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Towards a New Trade "Marshall Plan" for Least Developed Countries

How to Deliver on the Doha Development Promise and Help Realize the UN Millennium Development Goals?

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ABSTRACT

At no time have our civilization and the principle of solidarity been tested more than at the present time when one sixth of the world's population lives in abject poverty and 50 countries – big and small – are categorized as least developed and caught in a seemingly endless poverty trap.

This paper sets out a new and comprehensive vision for a trade-related support plan for LDC's, who at present are unable to profit from trade liberalization and beneficially integrate into the international trading system and the global economy. Drawing upon historical experience with the Marshall Plan where the US reconstructed a war devastated Europe ground up, it calls for practical and concrete commitments, policies and measures in favour of LDC's.

Its arguments rest essentially on three pillars of such a "Trade Marshall Plan for LDCs".

The first pillar is the provision of WTO bound duty free quota free treatment (DFQF treatment) by developed countries, coupled with effective standards-related capacity building in LDCs to overcome market entry barriers. The DFQF treatment alone is likely to bring welfare gains of as much as US$8 billion and will add up to US$6.4 billion (10 per cent) per year increase in LDC exports, which currently represent just 0.68 per cent of world trade. The second pillar would be a liberalization package in services, which would include measures to operationalize LDC priority areas, specifically in Mode 4 access. A liberalization package in Mode 4 coupled with a capacity support package in trade in services for LDCs is estimated to generate 10-20 billion USD per year. The third pillar envisages the creation of a one billion USD *Aid for Trade Fund* which would provide much needed finance to meeting adjustment costs arising from trade reform, help provide the hardware and software of trade -related infrastructure and supply capacity and competitiveness building in commodities, manufacturing and services.

The first two pillars are based on a trade-for-aid logic whereas the third pillar rests on an aid-for-trade logic. The position of LDCs today is similar to the immediate condition of post WWII Europe, and if a similar initiative to the Marshall Plan were to be envisaged for LDCs today, US$62.5 billion per year of additional resources would be needed. A "Trade Marshall Plan" for LDCs could deliver a large part of that amount. From an LDC perspective such funds would cushion adjustment shocks build productive capacity, competitiveness and critical infrastructure; generate employment and at a human level lift millions of people out of poverty leading to sustainable trade growth within the LDCs and in turn creating new and viable markets for other countries.

The paper argues that there is now a happy confluence of a strong moral imperative in the context of poverty alleviation, political consensus in terms of contributing to the achievement of the Millennium Development Goals (MDGs), economic justification representing major development gains and institutional and legal viability of mechanisms and measures to operationalize such a "Trade Marshall Plan for LDCs".

Pointing out that the window of opportunity in relation to the implementation of DFQFT treatment to LDC exports is limited in time, the paper makes a strong plea for a comprehensive decision to be taken at the United Nations Millenium+5 Summit in September 2005 and at the WTO Hong Kong Ministerial in December 2005.

Core Actions for Implementation of a New Trade "Marshall Plan" for LDCs

- Bound duty-free, quota-free treatment (DFQFT) is granted by developed countries to all commodities and manufactured products of all LDCs.

- Preferential schemes are upgraded through harmonized and simplified rules of origin and administrative procedures and removal of conditionalities.

- Other developing countries in a position to do so provide preferential treatment, including DFQFT, to LDCs in the context of the ongoing GSTP negotiations.

- Action is taken to discipline non-tariff barriers and market entry barriers facing LDCs, especially in the area of SPS/TBT measures, and help build effective standards-related capacity and infrastructure in LDCs to deal with and overcome such barriers.

- A targeted S&D package in services operationalizes LDC priority areas. This would entail two elements: (i) measures to support supply-side capacity and technology transfer, and (ii) commercially meaningful expansion of market access in Mode 4 at all skill levels and in sectors of key interest to LDCs.

- Additional finance is provided to help meet compliance and adjustment costs, facilitate trade-related infrastructure building and enable supply-side and export-competitive capacity building in commodities, manufacturing and services.

- This can be achieved through technical assistance, ODA initiatives and public-private partnerships. A specific mechanism to meet a chunk of these financial requirements could be met through the creation of an *Aid for Trade* fund with seed money of $1 billion. This money can have a multiplier effect, generating development finance up to 15 times its initial value (i.e $15 billion) within two to three years.

It is estimated that the above measures could help mitigate trade diversion and financial outgoings in LDCs as follows:

- Welfare gains from the grant of DFQFT up to $8 billion, representing additional annual growth of around 4 per cent for LDCs

- Export gains: up to US$6.4 billion (10 per cent of total LDC exports)

- Gains from a targeted services package: US$10–20 billion

- US$15 billion from Aid for Trade Fund in 2-3 years

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"A decent provision for the poor is the true test of civilization."
Samuel Johnson

"Global challenges must be managed in a way that distributes the costs and burdens fairly in accordance with basic principles of equity and social justice. Those who suffer or who benefit least deserve help from those who benefit most."

Principle of Solidarity of the United Nations Millennium Declaration, 2000

INTRODUCTION

In 1947, millions of people in Europe were on the verge of starvation. On June 5, 1947, US Secretary of State George C. Marshall spoke at Harvard University and warned that substantial aid was needed to prevent further economic and political deterioration. He said, "Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos." Between 1948 and 1953 the Marshall Plan contributed more than $13 billion[1] (nearly $100 billion at 2005 US conversion rates) of economic and technical assistance toward the recovery of 16 European countries (an average of $1.25 billion per beneficiary country annually). The Marshall Plan was part of the "politics of prosperity" and a clear manifestation of the "principle of solidarity" between developed countries against the threat of poverty and political instability. It was an attempt to raise levels of industrial productivity in Europe by creating an international consensus for economic growth.

It is nearly 60 years since the Marshall Plan and its successful execution, but one could hardly find words that would depict better than Marshall's the situation of LDCs today. As many as 50 countries – labelled the least developed countries – find themselves unable to escape a vicious circle of underdevelopment, poverty and structural weaknesses. Unlike many developed and developing countries, they have been unable to transform their economies and accelerate their growth through trade-led export strategies. There is, therefore, a strong moral case, a political consensus, an economic rationale and the legal, institutional and financial wherewithal to fashion a new Marshall Plan for LDCs.

[1] All references to "$" are to US dollars.

At no time have our civilization and the principle of solidarity been tested more than today, when one sixth of the world's population lives in abject poverty and 50 countries, big and small, are categorized as least developed and caught in a seemingly endless poverty trap. Transposed into the realm of trade and development policy and cooperation at the national and international levels, making a "decent provision" for developing countries in general, and LDCs in particular, implies giving new life and meaning to the concept and practice of differential and more favourable treatment or, as it is known now, special and differential treatment (SDT). A trade "Marshall Plan" for LDCs would be in the enlightened self-interest of all countries and key to achieving what the Secretary-General of the United Nations has called the larger freedoms comprising the inter-related trinity of development, security and human rights (United Nations, 2005).

As part of SDT for "less developed countries", an even more favourable treatment for LDCs has long been recognized as a guiding principle in the multilateral trading system. It is linked to their special situation and inherent characteristics because of which they find themselves in the category of LDCs. Three key criteria have been established and used by the Economic and Social Council of the United Nations for identifying LDCs. These are low income, human resource weakness and economic vulnerability.

The economic vulnerability criterion involves a composite economic vulnerability index based on indicators of instability of agricultural production and exports of goods and services, the low economic importance of non-traditional activities and modern services in GDP, and merchandise export concentration in a few commodity sectors (UNCTAD, 2004a: xiv). These indicators clearly highlight the constraints faced by LDCs in terms of inadequate physical, social and trade-related infrastructure on the one hand and supply capacity, competitiveness and value addition in agriculture, manufactures, services production and exports on the other. Their specially disadvantaged position in the international trading system is thus the basis on which a case for special treatment to them rests.

As of 2004, LDCs share in world trade stood at 0.68 per cent (approximately $131 billion) of total world exports of $9.46 trillion.[2] However, LDCs have been increasingly marginalized in world trade. Over the last four decades, their share in world exports decreased constantly from 3.06 per cent in 1954 to 0.42 per cent in 1998 (UNCTAD, 2001a). In the last two decades, their trade performance continued to worsen. From 1980 until 1994, there was a persistent