporting country cannot provide information by a specified date and in a specified format, which then is the basis for the margin of dumping to be determined; and other complex matters. Resulting dumping duties against low income countries can be high because of some of these procedures.<sup>10</sup>

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<sup>10</sup>Spinager (1998b) provides data on recent antidumping actions.

There are even examples of African countries with no prior experience of or involvement with antidumping duties finding themselves subject to dumping actions from the re-export of their products from, say, European countries to the United States. Upon initiation of the dumping action, and having decided to fight the action through US process, they find that they must inevitably hire expensive US legal advice, who, in turn, have difficulty obtaining records from producers in their own country particularly where agricultural products are involved. There may, for instance, be large numbers of growers who operate on a cash basis and the government finds it difficult to consolidate and provide the information in the format required by importing country agencies for the antidumping case. Having done all this, there are examples of countries who subsequently lose the case, and find that their legal costs are many multiples of the trade involved.

These experiences are not only frustrating for countries, but also can use significant amounts of resources. The processes involved are mysterious to countries until they become involved with them. With limited prior knowledge of what is involved in dealing with dumping actions and little basis on which to make key decisions such as to whether they fight the action or whether to find other ways to try to mitigate its damage, they often just react as best they can. Clearly, technical assistance in these areas would be of great value to poorer countries in helping to deal with these situations, even though this may conflict with the interests of affected companies in importing countries.

*(D) Enhancing the negotiating capability of least developed countries*

A final type of technical assistance is the enhancement of trade negotiating capacity. It has traditionally been thought that the least poorer countries, in being small, have only limited (even zero) impact on international negotiations. In turn, it is agreed that the cost of maintaining delegations to

international agencies such as the WTO are prohibitive, both for participating in and following trade negotiations.<sup>11</sup>

It has been on this basis that poorer countries have, to a large degree, participated little in international negotiations such as in the Uruguay Round, and many developmental agencies have implicitly endorsed this position because of limited negotiating leverage and the costs involved.

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<sup>11</sup>See also the discussion in Hamilton and Whalley (1996).

There are, however, other sides to this. First, rather than whether to maintain delegations in expensive cities such as Geneva, the issue is more how the awareness and knowledge of the issues can be raised, since this as much as anything determines the ability to participate. Also, in complex negotiations, such as the Uruguay Round,<sup>12</sup> individual countries may only have concentrated interests in a subset of the various negotiating groups. Effective participation in working groups on key topics can be still achieved by visits to the negotiating location without formal maintenance of a delegation with all the attendant cost.

In addition, participation in negotiations yields information as to what is happening, which may be crucial for the ability of individual countries to position themselves in light of emerging decisions. Often the fine detail in individual agreements can be crucial for specific countries, and participation in negotiations can yield an opportunity to fine tune details in ways which advance country interests.

In addition, developing negotiating capacity can be a learning process for countries, and, more active participation in, say, WTO negotiations and trade rounds may mean enhanced capability to participate in regional trade negotiations, such as under the PTA, in Africa, or in Southern Africa.

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<sup>12</sup>The role and position of the developing countries in the Uruguay Round negotiations is discussed in Whalley (1989). Yeats (1994) provides a quantitative assessment of the impacts on developing countries.



In negotiating smaller regional arrangements the influence of individual countries can be substantial, and the ability to influence such negotiations is often acquired through earlier participation in the larger framework negotiations. Thus, focussed support for participation in international negotiations may be a sensible technical assistance direction to take to meet the objective of developing trade capability in low income countries. This can allow better pursuit of the narrower interests of the country involved, rather than a broad ranging participation across all dimensions of an agreement, negotiating focussed on the accumulation of relevant information and opportunities to fine tune decisions in country interests; and the use of negotiating capability as a learning process which spills over into other theatres of negotiation.

#### ***4.2 Considerations In Designing A Technical Assistance Portfolio***

Having set out these forms of technical assistance for poorer countries in the trade area, in deciding upon an appropriate balance in any technical assistance package actually delivered to a country a number of considerations arise.

##### *(A) Cost Effectiveness*

An obvious consideration is cost effectiveness. The expected payoff from efforts to raise the awareness of the global policy framework in countries may be substantial, but there can also be variance associated with the outcome. The benefits are often not tangible in the way they are with other forms of technical assistance. Providing expertise to help poorer countries deal better with export related impediments (MFA quotas, antidumping for example) also seems to score highly on cost effectiveness, although again the issue of the tangibility of the benefits arises

Larger scale technical assistance undertakings, such as helping install intellectual property regimes in countries can absorb large fractions of technical assistance budgets. But there are tangible benefits, in that documents and new legal regimes are produced. However, the contribution to the overall economic performance of the country from the effort seems less clear.

*(B) Tangibility*

Tangibility of results from technical assistance is also a consideration; donors wish to see a concrete return for their investment. As I note above, a new legal framework installed in the intellectual property, competition, or other policy area provides a tangible benefit, whereas a series of loosely structured interactions involving policy makers on the ways the global trade policy operates may only yield ill-defined and much more diffuse benefits, whose contribution to overall economic performance is both hard to identify and quantify.

*(C) Policy Coherence*

Another consideration in gauging the effectiveness of technical assistance is to ask how narrowly focussed assistance efforts interlink with the remainder of the policy formation process. Where are the weakest links?

There is little point discussing new policy approaches if they cannot be implemented because the structure needed for them is not in place. Sophisticated trade promotion strategies, for instance, may not be implementable. There is equally little point in designing detailed policy initiatives for a part of a trade regime, if policy makers do not fully grasp the main objectives and directions behind the initiative, and are, hence, unable to generate the political support needed for its implementation. Where the policy implementation structure is weak, it suggests focussing on policy implementation

before broader ranging discussions of policy options get underway. The weakest link in the overall policy chain may thus be the area which should be strengthened first in any assistance effort.

*(D) Improving Export Access*

Yet another consideration, as I stress above, is the relative importance for countries of helping achieve improved market access abroad, compared to helping countries implement more consistent import regimes. It is often argued that poorer countries do not face major problems of market access abroad since their key export commodities are not heavily barrier constrained. The often heard argument is that their trade performance problems on the export side are supply based, and reflect bottlenecks of various kinds with their production, distribution, and delivery systems. This may still be true for many poorer countries who continue to export a narrow range of commodities, but increasingly these countries are moving into labour intensive manufactures and exploiting possibilities for outsourcing and direct foreign investment. As they do so, they clearly become entangled with export related issues. Antidumping problems now occur in products with relatively low degrees of processing, and for such products as fruit and vegetables (green beans, for example). The payoff to improved trade performance from technical assistance in dealing with export related difficulties seems large.

*(E) Donor Coordination*

Finally, there are some obvious issues of donor coordination and avoidance of duplication. Assistance in this area is most effective if it dovetails with the activities of international and other agencies within countries. By way of example, the WTO offers short (two to three week) training programmes every year for young trade officials from developing countries. These take them through the structure of the WTO, the basic WTO articles, dispute settlement and negotiations and other

matters. This has proved to be an effective vehicle for also raising the awareness of the global policy framework within countries. Travelling to lower income countries, one often finds junior government officials who are familiar with WTO issues, who are articulate and able to argue a country case, and more often than not has been through this WTO training program. Technical assistance which increased the number of such places, and provides more access to these kinds of programs can be a low cost and beneficial way of enhancing country capability in this area, and flows directly from the need to dovetail with other trade assistance efforts already underway in the poorer countries.

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