

disadvantaged groups they encourage social integration and cohesion and perform a very important task of social development and fostering equality and peace building.

Despite challenges like mismanagement and manipulation in the affairs of elections to the governing body of the cooperative, excessive government interference, local politics, lack of awareness among members, inadequate promotion, restricted coverage and several other functional weaknesses like that of inadequacy of training personnel and lack of quality management; the inherent advantages of cooperative ventures have made it increasingly significant to promote the growth of these institutions.

In the words of Kofi Annan – “In an age where community involvement and partnerships with civil society are increasingly being recognized as indispensable, there is clearly a growing potential for cooperative development and renewal worldwide.”

WORLD AFFAIRS

The Pitfalls of Generalized Generosity

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“Nay, be a Columbus to whole new continents and worlds within you, opening new channels, not of trade, but of thought.”

- Henry David Thoreau

Let us suppose there are 2 ways of reaching one destination and let that destination be Ecoland. You are a trader who wants to sell silk to the free and prosperous dwellers of Ecoland. Most other traders are taking the first way – the road is a little rough in places and the fear of being looted by bandits is real, but they walk towards the checkpoint where they are all taxed equally and allowed entry. You are told you will be treated differently, even preferentially, because you are not free and prosperous. Thanking Ecolanders for their generosity, you take the second path. The road is rough, the bandits are at your heels but you manage to reach the checkpoint. The man at the checkpoint looks at the rolls of silk you are carrying and asks you if the silk was spun in the same place as the silkworms came from. You say no, silkworms are bred in a village adjacent to yours and the silk was spun in your village. He frowns and asks you how you have added value to the silk to make it more exquisite. You say you haven't because you don't have the embroidery machines. His frown deepens. He asks you if you provide 4 course meals, health insurance and tickets to local football matches to all employees. You say no. He denies you entry. You protest vehemently but he holds his ground. Dejected and angry, you head to the traders community centre in your village to tell the other traders suggest your experience. You suggest they establish trade links with neighboring villages instead of relying on Ecoland but the traders vote your proposal down in unison- the land of the free and prosperous holds exponential promise, they say. A few years later, you take the same path to Ecoland in hopes that the situation has changed. The road is rough and the bandits are at your heels. You reach the checkpoint and you are asked the same questions. You sigh in exasperation and ask the frowning man why there is a need to

have a second road at all. He scratches his head in confusion before smiling and saying "to make you free and prosperous." Extrapolating from this story, there is an immediate necessity to de-clutter the international trade regime from what I term *Institutional Layerism* – the systematic and continuous creation of international trade instruments with the prima facie aim of facilitating trade and trade led growth, but which in effect hinder trade because of their structural design. The Generalized System of Preferences (GSP) is one such institution. The GSP framework was premised upon the belief that preferential tariffs increase exports and speed up economic development in developing countries. Despite the best intentions at its conception, the GSP's obstructionist nature makes it grossly incapable of supporting trade in developing countries.

The need to establish a new world international trade policy offering tariff concessions to imports from low income countries on a non-reciprocal and non-discriminatory tenet was first discussed at the I U.N Conference on Trade and Development (UNCTAD) in 1964. Developing countries were voicing the need for a preferential tariff system to develop their infant industries (Graham 1998). Subsequently, the II U.N Conference on Trade and Development (UNCTAD) in 1968 established a preferential tariff system for low income countries with the aim of increasing their export earnings, promoting industrialization and speeding up economic growth. The Generalized System of Preferences (GSP) extended these tariff preferences to certain semi-manufactured and manufactured articles while applying Most Favoured Nation (MFN) duties on imports of other countries. This new trade "Marshall Plan" for low income countries was rooted in the idea of 'trade for aid', with the aim of supporting development, exports

led growth and competitiveness, reduction of poverty and integration of developing economies in the international trade regime. The tariff arrangements within the GSP were to facilitate export diversification and thereon, free the beneficiaries from depending upon primary goods for trade. There is, however, a deep chasm between the GSP that was envisaged and the de facto GSP.

The GSP must be critiqued in context of its trade effects and systematic faults. The complexity of rules and the inbuilt provisions that restrict access to preferential tariffs have reduced the effectiveness of the GSP schemes as trade creating instruments. Firstly, Rules of Origin provisions, administrative regulations and compliance to technical standards impose undue costs on exporters in developing countries. Secondly, many low technology products which are of export interest to developing countries, built by unskilled/semi-skilled workers, are excluded from most GST schemes. A case in point is the African Growth and Opportunity Act (AGOA) which was signed into US Law as Title 1 of the US Trade and Development Act on 18th May, 2000. This act offers increased preferential access for African exports to the United States of America. Mattoo, Roy and Subramanian (2002) found that barriers like restricted product coverage and the 'yarn forward' rule for textiles and apparel prevented a nearly fivefold impact on African exports. Since the production emphasis of GSPs is on manufactured products, primary products like semi processed agrarian goods that are of export interest to developing countries are excluded.

Thirdly, GSP donors negate the principle of non-reciprocity by imposing side conditions pertaining to human rights and labour standards which are more restrictive than

internationally recognized core labour rights. Such side conditions impose de facto reciprocity conditions on low income countries. Fourthly, preference margins and other GSP conditions are not binding and granting countries may alter conditions at will. In the absence of GATT's legal constraints, protectionist measures by granting countries dampen the export led growth that was envisaged at GSP's conception. Finally, preference margins of GSP beneficiaries decline in the long run because continuous trade liberalization of other industries, sectors and markets decrease their competitive advantage vis-à-vis non-GSP beneficiaries (Alexandraki and Lankes, 2004).

While GSP was instituted to target low income countries, its design is more suited to higher income beneficiaries who are more industrialized and have better administrative institutions and infrastructure. Countries with such capacities are better able to comply with Rules of Origin provisions and are more equipped in meeting labour standards set by granting countries. Also, beneficiaries with better capacities will be less dependent on GSP exports and will be able to withstand shocks better. Herz and Wagner (2010)'s use the standard gravity model of bilateral trade to conclude that the overall effect of the GSP on the exports of beneficiary countries is negative. While exports of low income countries see a spurt in the short run, the medium-to-long term effect is negative. Interestingly, they find that exports of GSP granting countries increase in the short run. This can be explained by the value addition requirements GSP granting countries demand from their beneficiaries. It is likely that low income countries import intermediate input factors from granting

countries that use GSP provisions to strengthen their own export standing.

Ozden and Reinhardt (2004) highlight the underachieving nature of the GSP regime and its deviance from the core principles that led to its establishment in 1968. Their empirical findings indicate that countries that drop out of GSP programs move towards liberal policies faster as opposed to countries that remain on the GSP. Moreover, preferences may have restricted to sectors where developing countries do not have a comparative advantage, resulting in resources being misallocated. Countries having a distinct comparative advantage would have inevitably undertaken structural reforms to leverage on such an advantage. However, preferences may have stalled or delayed such reforms which would not be in the interest of beneficiary countries in the long run. While preferences can be altered at will of the granting countries, bound MFN tariffs cannot be altered at will. The MFN treatment is rooted certainty and stability while the non-guaranteed nature of GSP undermines any potential benefits to developing countries. To that end, I argue that the interests of developing countries would be served much better by the reciprocity based Most Favoured Nation clause as opposed to GSP preferences. While the former can be used as an obstructionist tool selectively, the latter has been designed as an obstructionist tool.

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Sovereign Wealth Funds- A Challenge for India

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Indian reserves have been increasing steadily over the last few years. Following the economic superpowers of the world like Norway, France and China, India is all set to further its role as a global player by venturing into Sovereign Wealth Funds (SWF), thanks to an estimated surplus of Rs. 2,50,000 crores in its balance of payments. Though the idea was also proposed back in 2008, it was rejected due to the heavy fiscal and current account deficits. The SWF are intended to help secure the energy assets overseas, as the country's demand is expanding and is expected to double by 2030. Also, with this fund, the government is expected to acquire assets to ensure supply of fertilizers in India. On one hand, this decision has gathered vehement opposition but on the other, eminent economists, RBI spokespersons etc. have encouraged the move.

Sovereign Wealth funds are state owned investment funds or entities established from balance of payments, official foreign exchange operations. They are part of a country's foreign exchange reserves that have been separated to invest in global equity, infrastructure, commodities and other financial instruments. Normally, if not invested, these reserves would increase at paltry rates. SWFs are a way to improve the country's finances as well as hedge against future crises. Some countries like United Arabs Emirates have created SWFs to diversify their revenue streams. The