

Stuck Between Farm and Pharma, Nothing Special on S&DT

When negotiators at the WTO broke for the winter holiday in December, champagne bottles were not uncorked as none of the deadlines could be met. First, the TRIPs and public health clarification ended in a stalemate. The US pharma lobby insisted on the coverage of a very limited number of diseases under the window of compulsory licensing and the power of poor countries to import them if they did not have a domestic manufacturing capacity.

Second, the issue of farm talks did not move forward as per their desire to liberalise more than what was agreed during the Uruguay Round. Third, and this was the Like Minded Group's (LMG) pet issue: the demand of making special and differential treatment (S&DTs) provisions enforceable,

was stuck between 'hee haw' and 'hum haw' (Who moved my cheese?).

One worried soul is the WTO Director-General, Supachai Panitchpakdi. He had made an impassioned plea in the Financial Times of 16th December: "World trade must not be tripped by drugs", but that did not work before a very stubborn US. This will not only reinforce the comments by sceptics, who questioned the word 'development' in

the Doha agenda, but will marshal forces which are inimical to the whole trade liberalisation agenda.

Coming to the fundamental issues, many have argued about the validity of the TRIPs in the WTO. Protagonists argue that if TRIPs is not

As a share to the world trade, the USA's imports in 2001 was 18.3 percent and exports: 11.9 percent. On the other hand, the EU's share for imports was 36.26percent and 37.16 percent for exports. Not that the EU doesn't come up with unfair actions, but at least it doesn't throw its weight around obscenely. Thus, one of the ways forward for the Doha agenda to move is to get the TRIPs out of the WTO and dispatched to the World Intellectual Property Organisation, where it belongs.

The original deadline for the TRIPs debacle was set at the end of December 2002. The negotiations have now been postponed till February 2003. The breakdown of these highly visible talks on medicines may have

some serious implications on other negotiations. One thing that's sure is it would release a considerable amount of pressure from the EU to fulfil its commitments on agriculture.

Given the deadline, the EU might have yielded and submitted a proposal for modalities in the WTO farm negotiations. But, we must not forget that the EU farm lobby is no less powerful than the US pharma lobby. So what the US has done to TRIPs can easily be a role model for the EU's approach to farm talks.



there, the US will walk out of the WTO. So what, if it does. Anyway, by its 'ugly American' behaviour, it causes enough problems, whether at Geneva or out of Washington. For example, when Iran's application for an observer status at the WTO came up at the General Council meeting in October, the US delegate shot it down, with words to the effect that "it does not even have to give any reasons for its objection".

INSIDE

WTO: Need for a Proactive Agenda	3	US Blocked A Deal	10
US Back on Top for Economic Potential	4	EU Talks on GMO Labelling Rules	11
Nobel for Behavioural Economics	5	Regulating Work in the EU	12
Rifts Imperil WTO Deadline	7	Fears for Effects of Climate Change	13
Trade Negotiations are Political	8	Countries to Miss Education Targets	14
Poor Nations' Qualms on WTO	9	Finding the Right Medicine	15



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Already, there are serious drawbacks in its proposal. First, the Commission wants a reduction in trade barriers to be staggered over six years, starting 2006. This means farmers in poor countries will have to wait until 2013 for the EU to halve its export subsidies. Second, the EC's proposal does not embrace fundamental reform in global agricultural trade as it has little intention to reform its Common Agricultural Policy (CAP), which would have enabled them to go for deeper tariff and subsidy cuts. Third, the EC conditioned its proposal on allowances for animal welfare and food safety support to farmers.

Only two days after the EU submission, Stuart Harbinson, Chair of the negotiating session of the Committee on Agriculture (CoA), circulated an 'overview paper' that outlined the current status of negotiations on establishing numeric

targets, formulas and other 'modalities' for countries' commitments to be met by March 31, 2003. However, negotiators will continue to have sleepless nights in the ensuing first quarter of the New Year.

As regards S&DT provisions, the Trade and Development Committee of the WTO could not bridge the gap and thus failed to meet the second deadline after having already missed a mandated July 31, 2002 deadline.

The discussions on S&DT over the last few weeks were split into two thematic groups. The first focussed on coming up with a first basket of decisions for immediate action. In this regard, Chairman Ransford Smith, prepared (on his own responsibility) 22 potential recommendations for agreement-specific proposals. The second thematic group dealt with how, and

in what time frame, to proceed with the remaining issues.

On the last day of talks before the winter break, members could not agree on either of the two tracks. On agreement-specific proposals, only four out of the 22 on the Chair's list were acceptable to all. On the way forward, members could not agree on future deadlines or the procedure to handle the remaining proposals. Finally, members agreed that Ambassador Smith would go ahead and make a factual interim report to the General Council on the state of S&DT discussions.

Overall, the year 2002 ended on an extremely disappointing note for the poor countries. Frankly, there is no pundit who can forecast which way things will turn. Clearly, the overloaded developing country negotiators will be hard pressed to deal many issues simultaneously.

FORUM

Contribute to Clarity

Thank you for introducing me to the work of the CUTS Centre for International Trade, Economics & Environment as well as to the background of your interest in these areas.

I was already aware of the work that CUTS has been doing through my previous functions with the European Commission, both as Head of Delegation in Geneva and more



recently in the Trade Directorate General in Brussels. Nevertheless, I am pleased to receive some of the recent briefing papers and copies of the newsletters, which are very well done.

Let me make one comment in particular, which relates to the monograph that you have published on 'Globalisation and India'. Since, globalisation is an area, which is often not well understood and which in some way seems to have become

regarded as a brain child of the World Trade Organisation (WTO), I was particularly struck by the way in which you have dealt with this issue.

I congratulate you on a real effort to contribute to the clarity of thinking in this general area and hope that your sensible observations will reach the right audience and have due effect.

*Roderick E. Abbott
Deputy Director-General
World Trade Organisation*

Very Useful for Understanding

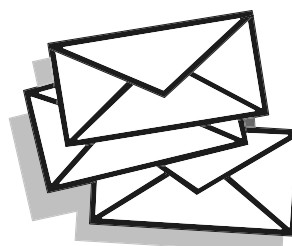
Your publications are very useful in developing a better understanding about the situation on globalisation and steps to be taken to make its best use.

*R. A. Mital
Secretary
Hind Mazdoor Sabha
New Delhi, India*

On Topical Issues

Your publications are useful to our faculty and students. Congratulations for covering topical issues.

*B. K. Tiwari
Professor & Head
Centre for Environmental Studies
North-Eastern Hill University
Shillong, India*



Quench my Thirst

I am a mission organiser and development consultant. I received your address from 'Go Between,' a publication of the United Nations Non-Governmental Liaison Service.

I read with interest the launching of your Jubilee 2010/2020 Campaign. I wish to have more detail information about your activities and how can I involve. Please send me all your publications on trade and economic policy issues.

*Biplab K. Biswas
Naihati, West Bengal, India*

Minister Desires Two More Sets

Thank you very much for sending "ABC of the WTO" and "WTO and India: An Agenda for Action in Post Doha Scenario" to Balasaheb Vikhe Patil, Union Minister of Heavy Industry & Public Enterprises.

He desires that two more sets of the books may please be sent to him for his use.

*D. S. M. Sundaram
PA to Minister
New Delhi, India*

WTO: Need for a Proactive Southern Agenda

The lack of agreement on common goals for trade liberalisation has resulted in a deadlock. To move forward, one needs to be free from all biases to explore the options and look into the issues, which have emerged with the new trading regime.

Anyone following the debate would realise that much of it is being conducted with "set minds". Opponents claim that WTO dictates policies and is for free trade at any cost. In the WTO system, commercial interests take priority over development, environment, health and safety issues.

On the contrary, proponents declare WTO as a panacea for every ill. They claim that it is the only forum where countries can thrash out their differences on trade issues. They argue that WTO promotes non-discrimination and transparency, which in turn can play an important role in generating economic growth, especially in the developing countries.

Who is right? The answer depends on what is expected from economic liberalisation and free trade. One side thinks that economic growth should be a means towards achieving sustainable social, environmental, and human development. Whereas, the other side thinks that trade liberalisation and economic growth in itself is a means and goal.

Nothing is perfect, and certainly not the WTO. In theory, it says that the multilateral trading system should be without any discrimination; should be freer (with barriers coming down through negotiations); should be predictable; more competitive; and more beneficial for the less developed countries. However, in practice, we find that the benefits of WTO-led trade liberalisation tend to accrue to the more developed and rich nations and there is no apparent relief for the less developed countries.

Given this situation, many trade diplomats from the developed world are trying to put forward two points.

First, if the developing countries are not gaining the promised benefits from the WTO system, it is their weakness. Secondly, demand of Bretton Woods institutions (International Monetary Fund and World Bank) for a rapid trade liberalisation in developing countries has nothing to do with the WTO.

But why do these international financial institutions (IFIs) have to interfere with WTO affairs? Who are the main actors behind these institutions? And, is there any way that developing countries would be able to get benefits of trade liberalisation, which they have to adopt to fulfil the loan covenants of these IFIs?



In these circumstances what strategy should developing countries, such as Pakistan, follow? These questions need to be answered if one wants the developing countries to proactively engage in the process of trade liberalisation.

Is WTO really important enough for developing countries to remain its member? There can be more than one opinion on it. However, one needs to think of the alternatives if developing countries opt out from the WTO. In that case, they have to rely either on bilateral or on regional trade arrangements; without any set of defined rules for international trade. Small countries, although not getting much out of the WTO, may become even weaker without it.

Developing countries should not only join the WTO, but they should also have their own agenda (Southern Agenda) on trade and

sustainable development. Unfortunately, such an agenda or common vision for developing countries does not exist.

Developed nations, on the other hand, have their own trade and sustainable development agenda. They want their own brand of "sustainable development" in the world. The lack of a Southern Agenda in the WTO creates a potential space for developed nations to impose their agenda on the South.

Economist Dani Rodrik of Harvard University, in his book 'The New Global Economy and Developing Countries' argues that developing nations must participate in the world economy on their own terms. He suggested that developing countries should not take a defensive position while joining the world economy; rather, they must be proactive in defining the agenda of their choice.

But is it possible for these countries to act on this advice? They do not have enough shares/votes in IFIs to define the agenda of their choice. The only forum where they are in majority is the WTO and that is where they should come up with a proactive Southern Agenda.

Developing countries need to balance activism on WTO with research and should formulate their positions based on thorough research. Once their own agenda is set and research-based positions are taken, it would be easy for them to focus on commonalities and establish alliances and networks.

Developing countries in the form of alliances can proactively face the Northern Agenda by accepting whatever is in their favour and rejecting that, which is not in their national interests. These are some steps, which may be effective to weaken the WTO-IFI nexus.

Abid Qaiyum Suleri
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Islamabad, Pakistan
(Abridged version of an article published in
Jang, 17.11.02)

Reward for Good Governance

African countries will be chief beneficiaries of an annual \$5bn US government programme to reward emerging markets that meet its criteria for good governance, Walter Kansteiner, the US assistant secretary of state for Africa, said.

The US will reinforce Africa's financial infrastructure through the Millennium Challenge Corporation, an initiative to boost private sector investment in developing countries.

Support will be channelled to countries, which score highly on a system of 16 indices measuring good governance, economic liberties and delivery. US officials insist their measures will be objective and not allow discrimination.

"The private sector will get Africa up and going. It won't be just official development assistance. Governments must work together to set the table, but the private sector will deliver the meal," said Kansteiner.

(FT, 11.12.02)

Failing to Reach Debt Default Deal

Finance ministers and central bank governors from the Group of 20 rich and developing nations failed to bridge the gap. This was due to widely opposing views of how best to resolve emerging market debt defaulters.

The Group agreed to postpone a decision on whether to establish a sovereign debt mechanism until the

next annual spring meeting of the World Bank and the International Monetary Fund.

Officials said that the leading Latin American countries, particularly Brazil and Argentina, continued to be adamantly opposed to any compulsory system of debt resolution. Other developing countries, like China and India, were more agnostic about the proposal.

The Latin Americans argue that a debt resolution mechanism would sharply raise their cost of financing on the international markets. *(FT, 25.11.02)*

Need of Extensive Reform Effort

Japan's economic recovery is faltering, and the government must push ahead with drastic structural reforms to rekindle growth. This was stated by the Organisation for Economic Co-operation and Development (OECD).

According to OECD's annual report on Japan, its GDP is likely to grow a slim 0.5 percent to one percent a year through 2004. "But the balance of risks is now on the downside," the OECD said, "given signs of slower growth in the world economy and the possibility of a further deterioration in financial conditions."

The country has seen several major policy developments since October. For example, the government unveiled a plan to tackle banks' non-performing loans. *(WSJ, 20.11.02)*

Good Prospect for South Asia

Future economic prospects for the South Asian region are brighter than before. According to the World Bank, the region should be able to achieve an average GDP (Gross Domestic Product) growth of 5.4 percent in 2003 and 5.8 percent in 2004.

"This improvement in growth prospects is premised upon a return to normal weather patterns, an improvement in political stability and regional security aspects thereby facilitating faster implementation of reforms, and a recovery in world trade volumes," said Sadiq Ahmed, World Bank South Asia's Chief Economist. *(BL, 13.12.02)*

Proposal for Asian Alliance

According to South Korea's Finance Minister, Jeon Yun-Churl, Japan, China and South Korea, Asia's three largest economies, should form a strategic alliance to jointly manage their development. "We are seeking co-operation as well as competition," he said.

Co-operation with China is controversial in South Korea, where manufacturers and farmers are threatened by low-cost competition. China is moving into many of the industries occupied by Japan and South Korea, such as electronics and car making.

However, Jeon said South Korean producers could benefit from growing Chinese domestic demand. South Korea's economy would grow by six percent this year and next, he forecasted. *(FT, 29.10.02)*

US Back on Top for Economic Potential

The US has regained its top ranking as the economy with the greatest growth potential over the next five to eight years. This was according to the growth competitiveness index compiled by the World Economic Forum (WEF).

WEF ranked 80 countries on factors relating to technology, public institutions and the macro-economic environment. The US owed its position to 'stellar performance' in technology, supported by a business climate that favoured entrepreneurship and risk-taking.

However, Peter Cornelius, WEF's Chief Economist, said confidence in the US public institutions had slipped in the wake of the Enron, WorldCom and other corporate scandals. Asia-Pacific countries are well represented at the top of the table.

The way in which competitiveness indices are constructed is open to debate. For instance, the WEF gives a 50 percent weighting to technology factors for 24 advanced economies termed 'core innovators'. Changes in these factors can have a crucial influence on the annual rankings, pushing Japan and Switzerland well up the table. *(FT, 13.11.02)*

Competitiveness Index		
No.	2002	2001
1	USA	Finland
2	Finland	USA
3	Taiwan	Canada
4	Singapore	Singapore
5	Sweden	Australia
6	Switzerland	Norway
7	Australia	Taiwan
8	Canada	The Netherlands
9	Norway	Sweden
10	Denmark	New Zealand
11	UK	Ireland
12	Iceland	UK
13	Japan	Hong Kong
14	Germany	Denmark
15	The Netherlands	Switzerland

Source: Global Competitiveness Report, 2002

Believe in the Free Market?

"Corporate corruption has permeated the public imagination," according to an American big business insider. The companies involved are among the biggest in the world – Enron, Tyco, WorldCom, Marconi, IBM and General Electric.

The names figure in allegations about dubious accounting, grossly inflated bosses' pay and corporate greed that are leading even the prejudiced free-marketers to acknowledge serious problems.

The greatest corporate successes, it now turns out, were successes only in virtue of share prices, which bore no relation to their actual performance.

(Excerpts from an article of Arvind Sivaramakrishnan, TH, 02.10.02)

Tighten Fiscal Policy

The International Monetary Fund (IMF) has weighed into the debate over the eurozone's stability and growth pact. It argued that the three big countries – Germany, France and Italy – should heed its message and tighten fiscal policy.

The IMF also cut its forecast for economic growth in the eurozone and said that the European Central Bank should lean towards lowering interest rates. A representative of the eurozone authorities at the IMF rejected this.

In its annual assessment of the eurozone economy, the IMF admitted that the pact was 'not beyond improvement', and welcomed the new focus on correcting the economic cycle when targeting fiscal balance.

It said that the three countries should tighten fiscal policy by 0.5 percent of the GDP (Gross Domestic Product) per year over the next several years until their budgets were in balance. *(FT, 30.10.02)*

Signs of Recovery

Economic growth in Latin America is expected to recover slightly in 2003, marking the end of the worst period since the lost decade of the 1980s debt crises.

The United Nations Economic Commission for Latin America and the Caribbean said that the GDP for 2002 was expected to contract by 0.5 percent, following growth of 0.3 percent in 2000.

This year was also the first since the late 1980s in which the region registered net outflows of capital, while direct foreign investment hit its lowest level since 1996.

However, there were signs in the third and current quarters of mild recovery, driven by fresh investment in export industries and a slight improvement in the terms of trade. The Argentine economy has "hit bottom" and should grow about 2 percent next year, in line with the regional forecast.

Chile, Mexico, Peru and the Dominican Republic are expected to top the growth league in 2003, with expansion of three percent or more. However, output in Uruguay, Venezuela and Paraguay will continue to contract. *(FT, 19.12.02)*

EU's Suggestions to India

The European Union (EU) asked India to reduce the time lag for approval of projects, particularly in the

infrastructure sector, in a bid to encourage greater flow of foreign investment from Europe.

The EU also sought greater flexibility in labour laws and clear-cut rules on foreign ownership. A theme paper, presented at the third India-EU Business Summit in Copenhagen, Denmark, highlighted the EU concerns, which came in the way of stepping up foreign investment flow and bilateral trade.

The EU is of the view that India can provide a huge market, as there was a large middle-class population with a sizeable disposable income at hand. For India, the unified EU market with a common currency is considered a large area of exports.

(BL, 10.10.02)

Chinese Myths Explode

Exploding myths about China is what the Confederation of Indian Industry (CII) would like to do. A CII-McKinsey study on 'Improving India's Manufacturing Competitiveness vis-à-vis China' detailed a seven-point strategy for increasing the country's total manufacturing output by 25 percent by 2012.

According to the report, China's GDP is 60 percent higher than India's (in 1990 they were at par). China's

manufacturing GDP per capita is \$1,322 and India's is \$381 and attracted \$187bn in foreign direct investment versus India's \$8bn.

The report claims to have exploded five myths.

- 8.9 percent growth in labour productivity from 1990 to 1999 was the major driver of the GDP per capita of nine percent in this period, breaking the myth that the Chinese growth was driven by increased investment.
- The Chinese manufacturing was not driven primarily by exports, instead the domestic sector accounted for two-thirds of the difference in Indian and Chinese per capita GDP.
- Faulty accounting did not drive low prices in China. Sustainable economic factors such as higher labour productivity, lower taxes and lower import duties are the reasons for lower prices.
- China's exports have not grown on the back of marginal pricing, but FDI was a major driver of Chinese exports, with foreign-invested enterprises accounting for 50 percent of all exports in 2000.
- Chinese products are not of poor quality; in fact several of them are world class. *(BL, 24.10.02)*

Nobel for Behavioural Economics

Economics is not just about supply and demand anymore. One of the two winners of this year's Nobel Prize in economics is not an economist at all – a psychologist! He spent his career challenging one of the most fundamental of economic principles – that markets and consumers act rationally.

Daniel Kahneman, a professor of psychology at Princeton University, USA was awarded for research showing how quirks in human behaviour, such as a tendency to avoid risk or to be over-confident, lead people to behave in ways economist would consider irrational.

The other winner was Vernon L. Smith, a George Mason University economist who tested abstract economic theory in experimental labs. He used students as guinea pigs to demonstrate how financial bubbles could be created or how electricity markets can be deregulated.

Taken together, they underscored a point that many economists have been slow to appreciate – markets are more complicated animals than Adam Smith might have led you to believe. They can overshoot or breakdown when not regulated well: a point all too familiar to many investors. *(FE, 11.10.02)*



China Opposes Move for MAI

China has submitted a paper to the WTO expressing its unwillingness to go in for any form of pre-establishment investment commitments. It has also demanded the exclusion of portfolio investments from the proposed negotiations.

India's Commerce Ministry officials said that China's stand had added strength to India's position as the country had been opposing the proposed multilateral agreement on investment (MAI) for a long time.

(FE, 15.11.02)

US Call on GPA

The United States has urged WTO members to focus their discussions on identifying specific elements of a future agreement on transparency in government procurement.

"An agreement on transparency in government procurement is no less important now than it was when the ministers added this issue to its agenda at the Singapore Ministerial," the US said. "The predictability and certainty provided by a transparent rules-based government procurement system can complement other efforts to ensure

the full integration of all Member economies into the global trading system."

On a related note, the Organisation for Economic Co-operation and Development (OECD), in a recent report, stated that government procurement markets represent "huge opportunities for international trade". The value of global government procurement was estimated at around \$5.5tn in 1998.

(International Trade Reporter, 03.10.02)

WTO Chief Disappointed

Supachai Panitchpakdi, the WTO Chief, seized on 'disappointing' world trade trends to urge an acceleration of global trade liberalisation talks. The volume of world trade in goods was two percent lower in the first half of 2002 than a year earlier, according to the latest WTO statistics.

Supachai called on political leaders to send "a strong signal to consumers, producers and markets" that they intended to move forward on trade liberalisation. He was echoing widespread concern among trade diplomats in Geneva about slow progress in the talks, directed

principally at the European Union's failure to come forward with clear proposals for farm trade reform.

In the same vein, James Wolfensohn, the World Bank President said it was in the rich world's own interests to cut farm subsidies that were holding back development in poor nations.

(FT, 11.10.02)

Re-think WTO Strategy

The bull has entered another China shop! The Indian Commerce Minister, Arun Shourie has asked whether the country should not re-think its negotiating strategy at the WTO.

India is not going to achieve much with "ringing speeches at international fora" and should instead focus on assessing how many countries were supporting its stand, he said at a meeting organised by the Federation of Indian Chamber of Commerce and Industry.

"We must understand that we have no alternative but to engage the world. There will be gives and takes, advantages and disadvantages. We should keep analysing the situation and act accordingly," he emphasised.

(FE, 13.12.02)

Trade Pacts with Big Powers are Essential

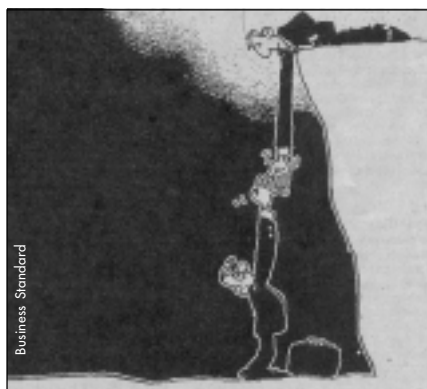
Alarm bells about the perils of regionalism ring true to economic theory. I question, however, whether they accurately reflect developments in the marketplace or at the negotiating table.

A basic premise is that a lot of small free trade arrangements do little to liberalise trade, while increasing transaction costs and creating obstacles to multilateral reform. Why, then, do so many developing countries seek such pacts with the trading powers of Europe and North America?

The short answer is that free trade arrangements are investment-driven. The pacts reinforce domestic economic reforms and so encourage foreign direct investment, which is critical to development strategies.

The biggest fault of the Uruguay Round was creating opportunities of which developing countries could not take advantage because of inadequate development and resources. The Doha Round seeks amends with its focus on the 'development agenda'.

Bilateral and regional trade negotiations, aimed at the economic development of the participant developing countries, seem to complement and reinforce the laudable goals of the WTO (World Trade Organisation) system.



Business Standard

*Jeffrey J. Schott
Institute for International Economics
Washington DC, USA
(FT, 06.11.02)*

Trade Preferences have Divisive Effect

Jeffrey Schott says trade pacts with developed countries are essential for developing countries but his evidence does not add up. He observes that developing countries queue up to join such pacts.

But if nearly everyone is in a gang, you may feel safer being in one yourself. That does not make gangs a good thing.

He argues the need for North-South alliances to galvanise the Doha Round into large-scale global liberalisation but fails to show how free trade agreements assist such alliances. In fact, preferences usually have the opposite effect. The rents they create lead partners to oppose multilateral liberalisation.

What was African *quid pro quo* for the Doha Round? Not the non-discriminatory liberalisation of their export markets but preservation of their preferences in Europe with a WTO waiver for the Cotonou Agreement.

If we want Doha to succeed for developing countries, we need to simplify the agenda, not load it with regional sideshows.

*L. Alan Winters
University of Sussex
Brighton, UK
(FT, 08.11.02)*

Trade Negotiations are Political: Jagdish Bhagwati

Is there a greater convergence of views on TRIPs and public health?

Unfortunately not. The Doha Declaration had envisaged that in the case of emergencies, generic drugs could be used by countries even if there was a violation of intellectual property rights.

So the next question that arises is, can a country be free to declare an emergency on any pretext. I personally think it should be left to the country to decide.

But once you've agreed on that, then there is the next question of what do you do in the case of countries that do not have a manufacturing capacity of their own. Should you allow countries like Brazil and India that have the manufacturing capability to supply drugs to countries that cannot produce them? I think, this should be allowed.

Of course, it does undermine the profits of the original patent-holders, which is why the pharma MNCs (multinational companies) are unhappy. They are also worried that if cheaper drugs are available then they may also be forced to lower their prices.

They would much rather that some charitable organisation like, say, the Bill and Melinda Gates Foundation donate money to these countries which they then use to buy more highly-priced drugs from the pharma MNCs.

Should India negotiate on the basis of bound tariffs or applied tariffs?

We could negotiate on the basis of bound tariffs because that brings some flexibility in negotiations. But for that, you need to have a good political system. Chile, for instance, has about five percent tariff but the bound tariffs are more like 25 percent. Hong Kong again has bound tariffs that are not quite conducive to free trade. So you can ask why are these countries doing it? Probably for bargaining purposes.

It is just that if your bound tariffs are higher then you have to be sure that your political system is not such that it will be exploited to push rates up again. In our case, the problem is that both our bound as well as actual tariffs are much too high. We need to get that down.

What makes things difficult is that when countries like ours open up we do not have an adjustment mechanism in place. This is not true for advanced countries. They are

constantly putting in new provisions related to adjustment assistance for those who are directly affected.

We need these assistance schemes even more because we are a poor country. There is so little for people to fall back on when they are thrown out of their jobs, for instance.

I feel the World Bank, instead of funding so much research that could be left to the universities, should be focusing on how to support the globalisation that they buy into. The World Bank must come up with a special scheme that will dove-tail into trade liberalisation.

Should negotiations on agriculture be clubbed with those on industrial tariffs?

Agriculture must not be clubbed with industry, if only for political reasons and though we may not be happy with that, the fact is that trade negotiations are political. Agriculture raises a problem because the west has had subsidies for so long – you cannot have a cataclysmic change.

Aspects like greenery, environment, what the EU calls multi-functionality, come in. You have green groups as against the unions in industry. You can disagree with that but it finds broad acceptance in these societies, so you cannot just ignore it.

With its recent farm subsidy bill, the US has moved backwards. The Chirac-Schroeder Agreement postpones the dismantling of subsidies, so there is no way that anything is going to happen in the current round.

Let us also be very clear. Overall, the effect of removing subsidies will be to raise the prices of agriculture products. The Cairns Group will benefit from this, no doubt; the US which hopes to be a net exporter of agriculture products, may also benefit. But many African countries whose names are being invoked to support the dismantling of subsidies will, in fact, suffer.

On the issue of anti-dumping, should we re-open the entire agreement or should we just try to harmonise the rules on anti-dumping?

There are two schools of thought on this. One is that if anti-dumping really spreads then we will be able to put pressure on the west through role reversal. But, this is the benign view.

Because, if anti-dumping really spreads then local lobbies will emerge in all countries and we may

find everyone settling down to a low-level equilibrium and you will never be able to change anything at all, so that the benign model is soon replaced by the malign model.

This is what worries me about the spread of anti-dumping. Developing countries, together with countries like Japan and Korea, that have also been at the receiving end, should push for reducing anti-dumping. Because, the bottom line is that however much we impose, we can never be a threat to a big power like the United States or even the EU.

What is your view on regional trade agreements? Should India also pursue such deals?

We have to do that, because otherwise we get locked out of markets. Singapore, for instance, has zero tariffs virtually so there is no danger of trade diversion. A few years ago, the Singapore government sought my advice informally on FTAs so I told them, 'Go ahead, line every bed you can, you are not important enough anyway to provide leadership on this issue unlike the US and the EU'.

I would not say that to India because with our high tariffs, trade diversion is a very real possibility. My view is we have to get into this. I know I have always been a very strong votary of multi-lateralism but I'm talking of practicality. The smart thing in terms of sequencing would be to reduce your MFN (most-favoured nation); but I am being realistic so I know we are not going to do that.

So given all that, it seems crazy to go in for bilaterals very rapidly. If you are going to do bilaterals, my suggestion would be to do several so that it is closer to MFN. So if you go with US, for instance, then go with the EU and Japan at the same time.

This will amount to a *de facto* lowering of our tariffs because the bulk of our imports are from the US, EU and Japan. May be, we could do the same with a few other big countries – talks with the ASEAN are already going on.

I am being realistic from India's point of view because there are just too many of bilaterals happening and the big powers are doing it and they are the ones with the big markets.

So if the big markets are being given preferentially to other markets, we have to worry. Fact is we are not big enough to make a difference to the multilateral vs. bilateral debate.

(Excerpts from an interview in ET, 24.12.02)

Indian Exporters to Focus on US

In the light of the ban on five major Indian seafood units in the EU, seafood exporters are likely to focus their trade on the US market. According to S. Sivakumar, Chief Executive of the ITC International Business Division, the US and Japan had higher tolerance for antibiotic traces.

He said the whole episode amounted to non-tariff barriers. In fact, the extent of antibiotic traces present in the consignments of these companies was naturally present in various other EU food products.

The solution to the problem did not lie in seeking laboratory certificates from farmers regarding non-usage of antibiotics, he said. The problem brought to the fore the need for exercising a greater degree of control on the whole supply chain starting with stocking of seeds by farmers.

He proposed that the Seafood Exporters Association of India should adopt an agenda that had both short-term and long-term action plans focusing on inspection of the supply chain right from farm level to the industry. *(BL, 03.10.02)*

Cigarette Firms Lose Battle

The European Union's highest court backed tough health warnings on tobacco products, including a ban on the terms 'light' and 'mild' on product packaging within Europe. The ruling was passed against Imperial Tobacco and British American Tobacco.

The court endorsed in favour of the EU law in every respect except for its bid to apply EU standards to export tobacco products.

"We are very disappointed that all other aspects of the directive remain valid," said Liz Buckingham, a spokeswoman for Imperial Tobacco. *(FT, 11.12.02)*

West's Bid Deplored

India needs to fight attempts made by the developed countries to block exports from the developing world under the grab of social accountability standards. According to S. N. Menon, Additional Secretary of the Commerce Ministry, the Social Accountability (SA) 8000 norms, primarily dealing with working conditions, could limit imports of various products on the alleged violation of the given parameters.

Such barriers to free trade, even if temporary, were of considerable concern and the country needs to address these issues to ensure that its market access was not restricted, he added.

On a related note, K. C. Pant, Deputy Chairman of the Planning Commission of India said "A number of countries have used minute environmental risk assessments to justify much more stringent norms compared to international standards, thus raising compliance costs for exporters."

He also said experience of the past few years showed that the technical assistance provided by the developed countries to the developing countries to upgrade their standards was not enough. *(FE, 28.11.02)*

Cosmetics and Animal Testing

European Union (EU) officials and politicians reached a compromise on banning cosmetics that involve animal testing. They hoped that this agreement will circumvent previous legislation which never took effect because of trade concerns.

They agreed that the ban on marketing of such products would not take effect until six years after the legislation entered into force.

The previous legislation, which would have imposed a total ban, has never been implemented because of fears it would have been challenged in the WTO as a non-tariff barrier to trade by countries, which export cosmetics to the EU.

The agreement was attacked by the European Cosmetics Association: "The deadlines are unrealistic because it is technically impossible to have the alternatives by then." *(FT, 08.11.02)*

Be More Mindful of Consequences

Thai business leaders accused the EU of imposing 'arbitrary' food quality standards in order to protect their domestic industry. In a statement delivered to diplomats in Bangkok, the Thai chapter of the International Chamber of Commerce called on the EU to be more mindful of consequences of its actions on smaller, less developed trading partners.

The country has seen its prawn and poultry exports to the EU drop by around 35 to 40 percent this year, amid European concerns about the use of banned nitrofurans, a cancer-causing antibiotic, by Thai farmers.

Millions of Thai farmers are said to depend on prawn exports to supplement their income, making it a politically sensitive industry. *(FT, 03.12.02)*

EU Talks on GMO Labelling Rules

European Union (EU) ministers are about to agree labelling rules for substances containing genetically modified organisms (GMOs). The resolution on the issue could speed the end of the EU's *de facto* moratorium on GMOs.

"It is our firm intention to ensure that people do not play a waiting game," said a Danish spokesman. "If member states are not ready now, they will not be ready in a few days." Denmark is holding the revolving presidency of the EU.

For the past four years, a group of countries led by France and Italy, have argued that new authorisation for GM products should not be granted until clearer rules have been established for labelling.

The European Commission is keen to arrive at a position that does not involve trade distortion. But, it is worried that if thresholds for labelling are reduced too far the legislation will become unworkable.

"We need a reasonable approach that does not mean that conventional food has to be labelled as GMOs," said the Commission. The Commission has proposed for compulsory

labelling of foods that contain one percent or more of authorised GMO material. However, several member states favour a lower rate for authorised GM substances, as does the European parliament. *(FT, 28.11.02)*



Paradox of Plenty and Poverty

The paradox could not be starker. About 170 million children in less economically developed countries are overweight and over three million die each year, as a result.

At the same time, more than one billion adults are overweight and at least 300 million are clinically obese, points out the World Health Report 2002.

Most of the risk factors highlighted in the report, brought out by the World Health Organisation, are linked to patterns of living and consumption. Half-a-million people in North America and Western Europe die from obesity-related diseases every year. *(BL, 25.12.02)*

Hunger Reduction Slows

Progress in reducing world hunger has slowed to almost a complete halt, the UN Food and Agriculture Organisation (FAO) said. Some 840 million people worldwide are undernourished and this figure is declining by only 2.5 million a year, said Hartwig de Haen, the FAO's Assistant Director-General.

The new figures, which compare 1990-92 and 1998-00, show a division between a small number of developing countries making substantial progress and a deteriorating situation in the rest of the developing world.

China remains the most impressive success story, having reduced its number of hungry by 74 million, reflecting its increased commitment to agricultural development. Other countries where sharp reductions were made include

Indonesia, Thailand, Vietnam, Peru, Ghana and Nigeria.

The worst performer was Democratic Republic of Congo, where hunger has tripled. India was the second worst performer, because continued population growth has outstripped agricultural production. *(FT, 16.10.02)*

Institutions that Distribute...

The primary focus of political philosophy should be on the institutions that distribute unequal life chances to the members of a society and then transmit those inequalities from one generation to the next.

This was the view expressed by John Rawls in his book 'A Theory of Justice'. He passed away recently. The book addressed itself to the problems of late industrial societies and it developed an intellectually challenging theory about the nature of distributive justice.

He showed that strong concern for the worst-off class within a market economy was not a half-baked dilution of Marxism but a natural extension of basic liberal commitments. *(Excerpts from the obituary written by Brian Barry in FT, 28.11.02)*

Bribery Falls: EBRD

Corruption is declining in most of the former Communist states of eastern Europe and the former Soviet Union. This was according to a survey of 6,000 companies by the European Bank for Reconstruction and Development (EBRD).

EBRD officials concede that some of these improvements, particularly in central Asia, have come from very low

levels. But they also argue that the best performing former Communist states, in terms of business transparency, are now as good or better than some European Union members.

In the last three years, the average bribes tax (as a percentage of sales) has fallen from about two percent to 1.6 percent. The biggest gains were in the former Soviet Union, where the drop was from 1.7 percent to 1.4 percent. *(FT, 25.11.02)*

Call for Reform of Water Policy

Failure by the world's governments to reform water policy will result in global grain production falling by ten percent by 2025, two leading institutions warned. These losses could total 350mn tonnes, slightly more than the annual US grain crop.

Water use would increase by at least 50 percent in the next 20 years, said the International Water Management Institute and the International Food Policy Research Institute.

Population growth and urbanisation in developing countries and further industrialisation would be among the main causes of the increased demand, they said. Decline in food supply could cause prices to rocket, with the price of rice rising by 40 percent, wheat by 80 percent, maize by 120 percent.

"If countries continue to under invest in building strong institutions and policies to support water governance and approaches to give better water access to poor communities, growth rates for crop yields will fall worldwide," the report said. *(FT, 17.10.02)*

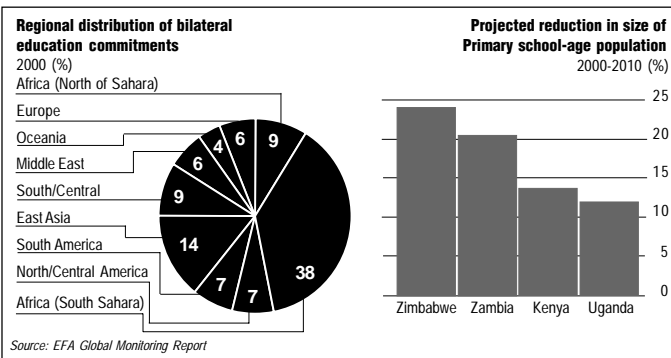
70 Countries are to Miss Education Targets

More than 70 countries will fail to meet essential education targets by 2015, UNESCO said. It blamed poorly directed aid programmes and a looming global teacher shortage for these.

More than a quarter of the world's population will live in countries unable to achieve universal primary education, gender equality, and a halving of illiteracy rates. Two-thirds of these countries are in sub-Saharan Africa, but they also include India and Pakistan.

The report questions whether aid programmes should continue to give most support to those countries with well-designed poverty reduction policies and credible education programmes.

"This situation needs to be reversed – instead of the countries with the weakest policy environments receiving the least attention from the international community, they actually must receive the most attention," the report said.



On teacher shortage, the report forecasts the need for an extra 15 million to 35 million teachers to achieve universal primary education by 2015. *(FT, 14.11.02)*

Finding the Right Medicine

– Jeffrey D. Sachs

Globalisation is under strain as never before. Everywhere it stresses rumble. Most of sub-Saharan Africa, South America, the Middle East, and Central Asia are mired in stagnation or economic decline. North America, Western Europe, and Japan are bogged down in slow growth and risk renewed recession.

For advocates of open markets and free trade this experience poses major challenges. Why is globalisation so at risk? Why are its benefits seemingly concentrated in a few locations? Can a more balanced globalisation be achieved?

No easy answers to these questions exist. Open markets are necessary for economic growth, but they are hardly sufficient. Some regions of the world have done extremely well from globalisation – notably East Asia and China in recent years. Yet, some regions have done miserably, especially sub-Saharan Africa.

The US government pretends that most problems in poor countries are of their own making. Africa's slow growth, say American leaders, is caused by Africa's poor governance.

The truth is that economic performance is determined not only by governance standards, but also by geopolitics, geography, and economic structure. Countries with large populations, and hence large internal markets, tend to grow more rapidly than countries with small population.

Coastal countries tend to outperform landlocked countries. Developing countries that neighbour rich markets, such as Mexico, tend to outperform countries far away from major markets.

These differences matter. If rich countries do not pay heed to such structural issues, we will find that the gaps between the world's winners and losers will continue to widen. If rich countries blame unlucky

countries – claiming that they are somehow culturally or politically unfit to benefit from globalisation – we will create not only deeper pockets of poverty but also deepening unrest.

So it is time for a more serious approach to globalisation than rich countries, especially America, offer. It should begin with the most urgent task – meeting the basic needs of the world's poorest peoples.

In some cases, their suffering can be alleviated mainly through better governance within their countries. But in others, an honest look at the evidence will reveal that the basic causes are disease, climatic instability, poor soils, distances from markets, and so forth.

Therefore, the real solutions lie in rich countries giving sufficient financial assistance to poor countries so as to overcome the deeper barriers.

(Excerpts from an article in ET, 08.11.02)

After Neo-liberalism, What?

– Dani Rodrik

Two decades of applying neo-liberal economic policies to the developing world have yielded disappointing results. Latin America, the region that tried hardest to implement the "Washington Consensus" recipes – free trade, price deregulation, and privatisation – has experienced low and volatile growth, with widening inequalities.

Among the former socialist economies of Eastern Europe and the Soviet Union, few have caught up with real output levels that prevailed before 1990. In sub-Saharan Africa, most economies failed to respond to the adjustment programmes demanded by the IMF and the World Bank.

A few instances of success occurred in countries that marched to their own drummers – and those are hardly poster children for neo-liberalism. China, Vietnam, and India: all the three violated virtually every rule in the neo-liberal guidebook, even as they moved in a more market-oriented direction.

It is time to abandon neo-liberalism and the Washington Consensus. But the challenge is to provide an alternative set of policy

guidelines for promoting development, without falling into the trap of promulgating yet another impractical blueprint.

The economic growth requires more than eliciting a temporary boost in investment and entrepreneurship. It also requires effort to build four



The Economic Times

types of institutions required to maintain growth momentum and build resilience to shocks:

- Market-creating institutions (for property rights and contract enforcement).
- Market-regulating institutions (for externalities, economies of scale, and information about companies).

- Market-stabilising institutions (for monetary and fiscal management).
- Market-legitimising institutions (for social protection and insurance).

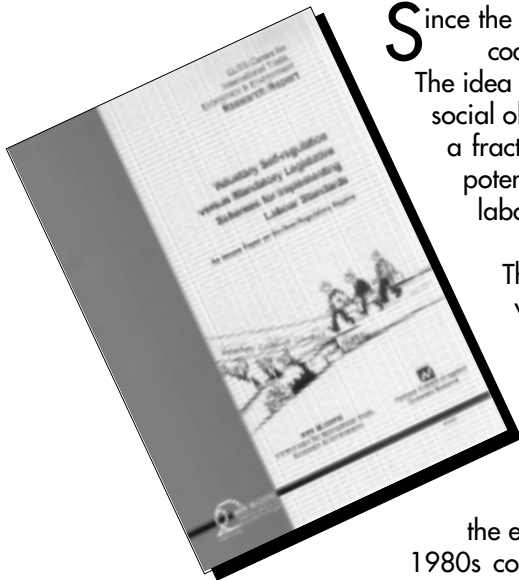
Building and solidifying these institutions, however, takes time. Using an initial period of growth to experiment and innovate on these fronts can pay high dividends later on. A key point here is that institutional arrangements are, by necessity, country-specific.

Reforms that succeed in one setting may perform poorly or fail completely in others. Such specificity helps explain why successful countries – China, India, South Korea, and Taiwan, among others – usually combined unorthodox elements with orthodox policies.

Adopting this approach does not mean abandoning mainstream economics – far from it. Neo-liberalism is to neo-classical economics as astrology is to astronomy. In both cases, it takes a lot of blind faith to go from one to the other. Critics of neo-liberalism should not oppose mainstream economics – only its misuse.

(Excerpts from an article in ET, 19.11.02)

Voluntary Self-regulation versus Mandatory Legislative Schemes for Implementing Labour Standards



Since the early 1990s, globally there has been a proliferation of corporate codes of conduct and an increased emphasis on corporate responsibility. The idea is that companies voluntarily adopt codes of conduct to fulfill their social obligations and although, these companies are responsible only for a fraction of the total labour force, they can set the standards that can potentially lead to an overall improvement in the working conditions of labour.

These voluntary approaches are seen as a way forward in a situation where state institutions are weakened with the rise to dominance of the policies of neo-liberalism, discrediting the idea of “command and control” regulation and failure of the state-based and international regulatory initiatives.

The early 1990s, therefore, saw the emergence of codes that were mainly focused on the impact of corporate activity on labour and the environment. These codes were voluntary initiatives, as against the 1980s codes that were regulated by international bodies as a means of regulating the working of Multinational Corporations. In addition, the 1990s codes emerged largely as a result of activist and consumer pressure from the developed countries.

Given this background, this- paper examines how the failure of 1980s codes that were regulated by international bodies resulted in the proliferation of corporate codes of conduct and an increased emphasis on corporate social responsibility. It analyses the case of only labour standards, one out of several social issues.

This paper further tries to explore whether voluntary codes of conduct can ensure workers’ rights in a developing country like India. Seeing the poor compliance of various ILO Conventions, these codes may not have greater success. Nevertheless, voluntary codes will definitely keep the labour issue on the global agenda and help raising awareness towards workers’ rights.

The biggest problem in the compliance of voluntary codes by businesses is its trade-off with more powerful commercial interests. In case of developing countries and particularly a country like India it would be little too much to believe that voluntary initiatives would be more effective than the earlier regulatory one. Informal sector constitutes a major portion of economic activities in developing countries. In the past, governments found it difficult to bring this sector under the purview of regulation. They could have easily practiced voluntary codes of conduct if they truly believed in ethical trading.

In fact, in developing countries the essential prerequisite for successful voluntary codes of conduct are missing. Majority of the people are poor and their attitudes and thinking are not very ethical. The basic enforcement and monitoring capacity is weak.

Therefore, the world needs both. Most businesses will ultimately respond only to strict regulation and enforcement. Close monitoring by NGOs, trade unions and consumer groups is also very essential. Otherwise, there is a danger that voluntary initiatives may weaken the role of national governments, trade unions and stronger forms of civil society activism.

CUTS is celebrating its 20th Anniversary at a Partnership Conclave with the Theme: “Governance and its Relationship with Poverty Reduction” during 12-14 March, 2003 at New Delhi, India. For more details, please see: www.cuts.org/CUTS-Anniversary.htm

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