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The Problem of Inclusion, Developing Countries, and Global Trade

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Anger and optimism are coexisting themes related to the growing liberalization of international trade and the resultant transforming forces of globalization. While international trade and globalization offer the world community many benefits, there also appear to be negative consequences, particularly for least developed countries (LDCs). With increased trade and globalization has come an uneven distribution of the costs and benefits. This appears to have exacerbated inequalities of wealth and power within and between countries. The result is asymmetric interdependence where certain countries seem to prosper while others suffer. If trade is to benefit the LDCs and their poor constituents, more must be done to make them full and equal participants in the world economy. Particularly in the agricultural sector and the clothing and textiles sector, the industrialized countries need to remove their trade barriers in order for the LDCs to accrue the benefits of free trade and market liberalization. By fully embracing trade liberalization, the industrialized countries could allow the LDCs to realize substantial economic gains and move millions of people to positions above the poverty line. Thus, the reduction of trade barriers is an obligation of the industrialized countries if they wish the LDCs to prosper – as other nations have – in the new global economy. In promoting worldwide trade liberalization, the World Trade Organization (WTO) plays a crucial role. However, considering that the bulk of world trade is still between industrialized nations, and that the biggest WTO decisions have little or nothing to do with LDCs, the WTO may not be the best forum for promoting a comprehensive understanding of developing-world issues. Similarly, the International Bank for Reconstruction and Development (World Bank) and the International Monetary Fund (IMF) can play important, but limited, roles in resolving developing-world issues. The United Nations provides a more natural forum in which to address the unique problems and concerns of LDCs. As a network of governments, the UN is better equipped for knowledge exchange, advocacy, and fair hearing of the problems plaguing the developing world. It is also a better source of legitimacy than are international financial institutions (IFIs). These characteristics provide the UN with the moral authority necessary to effect change to the benefit of LDCs.

Keywords: free trade, globalization, liberalization, least developed countries, less developed countries, trade, United Nations, World Bank, World Trade Organization

Introduction

There is both anger and optimism over the growing liberalization of international trade and the resultant transforming forces of globalization.[1] While international trade and globalization offer the world community many benefits, there also appear to be negative consequences, particularly for least developed countries (LDCs). With increased trade and globalization has come an uneven distribution of the costs and benefits. This appears to have exacerbated inequalities of wealth and power within and between countries. The result is asymmetric interdependence where certain countries seem to prosper while others suffer. Simply producing the gains from increased international trade is insufficient; a more equitable international trading system is necessary to allow LDCs to share in its benefits.

If trade is to benefit the LDCs and their poor constituents, more must be done to make them full and equal participants in the world economy. Particularly in the agricultural sector and the clothing and textiles sector, the industrialized countries need to remove their trade barriers in order for the LDCs to accrue the benefits of free trade and market liberalization. Domestic market support, import quotas, tariffs, and export subsidies in industrialized countries have greatly hampered the LDCs' crucial agricultural and clothing and textile exports to industrialized markets. Eliminating trade barriers on these items would put the poorest populations of the world in a much more favourable economic position. By fully embracing trade liberalization, the industrialized countries could allow the LDCs to realize substantial economic gains and move millions of people to positions above the poverty line. Thus, the reduction of trade barriers is an obligation of the industrialized countries if they wish the LDCs to prosper – as other nations have – in the new global economy.

In promoting worldwide trade liberalization, the World Trade Organization, which oversees multilateral trade arrangements, plays a crucial role. It is able to goad rich and poor countries alike into reducing or eliminating trade barriers. However, considering that the bulk of world trade is still between industrialized nations, and that the biggest WTO decisions have little or nothing to do with LDCs, the WTO may not be the best forum for promoting a comprehensive understanding of developing-world issues. Similarly, the International Bank for Reconstruction and Development (World Bank) and the International Monetary Fund (IMF) can play important, but limited, roles in resolving developing-world issues. The United Nations (UN) provides a more natural forum in which to address the unique problems and concerns of LDCs. The UN is a natural nexus for international discussions and action beyond the narrower realms of international trade and finance. As a network of governments, the UN is better equipped for knowledge exchange, advocacy and fair hearing of the problems plaguing the developing world. It is also a better source of legitimacy than are international financial institutions (IFIs). These characteristics provide the UN with the moral authority necessary to effect change to the benefit of LDCs.

Sharing the Gains from Trade

Both academic theory and history support the notion that countries generally benefit economically with free trade.[2] Although some theories precede events, international trade developed centuries ago, long before any trade theories had evolved. Trade among the city-states throughout the Mediterranean region, for example, predates recorded trade theories by more than 2000 years.[3] While ancient city-states realized material benefits from trade, the primary argument for international trade was not advanced until 1817, by David Ricardo. In his *Principles of Political Economy*, Ricardo advocated a set of propositions that are still utilized by today's free trade advocates and policymakers. According to Ricardo, it is mutually beneficial for countries to specialize in the production of those goods that they can produce most efficiently, that is, goods in which they have a comparative (or relative) advantage.[4] These goods should then be traded for the goods of other nations. The policy implication is that liberalization of international trade will increase the welfare of citizens throughout the world. In other words, international trade, in theory, is not a "zero-sum" game in which one country benefits at the expense of another country.[5] Rather, unhindered international trade could provide benefits to all participating countries, rich and poor alike.

Although the theory of comparative advantage is not without its deficiencies and critics, it has provided economists and policymakers throughout the world with a powerful intellectual basis for promoting free trade among nations.[6] Interestingly, on the basis of Ricardo's theory, it would be expected that most trade should occur among dissimilar countries. For example, in theory, there should be increased trade activity between an industrialized country and an LDC, or between a temperate country in the north and a tropical one in the south. The greater the dissimilarity among countries, the greater the potential for trade. Countries with great differences in climatic conditions, labour, or capital will differ in the types of products they can produce relatively more efficiently. These national differences should affect the degree to which products move from one country to another. In other words, international free trade should provide all countries with the means to help optimize world economic output and raise income levels for all participants in the long run. In theory, the LDCs should be in a position to benefit from trade. Observations of actual trade patterns, however, reveal that most of the world's trade takes place between countries with similar characteristics. Specifically, trade has tended to occur among the industrialized nations, which have relatively educated populations and skilled labour forces and are located in northern temperate areas of the globe. For example, the United States is the world's largest single trader, and eight of the ten largest export markets are also the top ten destinations for U.S. imports.[7] Nine of the ten largest U.S. export and import partners are industrialized countries.[8] At the global level, all ten of the largest importing and exporting nations are industrialized countries.[9] It would thus appear not only that trade theory is at odds with actual trade practice, but also, more importantly, the LDCs have generally been unable to participate in the gains available from international trade.

Even if trade does take place primarily between countries with similar economic characteristics, the following question remains pertinent: does increased international trade, (even among similar countries) facilitate economic growth? Critics of international trade and globalization have frequently pointed to studies which have demonstrated that, despite the adoption of free trade policies by most countries of the world, the income gap between the LDCs and the industrialized countries has increased in the past few decades.[10] This suggests that the rise in liberal trade policies around the globe has benefited the industrialized countries at the expense of the LDCs. There have been a few successes, notably a number of developing countries in East Asia, and the transition economies of China, India, and Uganda.[11] However, from the LDC perspective it appears that increased trade widens the gap between wealthy industrialized nations and the poor LDCs. Thus, it would seem that free trade is skewed in favour of the industrialized world.

In support of the position that globalization is increasing financial inequality is the widely cited UN *Human Development Report*. The 1999 issue states the following:

> Gaps between the poorest and the richest people and countries have continued to widen. In 1960, 20% of the world's people in the richest countries had 30 times the income of the poorest 20%; in 1997, 74 times as much. This continues the trend of nearly two centuries. Some have predicted convergence, but the past decade has shown increasing concentration of income among people, corporations and countries.[12]

According to the UN, this global inequality has worsened within countries; it has also worsened across countries.[13] Other studies support the view that there is an increasing income gap leading to, in the words of one economist, "divergence, big-time".[14] Clearly, over the past 30 years, the industrial nations have grown richer, while most of the very poorest of the LDCs have stayed poor.[15] Critics of globalization blame these disturbing trends on the neo-liberal policies imposed by the WTO, the World Bank, and the IMF. The *Human Development Report* continues:

> National and international economic policies shifted sharply in the 1970s and 1980s towards more reliance on the market-diminishing role of the state. By 1997, India had reduced its tariffs from an average of 82% in 1990 to 30%, Brazil from 25% to 12% and China from 43% to 18%. Driven by technocrats, the changes were supported by the IMF and the World Bank as part of comprehensive economic reform and liberalization packages. Conditions for membership to the WTO were important incentives. Country after country undertook deep unilateral liberalization, not just in trade but in foreign investment. These changes have sped the pace of globalization and deepened the interactions among people. The new rules of globalization focus on integrating global markets, neglecting the needs of people that markets cannot meet. The process is concentrating power and marginalizing the poor, both countries and people.[16]

If disparity in the world's income distribution has widened over the last few decades, such widening would seem to suggest that increasing trade and globalization provide few, if any, benefits – at least to the LDCs; otherwise, the LDCs would be much more motivated to integrate their individual economies into the global economy as the WTO, IMF, World Bank, and industrialized countries advocate. However, the trade and globalization issue is much more complex. The reasons for global inequality are many, and some have little connection with trade. Poverty in various parts of the world is the result of a range of causes that includes not only poor weather, but also corrupt and ineffective government. All of the 25 poorest nations on earth are badly governed.[17] In many countries, individuals are not allowed to own land and lack basic property rights. In the poorest of the LDCs there are also unenforceable contracts, microeconomic instability, civil unrest or war, and predatory government regimes.[18]

To add to the complexity of the issue, global inequality has also increased for reasons related to trade. First, the economies of industrialized countries have grown at a much faster rate than those of the LDCs.[19] Second, population growth in the LDCs outpaces that in countries belonging to the Organization for Economic Cooperation and Development (OECD).[20] Third, there is slow growth of economic output in rural China, rural India, and Africa.[21] Fourth, the income of urban China has grown rapidly, which has widened the income gap with rural China.[22] Finally, technological advancements and financial services liberalization have resulted in a disproportionate increase in the number of individuals at the wealthy end of the spectrum, without a reduction in the numbers at the poor end.[23] Furthermore, population growth adds disproportionately to the number of individuals living near or at the poverty line. Perhaps it is for this reason that the World Bank's *World Development Report* for 2000 states that rising income inequality "should not be seen as a negative", as long as incomes of the poor do not fall and the number of people living in poverty does fall.[24]

Statistics can be utilized with great effect to support either side of the globalization debate. However, it must be noted that even though within-country inequality and across-country inequality are increasing, it does not necessarily follow that global inequality overall is increasing.[25] For example, consider the case where five-sixths of the world's population lives in poor LDCs, while one-sixth lives in wealthier industrialized nations. In across-country terms, there is a great divergence in wealth. If one poor but highly populated country starts to experience economic growth, inequality within this same country would worsen somewhat. Statistically, in spite of its size, this country would have little effect on across-country comparisons: the rapid growth in wealth would not be great enough to affect divergence measurements. For example, China is a populous country and its economy is growing at a fast rate. Inequality within China will worsen on average, as some sectors of the economy remain stagnant (mostly rural) while others sectors (largely urban) witness rapidly rising incomes. At the same time, overall inequality, if measured across all the people in the world, would fall. In fact, when across-country measures of divergence are weighted by population, there is not a rising trend of inequality, but rather the opposite: a convergence of global incomes.[26] Thus, contrarily, global income disparities, studied over seven of the most popular measures of income inequality over the last two decades, show a significant decline.[27] Based on this information, increased international trade and globalization are already providing the LDCs with certain, albeit marginal, benefits.

Not only has the world as a whole become wealthier during the recent globalization period, but also the large group of people living near the poverty line has been shrinking since 1970.[28] The one-dollar-a-day poverty rate has fallen from 20 percent of the world's population to 5 percent over the last 25 years.[29] Furthermore, the two-dollars-a-day poverty rate has fallen from 44 percent of the world's population to 18 percent.[30] By 1998, there were between 300 and 500 million fewer people living in poverty when compared to the 1970s.[31] The absolute number of people living in poverty is declining by about 5 million a year, but that still leaves about 800 million people hungry.[32] Most of the impoverished – 95 percent of the world's poor – live in Africa.[33] This large concentration of poverty in Africa suggests that the lack of economic growth on that continent is one of the most serious issues in the globalization debate. It would seem that the best strategy to reduce poverty and inequality is to induce aggregate economic growth and development, especially within the poorest of the LDCs.

Multinational corporations (MNCs) have often been cited as the "engines of development" throughout the world.[34] An opposing view has been critical of MNCs, stressing the negative impact of these organizations, especially on LDCs.[35] These critics contest the alleged socio-economic benefits for LDCs from MNC investment and activity. Indeed, some studies of LDC development, especially those in Latin America, have shown that MNCs have had negative consequences in certain economies: they eliminated more jobs than they created; acquired local capital without providing foreign capital; harmed local entrepreneurs; violated human rights and harmed the environment; and provided inappropriate technology for the needs of the local economy.[36] In sum, MNCs have done more harm than good, at least in some LDCs.

MNCs are a powerful global force. They clearly have the ability to wreak havoc on a small LDC economy but they can also help to drive growth. Consider that 51 of the largest 100 "economies" in the world are MNCs, and the top 500 MNCs account for about 70 percent of the world's trade.[37] Ninety-nine of the 100 largest MNCs are also based in OECD nations.[38] The sheer size of many MNCs should be of concern to anyone involved in the globalization debate, especially the LDCs. The larger MNCs obviously enjoy considerable power in negotiating business arrangements with governments. In fact, the outcome of such negotiations can be of a greater consequence to an LDC than many of its treaties with other countries.

In broad terms, the primary criticism of MNCs is that they are not concerned with national societal interests due to their global perspective and worldwide base of operations. While this criticism is not without its merits, MNCs in general have helped to drive growth in many LDCs. One study of 52 LDCs over the period from 1983 to 1990 found there to be a positive correlation between MNC activity and economic and social development.[39] Furthermore, where MNCs fostered economic development in terms of foreign direct investment, employment, and income in these LDCs, improvements in political and civil rights are noted.[40] Thus, not only are MNCs associated with increased development, they are also positively associated with improved human rights. Although the effects of MNCs on LDCs may be open to debate on many dimensions, MNCs appear to be able to contribute to LDC growth and employment by enabling idle resources to be used and by using country-based resources more efficiently.

Including the LDCs in Trade

Notwithstanding some of the negative consequences for LDCs, and their recent experiences with globalization, there is strong evidence to support the argument that, overall, LDCs can benefit from increased trade. The need to bring the world's poor and deprived into the global economy is manifest. There is growing public concern that not enough is being done to address worldwide poverty and poverty-related social illnesses such as poor working conditions, civil strife, human rights violations, and the degradation of the environment. While the linkages between trade and poverty *per se* are not as direct and immediate as the linkages between poverty and national policies (such as health care, education, governance, etc.), trade can affect the income opportunities of the poor in a number of ways. Some of these may be negative, but trade liberalization can be, overall, a positive contributor to poverty alleviation. As already noted, increased trade allows individuals to maximize their productive potential and it assists LDCs in economic growth.

There is much at stake in forging a new global trade policy that is more inclusive of the LDCs. The World Bank has estimated that the elimination of all trade barriers alone would increase global income by US$2.8 trillion and lift 320 million people out of poverty by 2015.[41] Removal of agricultural product subsidies in the OECD countries could provide the LDCs with three times the amount of overseas development assistance (ODA) they currently receive.[42] Complete trade liberalization in all sectors in the OECD nations would benefit the LDCs by almost eight times their ODA.[43] The United Nations Conference on Trade and Development (UNCTAD) *Trade and Development Report* for 1999 estimates that in the low-technology industries, the LDCs are missing out on $700 billion in export earnings as a result of trade barriers.[44] This represents about four times the average annual foreign direct investment (FDI) influx into the LDCs during the 1990s.[45]

It would appear that the LDCs may be able to grow their way out of poverty and into the more prosperous global economy. If so, trade can serve as the primary engine in that growth. Unfortunately, the LDCs remain skeptical that trade is their best hope for development. They have become cynical about the industrialized world's commitment to liberalized trade. The LDCs have good reason: the United States and Europe have been pushing the issue on the need for them to open their markets, yet they have effectively kept out many poor-country exports. In 1993, when the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) was completed, it was felt that the LDCs would benefit most.[46] In hindsight, the LDCs have arrived at the belief that the industrialized countries have failed to deliver on the commitments they made under the Uruguay Round and that certain GATT and subsequent WTO provisions have, in practice, proved to be counterproductive.

The LDCs are justified in their assertion that they have not realized the promised benefits of liberalized trade as expected under the Uruguay Round. Industrialized countries cut their tariffs by less in the Uruguay Round than did the LDCs. Since then, industrialized countries, notably the United States and Europe, have found new ways to close their markets, primarily by imposing antidumping duties on imports that are deemed to be unreasonably low-priced. Furthermore, the OECD nations are especially protectionist in many of the sectors where the LDCs are best able to compete, such as agriculture and textiles and clothing. As a result, according to one study, OECD average tariffs on manufacturing imports from LDCs are four times higher than those on such imports from other OECD countries.[47] This difference imposes a hefty burden on these poor nations.

Finally, the LDCs are also handicapped by a lack of technical expertise in economics and trade-related matters. Many had a poor understanding of the issues encompassed in the Uruguay Round. That ignorance has been extremely costly. According to one estimate, simply implementing the Uruguay GATT commitments to improve trade procedures and establish technical and intellectual property standards has cost more than a year's development budget for the poorest LDCs.[48]

Much can be done to include the LDCs in the benefits available through trade. Fortunately, many governments, trade supporters and critics understand that certain adjustments to the GATT/WTO rules are needed if the trading system is to realistically reflect and address the inequalities of the world. With the most recent multilateral trade round, launched at Doha, Qatar, in November 2001, came recognition that the LDCs need to become full members in the global economy – and they need assistance to get there. A starting point that Doha recognizes is that technical assistance and capacity building are essential to assist LDCs to implement GATT/WTO rules and obligations. In many cases in the past, in areas where LDCs could have benefited from GATT/WTO trade rules, they were unable to do so because of poor financial resources and lack of expertise.[49] The WTO has helped some LDCs to win trade disputes against OECD nations. For example, Costa Rica is now able to sell clothing more easily in the United States, and Ecuador can now export more bananas to Europe.[50] However, in 1999, of the WTO's 134 members, 29 were unable to afford missions to the WTO headquarters in Geneva.[51]

During the 1990s the WTO did little to help LDCs with technical assistance. In 1999 its yearly budget for technical assistance was only CHF741,000 (US$480,000), and rules bar the WTO from distributing these funds to help countries bring cases against each other.[52] More recently, in a push to include LDCs in the world trading system, the WTO has made greater efforts to assist LDCs to adjust to WTO rules and disciplines, implement obligations, and exercise the rights of membership.[53] Since 1999 the value of the WTO's technical assistance program has risen dramatically. In 2002, for example, the WTO budget for technical assistance increased to CHF30 million (US$20 million).[54] This money is crucial to the effective participation of LDCs in the multilateral trading system. It helps them to train negotiators, build efficient customs regimes, and reinforce their capacity to understand and formulate effective trade policy. In this way, LDCs will become better equipped to participate in the work of the WTO and thus benefit from the liberal, rules-based multilateral trading system.

However, it must be noted that the WTO is not a development body. For an international organization, the WTO is relatively small and has a modest number of staff members. It also has a modest budget. The WTO exists to administer trade law, settle disputes, assess GATT/WTO treaty compliance and provide a forum for trade negotiations. As the WTO's budget comes from member states, the organization should not be relied upon to lead – nor criticized for not leading – the development charge.

The WTO ministerial conference at Doha recognized that the products of the LDCs still face many obstacles to entering the markets of industrialized nations. A strong message put forth by the developing world is that the industrialized countries need to do more to reduce trade-distorting subsidies and dismantle their existing barriers to competitive exports from the LDCs. Thus, a basic priority of the international trade community must be to create conditions, beyond provision of technical assistance, in which the LDCs can maximize the gains they are able to secure from trade.

Including the developing world in the benefits of trade requires action in at least two key sectors: 1) agriculture and 2) textiles and clothing. While the Uruguay Round made significant contributions to the liberalization of international trade, the post-Uruguay world trading environment still contains distortions in a number of sectors. One feature of the current environment is that while *average* tariff levels have dropped dramatically since the Uruguay Round, this average masks the much higher rates applied to imports in a few sensitive sectors. One of the areas where extensive impediments to trade exist is the agricultural sector. Unfortunately for the LDCs, agriculture is one of the most important sectors of their developing economies and remains one of the most difficult areas for trade policy in the industrialized world; it is also one area in which trade liberalization can still yield enormous benefits. The poorest members of the population in virtually any LDC live in rural areas and depend on a sustainable and productive agricultural sector for even meagre incomes. For about 50 LDCs, agriculture accounts for over one-third of export earnings, and for almost 40 developing countries, it represents about 50 percent.[55] Yet trade in agricultural products is still impeded by significant obstacles imposed by OECD nations. According to the WTO, support in the form of subsidies alone to the agricultural sector in OECD nations averages about $1 billion a day.[56] To use another example, the $2 billion the United States spends on cotton subsidies each year is worth more than the total cotton production of sub-Saharan Africa.[57] Similarly, the $2 billion the European Union spends on subsidizing sugar, which is another important crop in the developing world, seems equally perverse.[58] Such massive support forces even the most efficient LDC producers out of markets where they would otherwise be able to compete. The OECD itself notes the counterproductive effect of these subsidies. It states: "…such protection continues to be regressive as it mainly benefits large firms and impacts most strongly on low-income consumers for whom food constitutes a large share of their total household expenditure."[59]

Under the WTO Agreement on Agriculture, members are obliged to limit and reduce the volume and value of export subsidies.[60] In addition, the use of new export subsidies is prohibited. Still, the post-Uruguay levels of export subsidies that will continue to be allowed at the end of the implementation period are close to $13 billion a year.[61] While much work needs to be done to make the LDCs equal partners in global trade, the reduction of subsidies to OECD agricultural sectors is a positive step.

Another key area where LDCs can realize the benefits of trade is in textiles and clothing. This sector is the largest export earner for many LDCs, but protectionist trade distortions have plagued this area for the last three decades. Under the 1995 WTO Agreement on Textiles and Clothing (ATC), Canada, the United States, and

Europe continue to maintain restrictions on imports of textiles and clothing from LDCs.[62] Before the ATC, a large portion of textiles and clothing exports from poor countries were subject to quotas under a special arrangement outside normal GATT rules. The LDCs have argued for years that import barriers by a number of OECD nations in this sector represent a major impediment to their economic development. Fortunately, with the ATC, non-tariff barrier quotas will be fully phased out by 2005. This timeline is to allow a number of industrialized countries to adjust in this sector. After phase-out, as the quotas come to an end, the importing countries will no longer be able to discriminate between exporting countries. However, trade in textiles and clothing will still be impeded by the relatively high tariffs in the main importing countries. The bound tariff currently averages 8 percent, but there are many peaks within this average.[63] Despite low average tariffs for industrialized-country products, the products in which LDCs are globally competitive – from the agricultural and textiles and clothing sectors – will likely continue to attract relatively high tariffs. Furthermore, developed countries are more inclined to utilize antidumping measures to negate any gains on textiles that LDCs might obtain from the elimination of existing restrictive import regimes in that sector. These remaining barriers to trade for LDCs must be eliminated if LDCs are to be given the opportunity to develop economically.

International Institutions for the Developing World

The WTO as well as the IMF and the World Bank, *inter alia,* play significant roles in furthering trade and globalization. The multilateral treaties signed under GATT/WTO, and the operations of the IMF and the World Bank, have effectively promoted economic policies and processes associated with globalization: market liberalization, privatization, and the creation of legal regimes facilitating economic transactions and FDI. However, although the WTO, IMF and World Bank operate on the premise that their promotion of trade and economic activities will advance human welfare, equity, and social justice, especially in developing countries, these issues are not the explicit concerns of these institutions. Therefore, the commitment these institutions have to bettering human welfare around the globe is limited. Advancing human welfare, particularly within LDCs, involves issues and programs well beyond the narrower confines of trade and economic policy. While the WTO and IFIs have an important, but limited, role in promoting developing-world issues, the UN and its related organs are better equipped to meet the multidimensional challenges facing the LDCs.

The primary function of the WTO is to further the development (and enforcement) of the multilateral trading system along the principles followed by the eight rounds of trade negotiations concluded under the GATT regime. There is no doubt that GATT/WTO has helped to boost global trade. As the UN *Regional Commissions Development Update* notes, "trade creates wealth."[64] World exports have increased from US$60 billion in 1950 to $5,300 billion in 1998, or about 20 percent of the world's output. GATT/WTO has been a necessary precondition to enable this growth.[65]

While the GATT/WTO has promoted global economic growth, the institution has faced increasing criticism. The harshest critics argue that the WTO is an undemocratic institution, secretive, and unresponsive to the needs of the poor. The words of CorpWatch are representative: "[s]upposedly each of the WTO's 131 member countries have an equal say in governance. In practice, decision-making is dominated by the 'Quad': USA; European Union; Japan and Canada."[66] To make matters worse, "[e]ach member of the Quad represents its corporations' interest at the WTO. These corporations are often directly involved" in making and enforcing WTO rules.[67] The idea that the WTO represents big business, takes advantage of LDCs, and tramples on the rights and interests of workers and environmentalists is widely circulated.[68] If the WTO is seen as a tool of "unknown and mysterious multinationals," as the European Union's trade commissioner notes, this view is based primarily on ignorance. The WTO is more democratic than are the IMF and the World Bank: each country enjoys an equal vote. The WTO's dispute mechanism and bargaining rules are largely transparent. However, the WTO is not an institution *primarily* concerned with global governance or the social or economic development of poorer nations. Its mandate is to promote trade. Thus, while the WTO can play an important role in promoting trade as an engine of development for LDCs, this is not – nor should it be – its main function.

Since their founding at Bretton Woods in 1944, the IMF and the World Bank Group[69] (World Bank) have played vital roles in fostering globalization throughout the world. Like the WTO and the UN, these are the main institutions that govern globalization. While the IMF and the World Bank each have a different focus, they seek to promote international development through long-term capital investment (World Bank) or ensure global economic stability through short-term lending to governments experiencing temporary economic downturns and balance of payments problems (IMF). As these institutions have evolved, they have become more committed to the neo-liberal economic policies of structural economic reform, privatization, capital-market liberalization, and deregulation as a means of achieving development. This commitment suggests that these international institutions may not be the most suitable bodies for addressing developing-country issues. Since the early 1980s, for example, the IMF has imposed structural adjustment programs on more than 70 countries as a condition of financial assistance. These measures have been dubbed the "Washington Consensus" of policies for developing-country prosperity.[70] For example, structural adjustment policies have required 36 countries in Africa – where the majority of people live in poverty – to decrease domestic consumption and shift scarce resources into the production of cash crops for export.[71] Privatization of government-owned companies and government services has been imposed, as well as cuts in education and health care expenditures. From the perspective of the LDCs, structural reforms imposed by the IMF and the World Bank appear to enhance the power and mobility of international capital, while diminishing capital regulations in an attempt to attract FDI. For the LDCs, these pressures create complex and contradictory demands. As one academic notes, "[o]n the one hand, the [World] Bank furthers the process of globalization that undermines the third world state; on the other, the Bank simultaneously allocates to the state responsibility of securing the basics of social welfare for its people and, hence, of addressing and in some measure resolving the problem of globalization."[72]

Not surprisingly, structural adjustment policies imposed by the IMF and the World Bank have elicited protests in numerous LDCs.[73] The frustration is not unjustified. Numerous structural adjustment programs have failed, leading Horst Kohler, the head of the IMF, to admit that numerous failures, most recently in Latin America, "suggest that we still have a lot to learn."[74] Other governmental bodies have been more critical of the IMF and World Bank. A bipartisan U.S. Congressional committee, the Meltzer Commission, found that IMF and World Bank failures are the result of "overlapping missions, ineffectiveness, corruption, and waste of resources, and failure to develop successful regional programs in agriculture, forestry, environment and health care."[75] It is possible that the IMF and the World Bank are themselves to blame for a litany of LDC failures. Perhaps they push countries into structural reform, privatization, and capital-market liberalization prematurely. Even some of the IMF's own economists have recently acknowledged the risks involved in free foreign capital flows for LDCs.[76] In any event, as international financial institutions, the IMF and the World Bank appear to be ill equipped to deal comprehensively with developing-country issues. Considering the complexity of the needs of LDCs, the resolution of their structural problems is more suited to the resources available through the UN.

There is growing awareness that certain development strategies promoted by the WTO, IMF, and World Bank have limitations. The issues of development are extremely complex and extend beyond the realm of economics and perhaps beyond the full understanding of commercially focused international institutions. In order to assist LDCs to prevent and overcome negative effects of globalization – and reap its benefits – the international community needs to devise more comprehensive development strategies and policies, taking into account development's social, human, and environmental dimensions in addition to its economic dimension. The UN and its related bodies can play a leading role in this regard.

One of the mandates of the UN is to promote higher standards of living, employment, and conditions of economic and social progress and development around the world.[77] As much as 70 percent of the work of the UN system is devoted to accomplishing this mandate.[78] This work is based on the premise that eradicating poverty and improving the social and economic welfare of people worldwide are necessary steps in creating the conditions for peace. The UN has specific strengths that equip it to address development issues. Its presence is global and its comprehensive mandate spans social, economic, environmental, and emergency needs. In addition the UN does not represent any particular national or commercial interest. When major development policy decisions are taken, all countries, rich and poor, have an equal vote. The UN is also able to pool the efforts of its various related bodies to tackle complex problems, like the AIDS epidemic in Africa, which cut across organizational areas of expertise and defy the efforts of a country acting alone. Not surprisingly, the UN is the primary organization for furthering development in LDCs, providing assistance worth more than $30 billion a year.[79] The UN should thus remain the focal point of all international efforts to address developing-world issues.

There are a number of ways in which the UN could expand its role in assisting the LDCs that are harmed as a result of trade liberalization. The UN, for example, could become more active in helping the LDCs find ways to mitigate the costs, or to adjust, in order to take advantage of the economic opportunities that arise from liberalization. As already noted, the problem is that, while trade liberalization fosters growth and development, it also results in losses for certain economic groups. In essence, some sectors of an economy are forced to make disruptive financial sacrifices for the greater good of their country and the global economy as a whole. For such hardship, the losing parties are usually inadequately compensated. This is where the UN could help. While the WTO continues to promote trade liberalization, the UN could provide assistance to those groups that are disadvantaged by that liberalization. In more specific terms, the UN could expand the role and power of the UN Conference on Trade and Development (UNCTAD). Through UNCTAD, there already exists an important and influential organ that deals directly with trade and developing countries.

In relevant areas, UNCTAD could be given additional responsibility and resources to aid transition into the world economy of those hurt by trade liberalization.

Conclusion

Trade and globalization remain potentially powerful and dynamic forces for growth and development, particularly for the LDCs. They can improve the overall performance of LDCs' economies in a number of ways. Trading and globalization can: enhance market opportunities for LDC exports; transfer information, skills, and technology; and increase the sources available for FDI. Maximizing the benefits of trade and globalization requires sound domestic policies as well as support at the global level from international institutions. While the WTO, IMF, World Bank, and other institutions play an important role in this regard, UN leadership is critical for LDC success in this area.

Including the LDCs in the benefits of globalization requires that the international community address the imbalances and asymmetries in the international economy, especially in terms of better market access for LDC products. Another concern is that globalization has de-linked finance and investment from international trade. This has led to high volatility in capital flows and, hence, weakened the capacity of many LDCs to effectively manage their integration with the world economy. These negative effects also need to be addressed by the international community. Thus, while liberalized trade has generated growth, there is still plenty of scope for improvement in many areas of export and trade with regard to the LDCs. The efficient functioning of a truly non-discriminatory global marketplace would represent an extremely significant contribution to the sustained economic growth and sustainable development of the LDCs. Indeed, this may be their only hope for a better and more prosperous future.

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Endnotes

1. The term “globalization” has become so over-used that it almost defies definition. Some equate it with “Americanization” of the world, while others claim it describes nothing new, as states have always interacted, whether by trade or invasion. As used here, “globalization” is broadly defined as the geographical shift in domestic economic activity around the world and away from nation states. See Gordon Smith & Moises Naim, *Altered States: Globalization, Sovereignty, and Governance* (Ottawa: International Research Centre, 2000).
2. “Free trade” is defined here as the condition in which the free flow of goods and services in international exchange is neither restricted nor encouraged by direct government intervention. For a review of the arguments for and against free trade, see Joseph E. Stiglitz, *Globalization and its Discontents* (New York: W.W. Norton & Co., 2002) and Kelly-Kate Pease, *International Organizations,*

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3. George Forrest, “Greece: The History of the Archaic Period” in John Boardman, Jasper Griffin & Oswyn Murray, eds., *The Oxford History of the Classical World* (New York: Oxford University Press, 1986) 19 at 22-26.
4. Cheol S. Eun & Bruce G. Resnick, *International Financial Management* (New York: Irwin McGraw-Hill, 1998) at 12.
5. This is the view of the Mercantilists.
6. For criticisms of Ricardo’s theory of competitive advantage (or the “liberalistic” approach to international economic theory) see Kelly-Kate Pease, *supra* note 2 at 67-69.
7. John B. Daniels & Lee H. Radebaugh, *International Business, Environments and Operations* (New York: Addison-Wesley, 1998) at 212.
8. *Ibid.* at 212.
9. *Ibid.*
10. Dan Ben-David, Hakan Nordstrom & L. Alan Winters, *Trade, Income Disparity and Poverty* (Geneva: World Trade Organization, 1999) at 3.
11. *Ibid.*
12. United Nations Development Programme, *Human Development Report 1999* (New York: Oxford University Press) at 36.
13. “Convergence Period,” *The Economist* (July 18, 2002) online: Economist.com <http://economist.com/PrinterFriendly.cfm?Story_ID1234903>.
14. *Ibid.* These words belong to Lant Pritchett and his well-known article, “Divergence Big-Time” published in the *Journal of Economic Perspectives*, Summer 1997, vol. 11, no. 3.
15. “Convergence Period,” *ibid.*
16. United Nations Development Programme, *supra* note 12 at 29.
17. “Stop Blaming the Weather,” *The Economist* (June 13, 2002) online: Economist.com <http://economist.com/PrinterFriendly.cfm?Story_ID1177198>.
18. *Ibid.*
19. Robert Wade, “Winners and Losers,” *The Economist* (June 13, 2002) online: Economist.com <http://economist.com/PrinterFriendly.cfm?Story_ID587251>.
20. *Ibid.*
21. *Ibid.*
22. *Ibid.*
23. *Ibid.*
24. *Ibid.*
25. Xavier Sala-i-Martin, *The Disturbing “Rise” of Global Income Inequality* (Cambridge MA: National Bureau of Economic Research, 2002) at 4.
26. *Ibid.* at 39.
27. *Ibid.* at 20-33.
28. “Convergence Period,” *supra* note 13.

29. Xavier Sala-i-Martin, *supra* note 25 at 38.
30. *Ibid.*
31. *Ibid.*
32. "Stop Blaming the Weather," *supra* note 17.
33. Xavier Sala-i-Martin, *supra* note 25 at 39.
34. William H. Meyer, "Human Rights and MNCs: Theory Versus Quantitative Analysis" in David Frisch & Raj Bhala, eds., *Global Business Law, Principles and Practice* (Durham NC: Carolina Academic Press, 1999) 770 at 771.
35. *Ibid.*
36. *Ibid.*, at 773.
37. CorpWatch, "Corporate Globalization Fact Sheet" (March 22, 2001), online: CorpWatch.org <http://www.corpwatch.org/issues/PRT.jsp?articleid=378>.
38. *Ibid.*
39. See Meyer, *supra* note 34.
40. *Ibid.*
41. World Trade Organization, *WTO Annual Report 2002* (Geneva: World Trade Organization, 2002) at 2.
42. *Ibid.*
43. *Ibid.*
44. "White Man's Shame," *The Economist* (September 23, 1999) online: Economist.com <http://economist.com/PrinterFriendly.cfm?Story_ID325062>.
45. *Ibid.*
46. *Ibid.*
47. *Ibid.*
48. *Ibid.*
49. *Ibid.*
50. *Ibid.*
51. *Ibid.*
52. *Ibid.*
53. World Trade Organization, "WTO Assistance for Developing Units," online: WTO.org <http://www.gatt.org/r/english/tratop_e/devel_e/teccop_e/ tct_e.htm.wt.php>.
54. *Ibid.* and World Trade Organization, *supra* note 41 at 4.
55. World Trade Organization, *supra* note 41 at 3.
56. *Ibid.* at 3 and 35.
57. Andrew Walker, "IMF Calls for Farm Subsidy Cuts," (April 29, 2002) online: BBC News <http://news.bbc.co.uk/1/hi/business/1957488.stm>.
58. *Ibid.*
59. World Trade Organization, *supra* note 41 at 35.
60. *Ibid.*
61. *Ibid.*

62. *Ibid.* at 33.
63. World Trade Organization, *Market Access: Unfinished Business* (Geneva: World Trade Organization, 2001) at 3.
64. Yves Berthelot, "Editorial – A Trade Round to Meet the Development Challenges of the New Millennium," *Regional Commissions Development Update* (November, 1999) online: United Nations <http://www.un.org/Depts/rcnyo/newsletter/n17/editorial7.htm>.
65. *Ibid.*
66. *Supra* note 37.
67. *Ibid.*
68. See, for example, Fiona McGillivary, *Democratizing the World Trade Organization* (N.p.: Hoover Institution on War, Revolution and Peace, 2000).
69. The World Bank Group includes the International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, and the Multilateral Investment Guarantee Agency.
70. "Doubts Inside the Barricades," *The Economist* (September 26, 2002) online: Economist.com <http://economist.com/research/articlesBySubject/PrinterFriendly.cfm?Story_ID13...>.
71. CorpWatch, *supra* note 37.
72. Anthony Anghie, "Time Present and Time Past: Globalization, International Financial Institutions, and the Third World," (2000) 32 *Journal of International Law and Politics* 243 at 257.
73. CorpWatch, *supra* note 37.
74. "Doubts Inside the Barricades," *supra* at note 70.
75. CorpWatch, *supra* note 37.
76. "Doubts Inside the Barricades," *supra* at note 70.
77. *Charter of the United Nations*, 26 June 1945, Can. T.S. 1945 No. 7.
78. United Nations, "The UN in Brief: What the UN does for Development," United Nations online: <http://www.un.org/Overview/brief5.html>.
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