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Bachelor thesis

An institutional perspective on trade, prosperity and growth

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Sahar Shirani, 1988-09-09-7507

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Title: An institutional perspective on trade, prosperity and growth.

Author: Sahar Shirani

Tutors: Åke Andersson and Johan P. Larsson

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Abstract

Problem: Since the World Trade Organization (WTO) was established the purpose of International trade has changed. The WTO has the aim to demonstrate that developing countries can accomplish growth by participating in international trade. The organization has created a framework that provides different types of assistance programs in favor of developing countries. However, the remaining issue is whether the developing countries have an efficient framework to capture growth.

Purpose: The aim of this thesis is to provide knowledge that developing countries have a potential outcome of economic growth by opening up their borders. The old statements that developing countries make a loss in free trade are intended to be proven wrong in this thesis.

Method: The method in which this research paper will be conducted is to define the different perspectives of International trade applied by Adam Smith, Hayek and the Ohlin model followed by Douglass North's argument of effective institutions in third world countries. The aim is to integrate these theories together to show that there is a possibility of growth in a country by following trade policies. This will be proven by providing two case studies about Botswana and Uganda to show the relationships of entering the WTO and economic growth.

Conclusion: Studying countries like Uganda and Botswana provides evidence that there is a positive correlation between joining the WTO and starting to trade as a result of economic growth. However, there are many different aspects that have to be considered such as new regulations, effective institutions, valid governments, trade policy in favor of liberalization and effort on strengthening human capital.

Important concept

As the subject of this thesis is about institutions effects on capturing growth in countries it is fundamental to explain the word institutions briefly. Institutions is a concept used in governance and in context of public administration. However, in this thesis it will be concentrated on how institutions can have an effect on capturing growth from a more economical view. Hence, this section will provide an understanding of the concept from a political science view.

Institutions provide understanding of how governance is nearly automatic, the demand for the population in the society, what covers social or political life and how decisions are made. Moreover institutions are given to resolve social and political conflicts based on nearly automatic decision-making in conflict resolution in governance. Further institutions gives predictability in governance as if any government would lack an institutional structure then the outcome cannot be counted by the population, individuals or companies. Institutions provide secure rights in the governance process. Lastly institutions assist with problems of inclusiveness in governing. Institutions play a crucial role in governance because it makes sure that the public have access to policymaking processes which is also due to transparency. Without institutions in the society the public have less opportunity for participation and involvement. (Gjelstrup & Sorensen, 2007)

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1 Introduction

This thesis has been conducted in the interest of investigating whether institutional organization can promote economic growth in developing countries.

1.1 Background

The World Trade Organization (WTO) has been established on the interest on making developing countries to understand the importance of being part of international trade. The WTO has put a lot of effort on including developing countries in international trade since it brings beneficial aspect for a country. Not only does the country's economy benefit, the outcome of trade will benefit the people in the country too. (Rorden, 2000)

Countries that will be brought up and examined in the issue of free trade will be Botswana and Uganda. The reasons for the decision of the respective countries has been based on interest as they have been mentioned in many textbooks of being positive examples when it comes to opening up borders. Additional the reasons of choosing these respective countries has been based on their geographic location in Africa, their differences in economic overviewt.

When the WTO was established they had the aim to provide a legal and institutional base for international trade under a contractual framework, within which government could formulate domestic trade policy; and the platform upon which trading relations among countries could evolve through collective debate and negotiations. The WTO's aims are to create non-discriminatory trade agreement in international commerce, in the interest of reducing and abolishing barriers to trade. (Gallagher, 2000)

1. 2 Purposes

The aim of this thesis is to give a view of how developing countries can integrate to the international trade system. Developing countries should have the same positive economic outcome as developed countries, which is through participating in international trade. The thesis will investigate on how efficient institutional organization can have an impact for developing countries potential economic growth through liberalization. Additional different theories of international trade will be studied and used as empirical evidence for developing countries. The final purpose is to conduct evidence of respective countries that have had positive results (in terms of GDP and economic outcome) through implementing trade policy.

1.3 Method/Material

There has been previous study in the issue of growth in developing countries and in the aspects that covers WTO's responsibility to include developing countries in the world market. The material that has been used has the aim to find a relationship between institutional organization and its function in developing countries. Miscellaneous trade theories have shown positive correlation between international trade and countries making a net benefit by participating. The trade theories that have been chosen for this thesis are due to their contemporary role in the international trade system. As the interest has been on Botswana and Uganda economic performance, different trade theories have been used in order to be implemented and compared to the respective countries. The WTO's framework has been used as material in the case of investigating Botswana's and Uganda's economic performance. The WTO has had a huge impact on the respective countries and they possess data and information since they have assisted them in the involvement of the world market. (Gallagher, 2000)

The method for this thesis is the so called content analysis. Content analysis functions as a research tool in conducting words or concept in texts. Using the content analysis means that the researcher has quantified and analyzed the meanings and relationships of words in a text and further made deductions of the message of the texts. Materials that can be investigated in a content analysis are written books, essays, interviews, articles and more. The object of content analysis is to use reliable sources to ensure that different researchers are used in a particular way it as a valid method of textual investigation. (Silverman, 1993)

1. 4 Outline

The outline of this thesis will be organized as follows. Chapter 2 will consist of an introduction to International trade which will be followed by Adam Smith's view of international trade, the Heckscher Ohlin model and lastly Fredrick Hayes's view on international trade and politics. Chapter 3 will describe Douglass North's contribution of effective institutional organization and how that can make an impact on developing countries participation in international trade. In Chapter 4 there will be an outline of World Trade Organization and its aim. Mainly concentrating on how the WTO put efforts on including the developing countries in the world market. Furthermore chapter 5 and 6 will be covering case studies on Botswana and Uganda respectively. The purpose is to study their economy, their involvement in the world market and if being a member of WTO helped them develop and create growth in the country. Chapter 7 will consist of an analysis of the case studies presented earlier and how their economic performances have been transformed since their membership in WTO. Lastly a conclusion will be provided in chapter 8 that will summarize the most vital aspect of the thesis.

1. 5 Problems and Research Questions

1. What does international trade indicate and how has it influenced developing countries?

2. What role has national trade polices on developing countries played?

3. What responsibility does WTO have on developing countries that recently opened up their borders?

4. How can developing countries benefit from opening up its boarders, is there any evidence that international trade can contribute to growth?

5. Case studies of how the outcome of free trade has been in countries such as Botswana and Uganda.

5.1. What outlook did Botswana and Uganda's economy have before they opened up their boarders?

5.2. How has the outcome of participating in international trade been and what potential does this economy's contain in the world market?

5.3. Does international trade and economic growth hold a positive correlation, by studying respective countries?

2 Introduction to International Trade

This chapter will consist of an introduction to international trade followed by Adam Smiths and Fredrich Hayek's view of international trade. The aim is to provide an understanding of the importance of participating in international trade. One of the most important challenges with trade is the affect towards poverty in the manner of growth in a country. The relationship between openness and growth is contentious. L. Alan Winters is one of the scholars that demonstrate a relationship between free trade and poverty via the growth channel; it is complex to find a real correlation because growth effects of trade liberalization are spread over many years. (Harrison & McMillan, 2007)

2.1 International Trade

The number of people living on less than US$1.25 was indicated to be 1.4 million people in 2005 which is a decline compared to 1990 when it was calculated to be 1.8 million. The estimation today is that the trend is still decreasing however no valid estimation is done for present time. There is a correlation between poverty rates falling and developing countries becoming increasingly integrated into the world trading system. (World Bank, 2011). The essential question remains, will ongoing efforts to eliminate protection and increase world trade improve the lives of the world's poor? Also does globalization reduce poverty? Winters, McCulloch and McKay (2004), Goldberg and Pavenik (2004) and Ravallion (2004) make all a distinction of these two questions. They find indirect evidence on the linkages between globalization and poverty and there is not much of a direct linkages between the two. Globalization in their opinion is meant to be the aspect of international trade in goods and second the international movements of capital, including foreign investment, portfolio flows, and aid.(Harrison & McMillan, 2007)

Globalization has in a way increased the interdependence of countries resulting from their increased economic integration through trade, foreign investment, foreign aid and international migration. Today globalization is driven by two factors, first is the technological advances that have decreased the costs of transportation, communication and computation in a way that it does not matter where firms locate their business of production. The second factor is that the increasing liberalization of trade and capital market is leading to countries decreasing protectionism of their economies from foreign competition. Instead they are implementing trade policies such as lowering all kinds of restraint of both imports and exports. Here has the international institution such as the World Bank, the International Monetary Fund and the World Trade Organization played a crucial role. Data shows that the past two decades about 24 developing countries have doubled their ratio of trade (export plus imports) to GDP. According to World Bank calculation can the outcome of lowering tariff barriers to trade in textiles and agricultural products increase the annual economic growth. The estimation is that it will increase by 0,5 percent in the long run and by 2015 it could help 300 million people out of poverty.

An interesting aspect to look upon in relation to international trade is the migrations aspect. During 1985-1990 the annual rate of growth of the world's migration population was about 2.6 %. That is an increase compared to the years before. Migration occurs everywhere in the world, over 60 % of the world migrants went from developing to developed countries. The phenomena of South-North migration are estimated to increase in the future both because of economic and demographic reasons. International trade has made it easier for people to move around and the cost of migration for the host country has decreased. Employment-related migration is one of the positive relations to international trade.

In the past years the rise in migration has been on qualified and highly qualified workers, in relation to labor shortages in the information and communications sectors of developed countries. Statistics shows that there are shortages of 850,000 IT technicians in the USA and nearly 2 million in Western Europe. This makes it understandable that they promote IT techniques entering their country. Many developed countries are competing to attract the needed human capital and adjusting their immigration rules to ease the entry of diverse sectors.

There is a positive correlation of international migration of labor and to the receiving and sending country. In the host country the migrants help to meet labor shortfalls in different industries and in the sending country the likelihood of the unemployment rate will decrease as financial flows increase. There have been a lot of concerns that the highly skilled will migrate to developed countries from developing countries because of the flaws in the income distribution. However, the effort of including the developing countries in the world market has taken this into consideration. The efforts have been on developing mechanism for encouraging retention and return their qualified workers. It can be seen as a trade where the returning migrants bring back foreign knowledge and experience and try to implement it to the country. It will further ease the transfer of foreign technologies or assist the development of cultural and economies ties among them. Developed countries carry responsibility too, as improving their immigration laws, policies and practices for ensuring orderly migration. The enforcement of minimum labor has to improve and workplace standards. Political tension will be removed if both countries take their responsibility; the host country should assist the immigrants in learning the language and other necessary integration factors. The ultimate option would be if both developing and developed countries could advocate for temporary residence than permanent migration. The outcome would be that receiving countries will get back their high skilled labor with new knowledge and skills. (World Bank, 2004)

The Heckscher Ohlin model argues that in an open economy, a country will be able to export products they possess comparative advantage in and vice versa. Therefore, in international trade situation a complete equalization of factor prices would be a perfect substitute for international factor mobility. One of the main arguments when it comes to international trade is that trade favor the abundant factor and harms the scarce one. So skilled workers becomes advocates for protectionism in rich countries and skill-abundant countries they will be in favor for international trade. (Heckscher, 2006) The Heckscher Ohlin model will be brought up further on in the thesis.

Resources, complementary investment or reforms are needed to create some hope for the poor to have access in the world markets. One of the reason of the failure of helping the poor is because of deprived financial integration. Financial liberalization has increased the scope for capital to flow to developing countries. In theory, openness to capital flows could alleviate poverty through several channels. If advanced financial integration contributes to higher growth by expanding access to capital, expanding access to new technology, stimulating domestic financial sector development, reducing the cost of capital and alleviating domestic credit constraints, then such growth should reduce poverty. Access to international capital markets should be an opportunity to smooth consumption shocks, reducing output or consumption volatility in a country. In order for the poor to benefit from globalization there is a need of complementary policies such as flexible exchange rates, macroeconomic stabilization policies and the development of strong institutions. An example could be that there is institutional development and good governance – including transparency in business and government transactions, control of corruption, rule of law, and financial supervisory capacity – then poor countries may also gain from financial integration. (Harrison & McMillan, 2007)

2.2 From Adam Smith to Heckscher-Ohlin

The Wealth of Nations was published in 1776 which is the same year the Declaration of Independence was signed and it was highly influenced by Adam Smith's thoughts. His contribution has been a breakthrough to capitalism, free market and international trade. (Smith,1960)

Smith explained the division of labor as a great mechanism which increased human productivity and made universal opulence possible. The division of labor had an advantage of increasing production by much more than before. What Smith is advocating is that by establishing market economy it will improve the standards of living of the vast majority of the population. Smith's idea of writing the book *The Wealth of Nations* was because he was inspired of what was going on in the British society – the success in producing growth in Britain. The rise of the standards of living was not just benefiting the rich but also the working poor who were getting better living conditions. Smith saw potential in country's economy by expanding the market and opening up the borders, restrictions only made richer get richer but by expanding the market the profit would come faster and at a greater extent. Since foreign trade was increasing Smith acknowledged the benefits and the outcome of the British economy. Smith's model implies that the link between human propensities and the wealth of nations is completed by self-interest leads to market exchange, leading to the greater division of labor, leading in turn to specialization, expertise dexterity and invention and as a result to greater wealth. (Muller, 2002)

2.2.1 Minimal state governance/the role of the state

Smith is known for being against direct government involvement in the economy. For Smith the state only has a responsibility to relinquish the direct economic role in enforcing tariffs, wage rates, and other restriction on trade. The size and function of the state would grow with the development of commercial society. The state is the most important institution on which commercial society depended; the authority and security of civil government is a necessary condition for the flourishing of liberty and the happiness of mankind.

Additional responsibility from the government in Smith's point of view is to handle infrastructure. Infrastructure benefits society as a whole but is too expensive or unprofitable to be undertaken by individuals. "By providing for defense, justice and infrastructure, government created the preconditions for a market economy and for `that universal opulence which extends itself to the lowest ranks of the people`" (Muller, 2000, p.77). Smith emphasizes the importance of education in a nation, the more educated population the more decent and orderly would it become. A nation can only benefit from having an educated population. Smith however had the knowledge that not all citizens have the same possible outcome of achieving a high position in a society or having the same potential opportunity to educate them. Nevertheless, what he was certain of was that the potential uses of a state of encouraging the population to educate themselves in order to have a chance to pursue. Therefore education be an opportunity for all citizens in a society and not only for those that have the money to finance their education. (Muller, 2002)

2.2.2 Smith and International trade

Smith saw the open market across national borders as a source of hope, leading to more peaceful relations between nations, liberalization will raise the standard of living and that will result to a more decent society. Smith was trying to illustrate that without restriction on labor, on prices and on supply, the natural human propensity of self-interest would lead commodities to be sold at the lowest price possible at the existing level of economic development. Smith's idea was that under the proper institutional conditions, actions motivated by individual self-interest may lead to outcomes that are positive for society, in a way that the social scientist can explain and help the legislator to anticipate. According to Smith it is the suitable possible outcome for consumers under conditions of free competition or perfect liberty. For the market to function most effectively, everyone has to be able to sell labor, invest capital, or rent land with minimal restriction. Smith believed that the public interest would be best served if every man channeled his self-interest through the market.

Smith was the first consistent enemy of the "the mercantile system". The term was enforced from Smith in order to criticize the existing policies in international trade and international relations. The policy was based on a view of international economic relations as a "zero-sum game" which means one nations gain must be another's loss. Smith point of view of international trade was much more positive and saw his model as something beneficial for all nations. Through international trade nations will nations grow prosperity and foremost proficiency of other nations. (Muller 2002) For Smith "the mercantile system" was the dominant economic doctrine because according to him it reflected both the interest and the mentality of merchants and manufacturers, who wanted monopoly and had been expanded into a view of international commerce that taught that each nations interest "consisted in beggaring all their neighbors" (Muller, 2002, p. 51-83)

2.2.3 Heckscher Ohlin Model

The Heckscher Ohlin model (HO-model) was presented by Eli Heckscher and Bertil Ohlin in 1919 for the first time. The model was established in the interest of promoting international trade. Assuming for example that each country can produce a pair of commodities (not necessary) in a two-commodity world, trade is possible if there are two or more factors of production since the result will be that international trade will result in factor price equalization. If there is a third factor of production the possibility is that two of these factors will have a complementarily relationship with each other. An increase in one factors return at a given output leads to the other factors output to become less intense. The model contains three distinct factors that can be seen as the holy trinity. Assuming labor is completely mobile between sectors, capital is used only to produce manufactures and land is used only in the production of agricultural goods. Therefore is the model essential when it comes to the effect of countries maintaining different factor endowment on the pattern of trade? A country that is land-abundant is usually an exporter of agricultural products and if a country is capital-abundant it will export manufactures.

One of the strong arguments in the model is that two countries with different endowments would find their factor return and that will bring equality with free trade. The ultimate alternative is if countries share the same technologies and there is a flexibility in allowing techniques adjusting to be sensitive to factor prices. The Heckscher-Ohlin theory advocate trade in the aspect of how the impact is on skill on attitudes that varies in a systematic way across countries. The theory states that in skill-abundant countries there are the high-skill workers that advocate trade and also in low-skill abundant countries there are unskilled who advocate trade. The Heckscher-Ohlin trade theory implies that a two-factor world is a situation which countries are distinguished only by their relative endowments of skilled and unskilled workers. This leads to that relative wages of skilled workers will be lower in skill abundant countries than in unskilled labor abundant countries. In this situation the comparative advantage takes part in the different countries as rich countries will export skill-intensive goods and the poor countries will export unskilled labor-intensive goods. The outcome is then relative factor price convergence when countries move toward freer trade, the relative price of skilled labor rises in rich countries and declines in poor countries. Here the skilled gains from free trade in rich countries while they gain protection in poor countries and the unskilled in rich countries gain protection and the unskilled in poor countries advocates free trade. (Heckscher, 2006)

2.3 Fredrich Hayek on International trade and politics

Hayek is an advocate for capitalism and states that planning economy model will never be efficient or functional. Instead people should get a better understanding of capitalism. In a capitalist economy, economy is coordinated in a way that people are unaware of. This coordination occurs unplanned and they occur through and from the market.

2.3.1 The market

Smith explains the market through the possibility of the division of labor hence increasing human productivity. Hayek on the other hand stress out that the market permit's a greater division of knowledge in society. Market prices act as signals of where there resources should be put to their most valuable use. For instance those with knowledge of where to buy a product cheaper or how to produce a product less expensive can use that knowledge to make a higher profit. The efficient use of resources depends on having some knowledge at a particular time and a particular place and not on the aggregate statistics that might be available to a government planner. In addition knowledge can be beneficial in knowing the ability to take advantage of an opportunity that other miss and to know how to use it wisely – these are characteristics associated with an entrepreneur and not with the bureaucrat. Hayek's view of the market was not only on having the right knowledge regarding the market but also producing new knowledge. Hence, the abstract model of the market was based on perfect competition for essentially similar services under conditions of complete information. The essential key is that what happens in the market involves gaining better information about products or services that are not relatively the same and requires the experience of comparison.

Competition creates an "impersonal compulsion" by its own and not by government command and by forcing individuals to adapt or to tax their income. Hayek did not believe in that the economy could be shaped by government in order to realize some higher conception of human purposes and possibilities. Doing that would mean that the government violate the other major function of the market in a liberal society. Hayek argued against Smith's definition of freedom which is that every man can act how he wants in order to purse his own interest as long as he does not violate the laws of justice. Liberty occurred only when it was protected by the state, which is seen as the rule of law, a set of rules that applied equally to all and that assured each individual. These laws were what we would call right to property and privacy today. (Muller, 2002)

2.3.2 The role of the state

According to Hayek the state should provide with only some standpoints in the welfare state which would be common needs that could be achieved by collective action. He accepted that in some countries as societies grow the state should also provide aid to those who do not have the potential to take care of themelves. Hayek also agreed that the state has responsibility in areas as social insurance and education. Overall Hayek's criticism of welfare state was upon government action. According to him the government should not gain too much power in issues as monopolizing the provision of social, medical or educational services. Because it eliminates the competitive process that new and better forms will be created. Instead Hayek introduced the idea of social security in the manner that it could be present as long as it does not damage the individual freedom and social innovation. He was against of the idea that government would have a playing role in market setting, as wage rent or deciding prices of merchandise. If the government would have too much influence of the market it would eventually lead to a less efficient economy and a less free society. (Muller, 2002)

This chapter was given for the aim of providing an understanding of the relationship between international trade and growth. First there was an introduction of globalization and its role in international trade market e.g. how globalization has used technological advances to decreaste the cost of transportation, communication and increased liberalization of trade and capital market. This vital factors was what Adam Smith was advocating in 1776 and Fredrich Hayek continued in the same pattern. The idea of international trade might be old nevertheless the transformation has just started in many areas of the world which is why it is important to recognize international trade as a key concept for growth.

3 Institutional organization

This section will provide an understanding of the concept of institution. Furthermore there will be an interest on how institutions best permits capturing the gains from trade. Moreover will there be a section on how institutions can assist developing countries to enter the international trade and gain from it.

3.1 Institutional organization by Douglass North

In his book *Institutions, Institutional Change and Economic Performance* Douglass North provides an understanding on how institutions develop in response to individual incentives, strategies and choices and how institutions affect the performance of political and economic system. The underline of the book is to answer the question "What combinations of institutional best permits capturing the gains from trade?"(North, 2009, p. VI) As presented earlier Smith is fundamental when it comes to trade theory and the gains from it. Hence, North's study of institutions is influenced by Smith's book *Wealth of Nations* in the regard of institutions and how cooperation allows economies to capture the gains from trade.

"Defining institutions as the constraints that human beings impose on themselves makes the definition complementary to the choice theoretic approach of neoclassic economic theory". "Building a theory of institutions on the foundation of individual choices is a step toward reconciling differences between economics and the other social sciences" (North, 2009, p.5). These statements are given as North means that institutions are present because of the uncertainties involved in human interaction; they are the limitations devised to structure those interactions. Furthermore, institutions have different functions based on the aim such as producing growth and development while other might have the aim to develop institutions that produce stagnation.

Institutions are formed based on the time of society which makes it easier to understand historical change. Hence, institutional organizations are not the same as they were for ten, forty or hundred years ago. As the society changes and develops through time, so do institutions as they follow the same procedure of change. What North is trying to describe is the nature of institutions and the consequences of institutions for economic performance. The highlight is to get an understanding of the differential performance of economies through time. Institutions are described as guide to human interaction by reducing uncertainty and providing a structure to everyday life. Basically it is a structure of mechanism of social order and cooperation which facilite daily life for some in different aspects. Therefore institutions are described as the framework within which human interaction takes place. Institutional restriction consist both what individual are prohibited from performing and under what conditions some individuals are allowed to do. Nevertheless the restrictions on institutions establish on individual choices that are persistent. (North, 2009)

3.1.1 Institutions effects on the market/economy

The effect institutions have on the performance of the economy is their changes of exchange and production. Society changing and institutions keeping up can be presented in the way standard neoclassical and international trade theory have been differing. Trading has always been present however trends have had it influences in what goods, services and productive factors been most attractive. (North, 2009)

Mentioned earlier the evidence and experience show that cooperations between economic theories of gains of trade and institutions have been hard to oblige. "Realizing the economic potential of the gains from trade in a high technology world of enormous specialization and division of labour characterized by impersonal exchange is extremely rare" (North, p.12). North means that cooperation is hard to maintain because of the conditions of the cooperation is not the same for all the members which make it difficult to function fairly. The function of those institutions is not valid or sustainable due to the fact of lack of human cooperation. This can be correlated to what Adam Smith was concerned about, that such type of cooperation, will create a situation of monopolistic outcomes. Also will that form of cooperation not permit realization of the gains from trade?

"Incremental changes come from the perceptions of the entrepreneurs in political and economic organization that they could do better by altering the existing institutional framework at some margin" (North, 2009, p.8). Hence North means that if political and economic market were efficient then the choice made would always be efficient.

Institutions are formed from a theory of human behaviour combined with a theory of the costs of transacting. Combining these two the understanding of institutions existence and their role in the society becomes easier to understand. If you add a theory of production you can analyze the role of institutions in the performance of economies.

"The costliness of information is the key to the costs of transacting, which consist of the cost of measuring the valuable attributes of what is being exchanged and the costs of protecting rights and policing and enforcing agreements"(North, 2009, p.27). These measurement and enforcement costs are the sources of social, political and economic institutions.

It's vital to understand that cost of transacting is the main issue of institutions. The key to a sustainable economy in a society is to have legitimate institutions. The overall structure makes up the cost of transacting at the individual contract level. When economist talks about efficient markets they do not consider the flaws of an unstructured framework. The cost of capital is part of a structured framework as financial intermediaries which are structured through interconnections among consumer credit and mortgage markets. Stock markets and bond markets are constrained by a complex structure of governmental restrictions. For example regulatory agencies as Federal Reserve System has the power to state laws and dealing with everything from branch banking to interest rate ceiling. The underline is that besides the supply of and demand for capital there is a need for institutions and organizations to insurance credit rating bureaus. This is what is lacking in third world countries. Institutional structure reveals political institutions that shape the formal constraints. The effort has been on providing an analytical framework for the institutional structures of congress and other branches of government. (North, 2009)

3.1.2 Institutions in the developing countries

There is a huge difference comparing the cost of transacting in a western country and a third world country. In some cases the costs per exchange in a third world country is much higher and there is no exchange occurring due to the high prices. Hence, there are no formal institutions in third world countries which creates inefficient markets and transaction costs. (Which will be proven in the case studies of Botswana and Uganda.) In some third world countries there exist informal structures which effects underground economies and provide a certain level of structure of exchange. These structures are costly because of the lack of formal property right. Moreover safeguards restrict activity to personalized exchange system that provides self-enforcing types of contracts.

Another issue when it comes to institutions in third world countries is the higher transaction costs. Institutional framework determines the structure of producing which has been a downside in many third world countries. Firms establish in order to take advantage of profitable opportunities which defines the existing set of restrictions. Hence, insecure property rights, poorly enforces laws, barriers to entry and monopolistic restrains, will lead to that the profit-maximizing firms will have the outcome of short time horizons and little fixed capital in small scales. Usually is the most profitable business trade, redistributive activities and black markets. In order for large firms to sustain with substantial fixed capital is by having a strong government protection with subsidies, tariff protecting and payoffs to the policy. (North, 2009)

The essence of institutions and the key to human capital is how the distribution of knowledge is in respective countries. The development of education has a huge impact of the institutional characteristics of a society. Therefore it is fundamental to invest in human and physical capital which contributes to a sustainable growth. North means that knowledge can be seen in different ways nevertheless knowledge shapes our perceptions of the world and in turn those perceptions shape the search for knowledge. "People's perceptions that the structure of rules of the system is fair and just reduce costs; equally their perception that the system is unjust raises the costs of contracting (given the costliness of measurement and enforcement of contracts)" (North, 2009 p.76).

As mentioned before third world countries are poor because the institutional restrictions define a set of payoffs to political/economic activity that does not encourage productive activity. Socialist economies are just starting to learn and handle the aim of institutional framework as the source of their present poor performance. They are trying to solve it with implementing restrictions to the institutional framework which will in turn develop organizations along productivity-increasing paths. Western countries have shown that the importance of a general institutional framework has been the key for their economic growth. There is a reason why there are tax structures, regulations, judicial decisions and statute laws which can be seen as formal constraints. However policies of firms, trade unions and other organizations have determined specific aspects of economic performance. There are two different approaches that countries can take when it comes to institutions. One of them is the extractive states which has the aim to take out all resources that a country maintains. Additionally there is the contract state that has the interest of the well-being of the population and does that by implementing contracts and political stability.

The main conclusions we can take consider institutions are that they have shown to be the driving factor when it comes to economic growth in a country. Countries that has stable and legitimate institution will in turn invest more in physical and human capital which will create a higher return on those assets. As both Smith and North proclaim is education one of the major factor when it comes to economic growth. Along with importance of institution and the main factor to human capital is on the distribution of knowledge in countries. The answer to sustainable growth is by investing on human and physical capital. What remains to investigate is whether third world countries have put on effort on being contract states meaning the well being of the population is the first priority. (North, 2009)

Summarizing this chapter the first part was an overview of what institutional organizations are and how institutions ought to function according to North in the matter of capturing growth. The second part was North's perspective of institutions effects on the market and the economy of a country. Lastly there was an section about the importance of institutions being present in developing countries, this is because it can facilitate the involvement in trade. If a country has valid institutions these institutions will have the responsibility of transactions cost and other trade related issues. By providing institutions it will lead to that countries are more stable and other countries will be able to trade and not be feared of corruption or other issues that usually "frightens" countries to make trade agreements with third world countries. Essentially legitimate institutions can ease the involvement for countries to participate in the international trade market.

4 World Trade Organization (WTO)

This chapter is provided to give the reader an overview of what the WTO is and the aim of the organization. An brief history of the organization will be the primary focus which will be followed by WTO ‘s responsibility towards developing countries. The effort of trade policies and developing countries responsibility of following the trade agreements are also in consideration. Lastly the aspect of participating developing countries in to the world market and their need for assistance are briefly described.

- “You come here with ready theories from an economics textbook. Those things may work for developed economies, but a freer trade does not help us – the least advanced nations – to get out of that mess.”
- “We are too weak and too poor to compete with rich countries such as the United States or Germany. How do you want our economy to survive if nobody is willing to pay reasonable prices for our products?”
- “When we trade with Europe all profits go to Europe and nothing is left for us.” (Gallagher, 2000, p. 199)

These arguments are common when it comes to criticizing organizations as the World Trade Organization. They come especially from developing countries that have not been taken in to consideration in the international world market. Nevertheless WTO was established for the interest of developing countries and for the reason of including them in the international trade market. This section will give an introduction to what the WTO has managed to provide for developing countries.

4.1 WTO brief history

What the scholar John Maynard Keynes was advocating in the early 1920’s was never accomplished in the sense that all countries would get involved in a mutual organization promoting international trade until the year of 1995. This year was the establishment of the World Trade Organization (WTO) and this would lead to a different economic outcome for the countries involved. This showed that world’s nations could create a coherent system of global economic governance side by side with the International Monetary Fund (IMF) and the World Bank. The WTO is former General Agreement on Tariffs and Trade (GATT) which was created 1947 and provided the legal framework regulating international trade until WTO took place. The WTO has the aim to create a formal legal presence in international trade. Since GATT only had a framework of trade in goods WTO expanded its goals and put an effort in incorporating agreement on areas such as agriculture, textiles and clothing. Moreover, the WTO has the aim to contribute to the creation of an environment that is perceived to be conductive to an expansion in the volume and value of trade. WTO acknowledges that its member states conduct their commercial relations with a view of raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand.

Basically the legal framework of WTO regulates international trade through a body of rules constructed around its architectural principles encompassed by its extensive legal framework. These specific rules are précised into a series of agreements each of which subject's one aspect of commercial activity. The legal framework is divided into sex sections called the establishing agreement; 1) Trade in goods; 2) trade in services; 3) trade-related aspects of intellectual property rights; 4) dispute settlement procedures; 5) trade policy review and 6) plurilateral trade agreements. There are also some complementing agreements as ministerial decisions and declarations which complete the interpretation of different provisions within the legal framework. (Rorden, 2000)

4.1.1 WTO's responsibility towards developing countries

What kind of responsibility does a trade organization such as WTO have? Since trade has been seen as a winning or a losing game has developing countries felt that they consist of the part the losses of trade. However, through the WTO have there been some changes in the trade pattern. Developing countries are the majority of the membership economies of the WTO. Since the market are changing rapidly and trade patterns are changing has the WTO been an essential organization for developing countries and there standpoints in the world trade. Evidence based facts shows how developing countries have made dramatic changes to their economic management politics and development strategies based on extensive trade liberalization. It is obvious that the WTO has provided a fundamental framework of reciprocal obligations and benefits which supports and reinforces developing countries efforts. Since the involvement of WTO developing countries has acknowledged the negative outcome of import substitutions which in turn led to high levels of tariff and non-tariff protection for products. These economies implement sectorally neutral policies that give an advantage to export-led growth, based on comparative advantage. By improving their macroeconomic management the outcome for developing countries has been larger exchange stability which in turn led to foreign firms wanting to invest in respective countries. Increased Foreign Direct Investment (FDI) has contributed to the development of globally competitive industries which have created healthier trade balances

This new pattern of liberalism has not only been beneficial for developing and transition economies but also affected developed country policies. The outcome has been better competition in global markets and attractive opportunities for investment in rapidly expanding developing and transition economies. In addition the developing countries as being the majority of WTO memberships they are encouraged to expand their participation in the organization. Mostly because of the interest to secure the advances that the "new liberalism" promises for their economy growth and development.

The WTO has the responsibility to establish a system of principles, rules and obligations that secures the interest of all member states. It should not matter how strong or weak an economy is the WTO has the aim to regard all interest as well to assist government to devise and pursue economic reform programmes. The WTO has the aim to help countries with their domestic policy making to merge development polices based on open, competitive markets; they do not set new trade policy in a country. Since many developing countries do not have negotiating power the WTO has worked on agreed concepts, principles and rules of trade that is an improvement for developing countries in the trade market. The WTO strategy unites mutual market access and negotiation of market access with rules on non-discrimination in trade called the "Most Favoured Nation" (MFN) principle. What this mean is that market liberalization agreed between any two member states is extended to all members of the WTO. (Gallagher, 2000)

4.1.2 Trade policies/strategies

By now we have the knowledge that barriers to imports are the most normal form of assistance for domestic production in both developed and developing countries. Some businesses thinks that these barriers are good for the domestic economy – but the case is not so!

Observation has shown that developing countries has the highest costs of trade barriers at the domestic economy in the protected market. Trade barriers increase producer and consumer costs which make the economy less flexible and reduce the profits opportunities that should create sustainable development. Another aspect that slows down an economy is barriers to export of developing countries especially in sectors such as labour intensive manufactures and services. The barriers will reduce developing countries opportunity to make a profit from their comparative advantage as their capacity to produce certain goods at lower cost compared to the cost of production in the economies of their trading partners.

In many years industrialization policies in most developing economies has been based on import substitution for the interest to advocate infant industries. Barriers to trade and controls on exchange rate were set in order to "protect". Import controls could be import quotas, restrictive import licensing, high tariffs and subsidies and tax incentives. (Gallagher, 2000)

4.1.3 Trade agreement in favour for developing countries

"There is a need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth of international trade commensurate with the needs of their economic development", (Gallagher, 2000, p.22).

WTO has brought a lot of positive aspect in the concern of trade for developing countries. One of the main aspects is the achievement of strengthening the MFN's principle into new areas of the world. The criteria for becoming a member of the WTO have to be beneficial for developing countries and they need to be sure that being a member will mean a new framework in the world trade. Therefore has the WTO rules in merchandise sectors such as textiles and apparel and in agriculture been strengthened and improved since these products are vital in developing country trade.

Since developing countries started to trade more there has been a need of implementing new rules that will make sure that these countries will get the most profit from international trade. These rules are effective as long as there is an efficient and fair means to settle disputes in case of a breach of obligations. The WTO has a responsibility to support domestic reform programmes for the interest of developing countries. In the framework of rules and principles of the WTO there are descriptions that describes the impact of a trade policy decision, presenting guidance and support for governments that choose to exclude protectionism in the interest of sustainable development instead. The WTO support consist of offering government assurance of trading partners but also bound by reciprocal obligation to decrease protection and act fairly in trade policies.

By now we can recognize that there is some aspect that has to be in consideration for developing countries in order for them to have an honest chance in international trade. Hence there is flexibility for developing countries; the WTO recognizes that developing countries may need more time to implement new obligations. Examples can be taken from the Uruguay Round Agreement where they recognized that developing countries takes longer period in time to implement their trade-related aspects of intellectual property rights (TRIPS) obligations. Some of the agreements include certain provisions for technical assistance for developing countries in meeting their new obligations.

Other exceptions that are done for developing countries are that they are allowed to employ policies contrary to the principles of the treaty. The outcome of the Uruguay Round has been beneficial for the developing countries because they were taking in interest. As the agreement of various trade negotiations was done by 1994 the establishment of the new framework would mean opening both merchandise and services markets. This would offer new vital opportunities for developing countries

The WTO is driven by its member states and the highest policy-making body is the ministerial conference attended by member countries trade ministers and held least every two years. In many of WTO agreement there are requirements for developing countries and least-developed countries that endure of longer transition periods for the full implementation of some obligation. Least-developed countries benefit from a number of provisions that provide more favourable treatment such as lower levels of obligations. The decision on measures in favour of least-developed countries provides for special assistance measures, including technical assistance. (Gallagher, 2000)

4.1.4 WTO effort of participating developing countries in to the world market

How has the WTO showed that developing countries can take advantage of the market opportunities offered and improve their participation in the world trade institutions?

One of the most important aims that the WTO has had is to mark recognition in global economic policies and in developing country policies in particular – of the trends toward globalization of markets and liberalization of trade and investment regulations. By establishing the WTO and implementing agreements from new commitments the WTO has challenged many developing countries to understand the gains from trade as using the opportunities of the market that are offered and develop their participation in the world trade. (Gallagher, 2000)

There has been a lot of work to strengthen the participation of developing countries in the world trade. The guidelines which consist of four primary objectives that are ought to strengthen developing countries participation in the trading system. These four factors are

"1) Seize the trading opportunities arising from the rules, concessions and commitments made by trading partners;

2) Effectively exercise trade rights in export markets;

3) Fully conform to trade obligations – using WTO obligation to enhance the credibility, stability and transparency of trade regimes and

4) Define and effectively pursue trade and development interests in trade negotiations" (Gallagher, 2000, p. 83)

Mentioned earlier in the thesis there are many factors that can improve the role in developing countries as they have to implement and change in order to participate in international trade and gain from it.

- "The macroeconomic environment means that there should be an environment of stable prices which means that there will be a sustainable growth. Also including that "incentive structure" is right for growth based on the enterprise and initiative of firms;

- Natural and human capital resource endowments and technological, physical and financial infrastructure. These factors establish the ability of an economy to react to incentives to attract investment, to increase productivity and to reach markets where comparative advantage can come into play and

- Public institutions, including the legal and regulatory framework which has a strong bearing on the efficiency of markets" (Gallagher, 2000, p. 84).

When it comes to interaction between trade and macroeconomic policy do WTO has a responsibility to assist developing countries to achieve this and they have three ways of doing it.

"1) Providing a framework of rules which supports appropriate domestic policies;

2) offering direct technical assistance to the export and import efforts of developing countries, through the UNCTAD/WTO international trade centre and through its own technical assistance program and

3) Providing stable access abroad for the country's exports and a process for resolving trade disputes." (Gallagher, 2000, p. 85)

4.1.5 Developing countries need for assistance in the world market

There have been many arguments of how developing countries need more than assistance of regulating trade policy there is also a need of providing technical assistance for developing countries. If the developing world should have any possibility of competing in the world market there should be a fair trade with the same potential resources to use. As we know has that been a huge factor when it comes to the world trade, trade regulations are easy to implement but to have the technological resources that facilitate the world trade would be an appreciated advantage for the developing countries. Therefore does the WTO provide developing countries assistance program in interest to improve developing countries capacity to meet their WTO obligations and to extract the minimum benefit from the rules-based multilateral trading system.

In the agriculture sector there are something called the agreement on agriculture where technical assistance are given. The focus is on improving members in implementing specific commitments in the areas of market access, domestic support and export competition. Furthermore there is the WTO secretariat. It is available for technical, legal and policy advice in the context of any changes in trade related agricultural policies on the part of individual members. In the agreement on trade-related intellectual property rights the focus is on helping the members to understand the rights and obligation of the TRIPs agreement. The goal is to assist member's asses the amendments that may be needed. It consists in the areas of national legislation, adaptations to institutions and other requirements for which they need to operate. Moreover, they help members to participate fully in the operation of the TRIPS council to meet their procedural obligations under the agreement and the other mechanism of the WTO. There has been an effort on ensuring complementarily and co-operation with other intergovernmental organizations especially WIPO.

In the case of agreement on technical barriers the aim is to promote increased use of international standards. Which is done by facilitating acceptance of foreign technical regulations as encouraging mutual recognition of conformity assessment procedures. The secretariat helps developing countries in contributing in the preparation of international standards and in introducing them domestically. Also they assist in the general agreement on trade in service. The areas are in the information exchange programme, assessment of trade in services in overall terms and on a sectoral basis and establishment of negotiating guidelines and procedures.

Besides that is the integrated framework for trade-related technical assistance to least-developed countries. The creation of this framework was in consideration of assisting the 48 least developed countries (LDC). The main focus was to make sure that technical assistance activities are demand-driven and that the process is "owned" by the LDCs. The goal is to maximize the benefits that LDCs derive from trade-related technical assistance. This is done by participating agencies and from other multilateral, regional and bilateral sources. Basically is the aim to expand the LDCs trade opportunities to respond to market demands and to become more closely integrated into the multilateral trading system. (Gallagher, 2000)

To summarize this chapter it has provided an understanding on what the contribution of WTO has been on developing countries. WTO was established for the interest of including developing countries in the world market through trade policies, trade agreements and various assistace programs. WTO's effort on involving developing countries in the world market has a great impact on the world market at the moment. Hence, the importance of establishing a mutual organization promoting international trade, since the WTO was established it has brought economic prosperity in many economies. By embracing developing countries role in the market it has shown to be positive outcomes not only for the economy of the country but for the population too. If institutions and technology are provided through new trade agreements or implemented trade policies the possibility of a country handling international trade market are more positive. Which is what WTO has been taken in consideration for their member countries. Most importantly the emphasis on assisting developing countries in the world market is to raise standards of living, ensuring full employment and a steady growth in member countries.

5 The case of Botswana

Botswana has one the world's highest economic growth rates since their independence from Britain year 1966. (Annual growth decreased some amount in 2007-08 and the outcome was negative in 2009 when their industry sector fell almost 30 %.) Botswana was once one of the poorest countries in the world. This was until they made a huge transformation where they used fiscal discipline and became a country with a middle-income country with a per capita GDP of $13, 100 in 2010. Because of the respectable reputation of Botswana's stable economy two major investment services ranks Botswana as the best credit risk in Africa. Their resources of diamond mining have been the factor of their expansion. It is appreciated to hold for more than one-third of GDP, 70-80 % of export earning and almost half of the government revenues. In 2009 the government relied on the diamond as their only single luxury export to recover from their economic crisis. Other key factors for Botswana are tourism, financial services, subsistence farming and cattle rising. (CIA, 2011)

5.1 Brief History

Since the independence in 1966 has the economy in Botswana driven forward and this is mostly because of the primary sector, initially agriculture and currently mining. Botswana also has a strong agriculture sector that provides about 40 % to the GDP. The undeveloped industrial sector does not act as huge contributor to the GDP. Therefore is there a strong need to develop and transform the industrial sector in interest of potential output to the economy. Botswana has been a member of the WTO since 1995. The government of Botswana has for two decades focused on economic diversification in order to shape the macroeconomic policies and sectorial polices including industrial and trade policies. The effort to diversify the economy started in 1982, the reason was mainly to record the mining sectorial contribution to GDP. Botswana's aim was to diversify the economy away from depending on their primary sector mining and started with import substitution as a strategy. (Kapunda, 2003) The start of diamond and cooper-nickel mining was in 1971 and 1973 which resulted to the growth of government and mining sectors dominating the economy. Even though there been efforts and programs to diversify the economy and generating private sector activity the diamond sector is the hugest contributor to the GDP and dominates the formal sector activity. (Gabonthone, 2009)

Botswana is ranked as number 56 in the global competitiveness ranking of the World Economic Forum and the reason is macroeconomic policies. Alongside it is also rated as least or lowest rate of corruption in the whole Africa. Possessing diamond as the one of the main exports they have managed to get in surplus from the revenue from diamonds. The revenues from diamonds and mineral taxation have opened opportunities for the government to improve infrastructure as transportation, and social services such as health and education. Botswana is one of the leading countries in Africa that shown great economic performance compared to the rest. Examining three successive budget deficits from 2001/02 to 2003/04, the government has always been able to maintain a budget surplus since their independence. However, this was until 2007/08 which affected the country due to the global financial crisis. As for the years 2009/10 the budget deficit was forecasted 14% of GDP. For the moment there is still a concern based on the reliance on tax receipts from Botswana's diamonds.

Diversification of the diamond revenue is the main priority from the government in order to maintain stable economy in the country. Aid from external sources is only accounted for less than 2 % of total government revenues. In order to stimulate expanded growth the budget has been rebalanced towards capital investment which has been done by increasing development spending from 24 % to 30 % during the years 2004/05 to 2008/09. Monetary policy in Botswana has the aim on having a low sustainable and predictable level of inflation over the medium-term, about 3-6 % per year. The outcome of tight monetary policy in the country has made it possible for annual inflation to go down from a point of 14.2% in April 2006 to below 7% in mid-2007. In 2008 in relation to the financial crisis the annual inflation increased to 12.6 % as prices increased more than normal. Botswana has showed positive substantial current account surpluses the last years. The balance of payments is balanced with official foreign exchange reserves at US$9.1 billion at the end of 2008. The depth of Botswana lies to 2.9% of GDP corresponding 4 % of total exports. (WTO, 2010)

5.2 Botswana and international trade

As mentioned several times Botswana is highly dependent on exports of diamonds which is calculated for 63.7% of total merchandise exports in 2007. Other traditional exports from Botswana are copper-nickel, beef and soda ash that have increased these past several years. Observing the trade pattern it is shown that an increase of non-traditional exports has increased because of preferential access to the US market and the declining share of automotive products exports. Botswana's share of merchandise exports is mainly in Europe and Southern Africa Customs Union (SACU) members. The exports have been more diversified geographically and an increase share of export preordain for America and Asia. Merchandise imports are mainly machinery and transport equipment, fuels and food and beverages which is mostly imported from South Africa. Botswana is a net importer of services mostly because of transportation. The growing trade deficit in services is because of the increase in imports of "other services", linked to services for prospecting and mine development. The Foreign Direct Investment (FDI) was accounted US$1.3 billion at the end of 2007. However, there was a decline of FDI in 2008 due to global financial crisis. Botswana has had a tendency of attracting FDI in financial services, mostly from Europe and South Africa. Botswana's stock of FDI abroad was at the end of 2007 accounted to US$809.

Botswana has for a long time been a member of SACU, however, the country has had its own national policy initiatives in some areas and these are not covered by the SACU agreement. The formulation and implementation of trade policy reside with the Ministry of trade and industry. The ministry has the responsibility to embrace the trade section which belongs to the international trade and internal trade directorates; and the section for industry and cooperative affairs, which belongs to registrar of companies; directorate of industrial affairs and cooperative development commissioner. Hence, they have functioned as institutions that have had a huge input into trade-related policies. Other ministers that also have a part important role is ministers responsible for finance; mineral resources; transport and communications; and agriculture and the Bank of Botswana. Botswana has an efficient consultative process for establishing trade policies. The highest level of the process lies on the High Level Consultative Council, chaired by the President and including the Vice-President, Ministers and private-sector representatives.

The government of Botswana has created a National Committee on Trade Policy and Negotiations in 2003 which has the agenda to include a forum for stakeholders to discuss and identify positions for Botswana's trade negotiations. The private-sector part in trade and industrial policy is ruled through the Botswana Confederation of Commerce, Industry and Manpower (BOCCIM). The Botswana Exporters and Manufactures Association safeguard the interest of exporters; it also provides specialized export services, including assistance in identifying foreign markets. In 1995 the Botswana Institute for Development Policy Analysis (BIDPA) was created in interest to establish public policy research for the government in order to monitor economic performance.

Botswana is a great example of implementing trade liberalization and investment promotion as key factors of the country's trade policy framework and the development strategy to reach it. The aim from the government for the moment is to broader Botswana's manufacturing base for further diversification purposes. The government has the goals to broader the opportunities for business to open and stimulate private sector growth. This will in return be vital to the economy's development. Botswana's highest priority is to lay the framework for diversifying the production of goods and services for the local, regional and international markets. The concern for trade policy is to ensure that supply-side constraints are emphasized, encouraging the private sector to diversify and increase its production and become more competitive.

Botswana has four development planning objectives: 1) economic growth, 2) social justice, 3) economic independence and 4) sustainable development. The Botswana's National Development Plan (NDP) has the goal to have Botswana as a developed economy by 2016 based on sustainable, diversified and competitive export-based economy. The NDP put an effort on developing the private sector since it is the key factor of growth and the driver of export-led growth that is needed in Botswana. The government also recognizes that there is a need to create beneficial environment for private-sector development by building institutional capacity and invest in infrastructural projects. (WTO, 2010)

5.2.1 The role of WTO in Botswana

Botswana is an original member of the WTO and is an advocate for fair trade regime based on multilaterally agreed principles. The membership of SACU got notified as 2002 SACU agreement to the WTO in 2007. Botswana is also a member of the Southern African Development Community (SADC) and a member of the African Union. One of the most important trade agreements is the GSP treatment from Australia, Canada, EC, Japan, New Zealand, Norway, Switzerland and the United States. This treatment makes it easier for Botswana products to enter these markets at zero or reduced tariffs. Botswana is a country that is open for foreign investment and they have a history with foreign investment entering the country. Institutions that are given to provide for non-discriminatory treatment of foreign investors are Botswana's model Bilateral Investment Treaty (BIT). Other assistance programs are the Citizen Entrepreneurial Development Agency (CEDA). It was established to assist financial scheme to build citizens enterprises and operates a Venture Capital Fund for joint ventures between citizens and foreigners. Trade-related technical assistance

(TRTA) has a huge impact in assisting Botswana from trade liberalization policies and also in participating in multilateral trading system.

Botswana as a country in the world market need assistance in order to compete, the following has been emphasized

- "Implementation of WTO agreements (and in deriving benefits from such implementation);
- Building of human and institutional capacity, including from trade negotiations;
- Supply-side constraints and
- The integration of trade into overall development strategies" (WTO, 2010, p.79).

When it comes to Botswana and their role in the WTO agreements they have recognized to implement legislation on anti-dumping, safeguards and countervailing measures. By improving these policies will in turn transform Botswana's role in the world trade market and bring stable and economic growth. (WTO, 2010)

5.2.2 "Natural Resource Curse"

A note that should be taken in the case of Botswana is that their possession of diamond has not been a reason for their positive economic growth. In fact the natural resource curse states the opposite. According to this view does many countries depend their economy on natural resource as oil, diamonds, or timber which usually results to larger extent of poverty. According to the UN Human Development Index an annual report has shown that measuring the quality of life for citizens are much lower in those countries. Additionally does this countries has a higher probability of getting into conflict with countries that's economies are more diversified. The correlation of wealth in natural resources in relation to ending in poverty is identified as the natural resource curse. (UN, 2006)

According to Thomas Palley in the 2003 Foreign Service Journal (Dec) the natural resource curse occurs because the income from these resources end up in the corrupt leaders pockets instead of using the money to develop welfare. Those situations are common and creates conflicts between the people and civil war.

However, Botswana has been a great example on how to use the natural resource money to support growth and development. It is fascinating how Botswana being a third world country still has maintained stable economic growth for decades. What has been the reason for their success? The natural resource curse cannot be applied to Botswana since they have done the opposite of what the theory implies. Through their stable government policies, strong political leadership and an implemented long-term development plan Botswana has ignored the effects of the resource curse. Instead have they provided quality public services as education and healthcare to its citizens. Being one of the least corrupted countries and having high civil engagement has made the authority to be more transparent on their spending and distributing the country's natural resource wealth. Moreover the Debwana Diamond Company is owned equally by the Botswana branch of De Beers and the government of Botswana. This has lead to assurance stable revenue for the country. Debswana has provided with investment in the community for building hospitals, schools and recreational facilities for employees and local residents. Botswana is a unique example in the case because they don' only have diamond as their export but also mining, cutting and polishing which has manufactured subsided of Debswana. Still Botswana remains one of the wealthiest countries that only export rough diamonds. (IMF, 2006)

6 The case of Uganda

Uganda has for many years been a low-income country willing to revitalize their economy through export-orientation and deregulation. The case of Uganda shows how a least-developed country can benefit from the Uruguay Round Agreements and how the WTO-based economic reforms may create new opportunities.

"Uganda is an African trailblazer in government reforms, attacking corruption and focusing on service delivery and results orientation" (Gallagher, 2000, p. 204).

6.1 Brief History

Uganda is a former colony of Britain and in 1962 they got their independence. At 1971 Idi Amin announced himself as a long time president. Through dictatorial regime did he manage to maintain his power from 1971-1979. Idi Amin and his regime are responsible of the death of more than 300,000 opponents. (CIA, 2011)

When Uganda got its independence it was one of the largest economies in Africa, with great out-comes for wealth. During 1963-1973 they had achieved an annual average rate of GDP growth of 6 % and the balance of payments was in surplus. Unfortunately by the mid-1970's the economy was staring to fall and it was unstable. Uganda's economy was going downhill and in 1970's real GDP growth averaged 0, 2 % for 1971-75 and minus 3 % for 1976-80. During 1970 and 1981 Uganda's most important export, cotton and tea was wiped out. The only product left was coffee which was contributing to total exports rising from 50 to 95 %. The per capita also declined by 40 % during 1971-81 which caused living standards to sink. Agricultural production declined at 0, 7 % per year on average during the seventies which was a setback for the sector. This is only some of the sectors that were affected by this back draw situation of the economy.

Furthermore productive sectors was abandoned, civil war and years of disregard lead to the col-lapse of local infrastructure in Uganda. The consequences of this were that Uganda now was facing a situation where imports became more expensive relative to exports. The government kept an overvalued currency and the balance of payments deficit worsened. Trade policy was not helping and local industries received a significant amount of protection and the public sector dominated most economic activity. In 1982 the first attempt of reforming the economy was established by

Milton Obote the president of Uganda and by the support from the IMF. The first steps were to decrease the prices and increase agricultural producer prices also restriction was made on the government spending. The so called The Expropriated Act was supposed to attract the Asian community back by returning property that had been given before. By implementing these reforms the government thought it would encourage foreign aid and investment. By 1984 it was noticeable that the government had failed to keep the structural adjustment policies and the IMF withdrew its support. It was time for new reforms again and this time it had to work. As Yoweri Musevani took over the power in 1986 he faced a huge challenge of implementing reforms that would be sustainable and efficient. He had an idea of establishing a liberal economic environment favorable to growth and the development of the private sector. The plan was to reach this by relaxation of exchange rate controls, privatization and progressive liberalization of market access for foreign products. The aim of the program were

- The need to decrease spending by guarantee financial stabilization and
- The constraint to reconstruct the devastated infrastructure, which meant more spending.

The Manager Director of Uganda Coffee Development Authority (UCDA), Tess Bucyanayandi stated that "The aim was to move Uganda towards a free market system in line with the globalization of trade and gradual removal of trade barriers. These reforms would encourage competition and enable the government to use the nation's scarce resources optimally" (Gallagher, 2000, p. 206). Since the previous failures of reforming Uganda's economy the World Bank and IMF strongly advocated that it was time for Uganda to enforce liberalization and export-oriented growth.

In 1986 the first reforms was made in order to change the trade pattern of Uganda. At this point of time in Uganda the conditions was not great as life expectancy in Uganda was low and public services, such as health or education were in disorder. The population had lost confidence due to the many years of suffering and humiliation. Production and trade were dejected because of lack of security, unstable inflation and the inflexibility of domestic regulations. When arguments of trade liberalization was presented as reforms and a chance of getting Uganda's economy back to feet there was a lot of uncertainty from the people. In 1986 Uganda was one of the poorest countries of the world and since the level of economic development was low it was easier to advocate for protectionism. President Yoweri Museveni acted as he was expected and agreed that the best way of getting Uganda's economy back to feet would be through implementing privatization and liberalization.

6.2 Uganda and International Trade

The outcome of the economic decision 1986 was that the tax systems had been modernized, public expenditure had been restricted and the exchange rate was allowed to float. This resulted to that Uganda's large informal sector was integrated into the formal economy through a process of financial intermediation. Moreover was the introduction of cash activities into rural areas broadened into tax base. The focus was to tighten the monetary policies which in turn would decrease inflation. Due to the new liberal approval practices and property expropriated many new investment was welcomed into the country. The domestic market had adopted the trade liberalization reforms and deregulation which would be the essential keys to the economic growth. As for the assistance outside was IMF supporting the three-year enhanced structural adjustment facility by proving them \$175 million. The World Bank and the International Development Association supported with credit. Foreign aid was also given which increased from \$231 million in 1990 to \$800 in 1996.

Uganda's manufacturing sector was dominated by the processing of agricultural material as coffee, leather, sugar and tobacco. Other manufactures that was heading right was the production of paper, textiles, furniture, chemicals and construction materials. The privatization of industries was implemented and their vital international distributors of coffee became directly involved in the local industry. By introducing new technologies, improving quality and investing in the production, Uganda was heading in the right direction in trade terms. Hence the abolition of the state trading monopoly made it easier for other companies to get into the market and the competition made more foreign firms to invest which created competition. Liberalization had in other words done what it is suppose to accomplish and many transnational corporations came back to Uganda as Unilever, Shell, Caltex and Pepsi.

The outcome of these reforms was given positive; the economy had an average annual growth of 5, 7 % for the period of 1989-1996. The average per capita income in Uganda is low but still every year since 1988 it has increased by about 2.8 %. The outcomes in the budgetary deficit lead to stable progress in economic recovery. It has been positive since the authorities moved to a development strategy based on exports and foreign direct investment. Ever since 1996 the GDP growth has averaged 7 % and the economy got stabilized with inflation down to 7 %. Hence, we can draw the conclusion that liberalization and economic reforms can develop a poor, underdeveloped economy.

Uganda is a evidence based country in the question of whether a country need to be a developed country in order to marginalize in the world trade. Recalling that the economy of Uganda had years before the reforms almost collapsed, they managed through this reforms get their economy back on its feet. The outcome was calculated to a 7 % annual growth rate. The agriculture sector is one of the major sectors in the country were they through eliminating trade, pricing and marketing controls were able to increase outstanding. Only a few infant industries remained protected but the government of Uganda is phasing out most non-tariff barriers such as quantitative restrictions. The reforms has boosted a lot of different aspect of the country besides economy it allowed the country to manage to adjust an unfavorable internal and external environment. Those actors that made this process go in action are the government of Uganda and the donor support which financed the cost of liberalization.

6.2.1 The role of the WTO in Uganda

Observing the last ten years the WTO trading system has been very helpful as they have stimulated further liberalization. The WTO as mentioned before has the aim to advocate liberalization to be integrated under the WTO framework and rules that is later implemented in developing countries in respect to gain from trade. As for the argument that trade only benefits rich countries this can be proven wrong in the case of Uganda. The WTO has a system that covers a various range of sectors that decreased the chances that special interest groups with restricted interest can have a disproportionate influence over policy. Hence, it makes investors have more confidence on their business in the country and they feel that there is positive to invest in the country – which has been one of the reasons to Uganda's economy recovery. Once again does this prove that Uganda is an example of that trade liberalization, export diversification and consistent adjustment policies have assisted a poor country and gained from the Uruguay Round. Of course is this not the end, Uganda as a country has a responsibility to stimulate further growth and to constrain their supply side.

The government of Uganda cannot stop here they ought to continue what they have started. Infrastructural, financial and institutional bottlenecks are to take in consideration before they can fulfill gain from international trade. Also acknowledge that there is more responsibility towards the WTO agreements such as understanding new agreements. This problem is an issue many developing countries have to work with and improve.

Ten years after the economic reforms there was a focus on studying the gains from participating in the international trading system – WTO. The focal aspect is to see if the WTO system has assisted Uganda in developing its participation in international trade. As studies has shown we can draw the conclusion that Uganda has gained own regulatory framework and rationalizing its own production and trade. The success of Uganda's participation in WTO has been through the concept of opportunity cost. Opportunity cost is the fundamental concept underlying trade meaning that if you produce something you do so at the cost of not producing something else. By consuming something, the cost is not consuming an alternative. The more alternatives you have of choices the better chance of minimizing the opportunity cost. When Uganda lowered its trade barriers, liberalized its domestic market, promoted investment and privatized state owned industries, Uganda strengthen its participation in world trade. The involvement of WTO meant that they imported more. Nevertheless, Uganda took advantage of the export market openings that was given from the Uruguay round to developing countries.

The field in which Uganda's companies was getting best profit from was of horticultural, floricultural and food products. Tourism is also an increasingly essential source of foreign exchange. The WTO aims in trade in agricultural products has been fundamental for the strategic implications for various Ugandan business that are attempting export diversity. In addition the WTO agreements on sanitary and phytosanitry measures on services such as tourism has had a lot of impact and been a great importance for Uganda.

WTO has a lot of different roles when it comes to least-developed countries for instance banking and whether it is state-owned or not. Banking has a huge impact on a countries economy and has a vital role for economic strategy. Modern economic system cannot function without efficient financial institutions or poor telecommunication networks. What has been seen in the case of Uganda is that through trade liberalization and adjusted consistent adjustment polices and export diversification has created opportunities for least developed countries to take advantage of the new market openings and a new stability offered by the WTO trading system.

What can be confirmed is that Uganda's transformation would never been achieved without the support from WTO, IMF, and the World Bank. These actors have both rules as aid donor and assisting of implementing trade policies. The WTO has shown to be one of the most important factors for developing countries as Uganda. (Gallagher, 2000)

7 Analysis

The purpose of this thesis was to investigate on whether institutional organizations can help developing countries involvement in the world market. Furthermore the interest was to investigate if the developing countries have an opportunity to prosper their economy in the involvement of free trade. Case studies have been made on countries as Botswana and Uganda, the question still remain if whether these countries have had a positive outcome of their membership in the WTO. In order to investigate based on the thesis we have to use Adam Smith's view of free trade to examine how a country should act in order to get the most benefit from free trade. Moreover, will the Heckscher Ohlin Model and Fredrich Hayek's view of state and economy been taken in consideration in the analysis of how the respective countries has developed their economy. Douglass North provided us vital information regarding the issue of integrating institutions into the economic and political framework. This is most important for a third world country in order to have a chance to compete in the world market. The last part of the analysis will consist of a solution and what the author thinks is the vital factor in the transformation to liberalization and privatization.

The outcome of using the different views of capturing growth based on this thesis has shown to be positive correlated. If we ought to demonstrate it could look like these;

$$\mathbf{Price_b(x) - price_s(x) = transport\ per\ unit + transactions\ cost\ per\ unit > 0}$$

Expanding the "formula" it means that trading with countries will lead to more trade and eventually increased welfare. To take in consideration of the different scholar that has been used they all have different functions in the formula. Hayek has focused to emphasize prices both from buyer country and seller country, prices cannot be controlled by the state. Smith and the HO-model has the role of units per price, meaning it depends on how much you produce as they have illustrated models on how to increase production. The role of transport and transactions cost are North, Smith and the HO-model advocates for. North has had a crucial role by highlighting that if institutions does not efficiently work in a country it won't be able to participate in trade since the trading will not be efficient. The key for capturing growth is if all these functions as they should and are valid in a country. For instance North mentions that the cost of transacting is the main issue of institutions whereas the key to sustainable economy in a country is thorugh valid institutions. Transacting cost has shown to be much higher in third world countrie which is why it is hard to sustain in the market if you want to run a business. Therefore if institutions would be legitimate in third world countries the process of trade would be much more easier as the formula stated. The involvement in trade would be efficient if institutions are present and functions as they should. Hence when a country start trading it will not make a loss which is the biggest concern and what developing countries are afraid of. However if they would use this formula as a model to follow there will be a positive correlation by participating in trade and capturing growth.

7.1 Institutions perspective on capturing growth

Institutions have the effects on the performance of the economy as it changes the exchange and production. Technology and employed construct together the transaction and transformation costs that make up total costs. Cooperation between economic theories of gains of trade and institutions has been hard to cooperate in most states. This is according to North a serious issue in some countries that wants to develop. Additionally North states that the effectively of institutions are not legitimate or sustainable due to the fact of lack of human cooperation. Smith stated that under effective institutional condition, individuals will act for self-interest that will result positively in the society. Effective institutions are the best outcome for consumers under situations of free competition or perfect liberty. Hayek also advocated institutional organization to be placed for democratic legislatures. If there were not the existing structure of political and ideological incentives it would lead to that some economic interest group make demands upon democratically elected politicians.

The understanding so far is that institutions are an important tool when it comes to capturing growth for the whole nation (and not only for interest groups). In order to have a chance to compete in the world market has it been essential to have institutional organization that can provide a more valid economic system in the country. Therefore has WTO worked a lot to offer legal and institutional ground for international trade. They have provided developing countries a contractual framework that consists of domestic trade policy that is supposes to ease the transformation to liberalization and privatization. North's fundamental argument that lack of cooperation can risk the world trade has put an effect on the WTO framework. Hence, they have put a lot of effort for countries to realize that through the involvement of international trade member states will together create commercial relation. Furthermore will it result to raising standards of living, ensuring full employment and a large growing rate of real income and effective demand?

Botswana has managed to accomplish this, because the implementation of trade policy exist in their Ministry of Trade and Industry. The Ministry has the responsibility to embrace the trade section along with international trade and internal trade directorates and other institutions. Furthermore, Botswana has had an efficient consultative process for establishing trade policies. Take in consideration that Botswana is one of the countries with lowest corruption in Africa. Institutions that are provided in the issue of non-discriminatory treatment of foreign investors is Botswana's model Bilateral Investment Treaty (BIT). Additional assistance programs are the Citizen Entrepreneurial Development Agency (CEDA) that was established to assist financial scheme to build citizens enterprises in order for citizen and foreign to work better. These institutions are established for the aim of attracting Foreign Investors and to make sure that they are protected under certain institutions. The reputation of Botswana is positive abroad which has brought many Foreign Direct Investment in the country. Uganda has through their transformation brought back many of their old investors. The reason why Unilever, Shell, Caltex and Pepsi came back is because of liberalization and privatization that made their market more valid for foreign investors to enter the country.

In the case of Botswana there is evidence that institutional organization has had a impact on the transformation of their economy. Uganda is still putting a lot effort on including institutions in the market, however they are heading to the right direction. Institutions are not the only reason of growth in a country nevertheless you cannot neglect the fact that it smooth's the transformation. By having effective institutions, situations that only favors groups or even the government pocket can be avoided and more entrepreneurs will be willing to create businesses. Not to forget, foreign investment will increase which will lead to more job and growth in the economy as more businesses are present in the country. Therefore without legitimate institutions there are no high possibilities that a nation can capture growth as they would with valid institutions.

7.2 Governments responsibility of capturing growth

Until this point there has been three different scholars point of view when it comes to how a government should act. Many theories have been described in interest of the well being of a state in relation to liberalization. Furthermore have there been a section on World Trade Organization and their efforts on including the developing countries in the world market. The different views or aims have had an impact on many countries however in this thesis the interest has been on Uganda and Botswana. What remains to be answered in this section is if WTO has eased the transformation of closed economy to an open economy. In order to make a legitimate analysis of the outcome of Botswana's and Uganda's involvement of the world market there is a need of implementing the theories presented before in the countries.

Adam Smith's arguments of a country enjoying free trade and increasing their economic growth are a nation that has minimal state interference. Foremost, a country has to implement market economy which will in turn improve the standards of living. The population will have more money to spend and the consumption will improve the economy. This in turn will lead to possibilities of expanding the involvement of the international trade market. According to Smith is restriction only beneficial for the rich and it will not benefit the whole population, import quotas, tariffs and other type of restrictions should get abolished.

Taking in consideration of Botswana in the situation of opening of their boarders we have seen a trade pattern that has benefited the country; as they can trade goods which they do not have a chance to produce by themselves and in return another country has got products they do not have a comparative advantage in. Botswana has one of the world highest economic growth rates since 1966 and there is a correlation with trade. Knowing that Botswana once was one of the poorest countries in Africa makes them a unique example of how they have through trade liberalization become the country they are for the moment. The reform the government has used for the past two decades has been focusing on economic diversification. The purpose has been to shape the macroeconomic policies and sectorial policies including industrial and trade policies.

Uganda has almost the similar case, as they were almost facing a collapse in the 1980's they managed to transform their economy through reforms. By eliminating price and market controls in the agriculture sector they allowed their economy to flourish. The reforms brought prosperity to the country. Without the support from the government and donor support which financed the cost of liberalization these reforms would have never occurred. The implementation of privatization attracted foreign investment which made it easier for domestic companies to invest too. North criticizes that in many third world countries is the lack of producing due to the flaws in the framework that determines the structure. Hence, there are not many opportunities to establish a firm in those countries and there are not legitimate property rights, laws, and there are barriers to entry and monopolistic restrains. Therefore should the government have the responsibility to implement policies that could benefit firms and they need to abolish subsides, tariff protection as well.

This makes Botswana a great example as they have implemented these kinds of policies in favour for the private sector. The government has worked on broader the opportunities for companies to open and stimulate private sector growth which will lead to economic growth. Botswana's highest priority is to forward an agenda for diversifying the production of goods and services for the local, regional and international markets. As for the issue of trade policies the government has worked to ensure that supply-side constraints are emphasized and encouraged in the private sector in order to diversify and increase its production and become more competitive. The government of Botswana also recognizes that there is additional need to create beneficial environment for private-sector development by building institutional capacity and invest in infrastructural projects.

In the aspect of building of human and institutional capacity, there is a correlation what North, Smith and Hayek promoted. For example Smith's view of trade was that the link between human propensities and the wealth of nation is complete when self-interest leads to market exchange. The greater division of labor turns in to specialization which will in turn lead to expertise dexterity and invention and the result is wealth. The government and the security of civil government are vital for the aspect of expanding liberty and happiness in the country.

Uganda was in 1986 one of the poorest country in Africa, similar to the case of Botswana. In relation to that a new president was elected in 1986 in Uganda there was a decision made that would transform Uganda's economy. The new policies were to implement privatization and liberalization which has been lead to positive outcome for the country. These factors are exactly the arguments that Hayek and Smith introduced in their remark of gaining in the international trade market. Smith's and Hayek's point of view of free trade includes that there is an importance to implement trade liberalization reform, privatize industries, and abolish trade monopoly. Correlating those factors is their evidence that Uganda has done what it takes to take a part of the international trade market.

Uganda has through their success of eliminating trade pricing and marketing controls manage to boost their agricultural sector. As the HO model implies is tariffs, quotas and other type of trade restrictions sources of reducing efficiency in a country's economy. A country as Uganda cannot be compared to Botswana or another country when it comes to involvement in the world trade. All countries have individual outcome and characteristics in the world market related to trade. Botswana for example has diamond as their essential export product whilst Uganda has a comparative advantage in coffee; this makes it automatically that their position in the world market is different. For the case of Uganda is has been noticeable from an early start that they have needed more assistance than Botswana.

Both Hayek and Smith emphasized that the government has certain responsibilities when it comes to the nation, nevertheless the state interference are minimal. However, one of the standpoints that both of them were sharing was the responsibility of the state to offer infrastructure for the population. That is one of the areas where the government of Uganda has to invest in, since the key for efficient growth and foreign investment is to have functional infrastructure. Economic growth does not uphold without stable government, stable domestic policies and efficient infrastructure. There is always a chance to improve a country even more and therefore should Uganda not stop here. Botswana face the same issue since their main imports are technology and machinery products for their mining. They are dependent on stable infrastructure as they need to use the roads to deliver tools for their mining. They can lose a lot of resources if they do not posses effective infrastructure.

7.3 WTO responsibility so far and future aspects

The WTO has highlighted that there are many aspects than can strengthen the role of the developing countries in their involvement in international trade. Firstly there has to be macroeconomic environment that can maintain an environment of stable prices. As growth increases it will be based on enterprises and initiative of companies. Secondly, factors as natural and human capital resource endowments and technological, physical and financial infrastructure create opportunities of an economy to react to incentives to attract investment. If these factors are not included there will be a negative outcome of productivity and markets. Also will they not reach comparative advantage in their products and will lose their chance to compete in the world market. Lastly public institution need to be strengthening and included in the legal and regulatory agenda which will result to efficiency of markets. These three standpoints go hand in hand of what North, Smith, Hayek and the Heckscher Ohlin model is emphasizing. The difference is that WTO implement these in the trade policies that are ought to be implemented in the respective member countries.

The WTO is one of the factors that the outcome of Uganda's participation in the world market has been efficient. For example have the WTO provided help in stimulating the liberalization to a broader extent, providing the country with the right technical assistance and much more. As North argues that institutional framework determines the structure of producing, firms in third world countries usually backfire when it comes to opening up business. This is because of the insecure property rights, barriers to entry and monopolistic restraints which make it non beneficial to become a business owner. However, WTO has put a lot of effort on making sure that interest group will be restricted to have a disproportionate influence over policy. North mentions that in many cases are the most profitable business trade redistribute activities and black markets in third world countries. Therefore is it essential that the government has the right trade policies. The WTO has worked on making sure that investors in Uganda have more confidence on their business. The result has lead to more foreign investors wanting to invest, which has been one of the source of Uganda's economy recovery.

Subsequently, what has to be done in the case of Botswana and their participation in the world market? Given that Botswana has the goal of transforming from a developing economy to a developed economy by 2016 they are heading right. Their planning for the moment is economic growth, social justice, economic independence and sustainable growth. The National Development Plan (NDP) in Botswana has stated that they have a potential of reaching their goals based on sustainable, diversified and competitive export-based economy. Moreover the NDP claim that they need to put effort on developing the private sector because it is the focal aspect of growth and the engine of export-led growth. Considering their effort on transforming their economy, there is hope to believe that they will success. However, WTO still has a huge responsibility in some issues they need to provide with trade- related technical assistance that are not present in the country for the moment. Furthermore, the WTO has acknowledged that Botswana need assistance in implementing WTO agreements, building of human and institutional capacity, supply-side constraints and in integrating trade into development strategies.

7.4 Solution based on the theories

Even though both Botswana and Uganda have shown to be good examples in the issue of correlating participation of the world market and the outcome of economic growth – there are much more to do. Smith has put a lot of effort on making nations understand that education should be offered to the population. If a nation has an educated population the more decent and orderly will the outcome of the nation is. Mentioned before has North been highly influenced of Smith and states that the essence of institutions and the key to human capital is how the distribution of knowledge is in respective countries. It is fundamental to invest in human and physical capital which contributes to a sustainable growth. Hayek argued that knowledge will ease the market structure. Meaning that if the population has the knowledge of the market, they know where they can consume the cheapest products but also they will be able to know how to establish a business. Knowledge in any kind is beneficial as you can use the ability to take advantage of an opportunity that other miss and know how to use it profitable. People without knowledge cannot become an entrepreneur and they cannot know where to consume the cheapest products.

WTO has also put a lot effort on including education in the framework of liberalization and privatization. One of the main arguments are that they want the developing countries to understand the gains from trade as taking advantage of the market opportunities offered and that can only be reached through education. Highlighted factors as natural and human capital resource endowments and technological, physical and financial infrastructure will be reached through education. They are important as these factors establish the ability of an economy to react to incentives to attract investment, to increase productivity and to reach markets where comparative advantage can come into play. Here will HO-model take place, by knowing what you can have a comparative advantage in you will increase your production and export more.

If it has not been obvious until now the most focal point in capturing growth are through education. What have to be improved are the possibilities on educating people in the developing countries. The result will be that they will manage to compete with products that are in better conditions and shape. The people will have an honest chance to establish businesses since they know how the market works and with effective institutions can they gain profit from their business. Businesses will create job opportunities and these will in the end increase the annual growth in those countries.

8 Conclusion

Chapter eight cover the conclusion of this thesis, the purpose is to conclude the thesis by answering the research question and draw a conclusion of the aim of the study.

8.1 Conclusion

- You come here with ready theories from an economics textbook. Those things may work for developed economies, but a freer trade does not help us – the least advanced nations – to get out of that mess."
- "We are too weak and too poor to compete with rich countries such as the United States or Germany. How do you want our economy to survive if nobody is willing to pay reasonable prices for our products?"
- "When we trade with Europe all profits go to Europe and nothing is left for us." (pg. 199)

In the section that covered WTO there were three arguments that covered disagreements about international trade. Based on the analysis of how international trade has been performed in Botswana and Uganda the correlation has been positive.

The argument about economies theories only is able to function for developed countries have shown to be negative. This can be proven by the result of implementing liberalization and privatization in Botswana and Uganda. Both countries showed positive performance and outcomes when they implemented what Smith, Hayek, North and the Heckscher Ohlin model was promoting. Their economy has flourished and in many sectors the outcome has been highly affirmative. The second argument that stated that developing countries are too weak or poor to compete in the world market, it was also proven wrong (in the study of Botswana and Uganda). As these countries abolished trade restriction, they managed to compete in different levels. Of course this would never have occurred without the assistance of WTO and their preference trade agreement towards the respective countries. Since technical assistance has been provided there has been chance for these countries to compete in almost same criteria's. However, there are many steps left until they will trade from the same point as developed countries are trading.

The last issue concern the part of profit, the underline of the argument is that developing countries do not benefit by the involvement of trade. This aspect has mostly been covered in North's section and the aim of showing that effective institutions can capture growth. Also it was proven that there are many ways where economies can capture growth and it based on valid institutions. Botswana was a good example of showing the relationship.

Moreover, it is vital to understand that privatization and liberalization do not occur in one day, or a period of one year. It is a long process; hence the reason of WTO was established. The WTO does not have the aim of "sending" out a country to the world trade. Instead they have the aim to assist and provide technical and other type of help that will ease the transformation. Developing countries does not have the same output as a developed country has in the world trade market. This is because they don't possess the same potential. Education, a legitimate government, effective infrastructure are just few factors that has to be taken in consideration. Without these factors the transformation to liberalization will not work.

However, what has been proven based on these case studies is that even the poorest country can have a chance of transform its economy. As long as the right assistance is provided and support is given from WTO, the World Bank and IMF the outcome will be positive. Furthermore respective country's has to take responsibility of implementing the trade policies that are given from the WTO and always work on developing their policies in order to compete in the international trade market.

The conclusion that we can draw are based on studies made on Botswana and Uganda. As they have showed positive outcomes through transforming their economy, we can imply that other countries will. Based on these studies we can show that there is a correlation between liberalizing the economy in order for the economy to grow. Opening up boarders in these countries has made them big actors in some sectors which are quite enough as they started from an almost collapsed economy. Using these countries as evidence based economies there is a positive correlation of prosperity in a country through world trade. Most importantly is the fact that even if these coutnries are located in Africa they have had completely different economic overview and issues regarding to their economy but in the end has liberalization and opening up borders meant economic prospertity and growth.

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