ECONOMIQUITY
NEWSLETTER OF THE CUTS CENTRE FOR INTERNATIONAL TRADE, ECONOMICS & ENVIRONMENT

No. 4, 2004

Trade Facilitation: What is in Store for Developing Countries?

The decade of 1990s witnessed two significant developments in the international trading system. First, following the successful completion of the Uruguay Round of General Agreement on Tariffs and Trade (GATT) negotiations and establishment of the World Trade Organisation (WTO), tariff barriers on cross-border exchange of goods and services came down significantly.

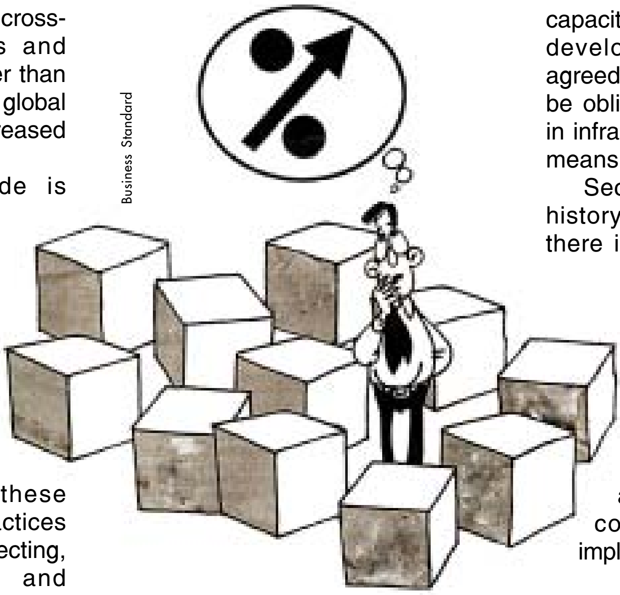
Second, with the advancement of information technology and other means of faster communication, cross-border movement of goods and services became much speedier than before. Between 1992 and 2002, global trade in goods and services increased from US$5tn to US$8tn.

At the same time, trade is increasingly subjected to non-tariff barriers (NTBs). Issues relating to trade facilitation and their implications for developing countries need to be analysed in this context.

According to the WTO, trade facilitation means "simplification and harmonisation of international trade procedures" and these procedures are "activities, practices and formalities involved in collecting, presenting, communicating and processing data required for the movement of goods in international trade".

Trade facilitation is not new to the WTO agenda. The first WTO Ministerial held in Singapore, in 1996, mandated the WTO Council for Trade in Goods (CTG) to "undertake exploratory and analytical work…on the simplification of trade procedures in order to assess the scope for WTO rules in this area." During the exploratory process, while many countries urged for a set of binding rules, concerns regarding implementation capacities (of binding obligations) were also raised.

After considerable discussions at the WTO CTG at Doha, member countries agreed to review, clarify and improve the relevant GATT and also to identify the trade facilitation needs and priorities of members, in particular the developing and the least developed countries.



Finally, in July 2004, WTO members agreed to identify the modalities for negotiations on trade facilitation. Annex D of the Framework Agreement states: "Negotiations shall aim to clarify and improve relevant aspects of Articles V, VIII and X of the GATT 1994 with a view to further expedite the movement, release and clearance of goods, including goods in transit."

From the point of view (and concerns) of developing and least developed countries, the Framework Agreement on trade facilitation has two major issues. First, it has been recognised that the principle of special and differential treatment should extend beyond the granting of traditional transition periods for implementing commitments. "In particular, the extent and timing of entering into commitments shall be related to the implementation capacities of the developing and least developed members. It is further agreed that those members would not be obliged to undertake investments in infrastructure projects beyond their means."

Second, for the first time in the history of GATT/WTO negotiations there is an explicit mention of cost implications. "Members shall seek to identify their trade facilitation needs and priorities, particularly those of the developing and the least developed countries, and shall also address the concerns of the developing and the least developed countries related to cost implications of proposed measures."

Implications

Generally speaking, it appears that a multilateral agreement (at the WTO) on trade facilitation will be beneficial to all members. The understanding is that trade facilitation will reduce transaction costs and increase revenue collection. For example, after introducing an electronic declaration system for traders, Singapore generated savings estimated at one

Contd...

INSIDE

कट्स CUTS
1984 to 2003 Twenty Years of Social Change
CUTS Centre for International Trade, Economics & Environment (CITEE)
Email: citee@cuts-international.org
Website: www.cuts-international.org
Published with the support of
Ministry of Foreign Affairs, Sweden
Subscription: $20/Rs.100 p.a

percent of gross domestic product (GDP) with an expectation that it would cover its costs in three years. Bolivia, after spending US$38.5mn in customs reform programme, found that revenue collection rose by 25 percent (in efficiency terms, i.e. after taking into account reduction in tariff rates).

However, the experience of Philippines was different. It was reported that its new trade facilitation system led to an increase in revenue collection by two percent, while the cost of sustaining the system led to an immediate budget crisis and a cessation of funding for the system.

It is quite evident that given the domestic nature of trade facilitation (particularly implementation aspects) and concomitant systemic and governance issues, country experiences are bound to differ. This nature is evident from GATT provisions, which deal with transparency, public information, formalities associated with importing and exporting, and goods in transit. The main indicators of trade facilitation are:

- Port logistics;
- Customs procedures;
- Standards harmonisation;
- Business mobility;
- Trade information and e-business facilities; and
- Administrative transparency and professionalism.

Do the developing and least developed countries (LDCs) have the necessary resources for implementing all these measures? The answer is no, especially when in many of these countries there is a competition for resources, in particular for human development needs. This is one of the reasons why most developing and least developed countries have been reluctant to undertake legal obligations under the WTO.

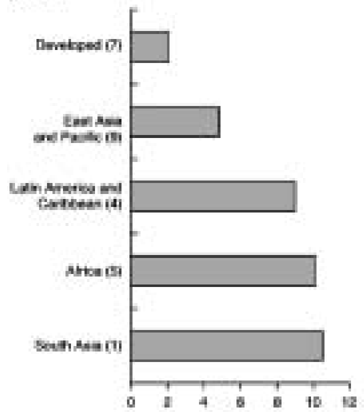
At the same time, countries, irrespective of their level of development, are convinced about the importance of trade facilitation in economic development. This is why many of these countries wanted to pursue it as a part of unilateral trade reform agenda, based on available resources.

It is true that the modalities for negotiations on trade facilitation have recognised special and differential treatment for the developing and least developed countries. The question is about the nature of special and differential treatments (S&DTs) and their operationalisation. It appears that the onus of identifying such measures rests on these countries. This requires considerable skills and human resources and is of particular concern to the least developed countries. Not only do they have to calculate the one-time cost of a particular measure, but also the recurring costs of sustaining the system.

A simple (only in economic terms) cost-benefit analysis is not sufficient, because, given the nature of the issue, social costs of investment (opportunity costs) and social rates of return (in the sense of a better, corruption-free society) are important variables to holistically understand the implications of trade facilitation measures.

Figure Customs clearance takes longer in the developing world than in the OECD, lowering the competitiveness of developing-country trade

Average days required for customs clearance by sea, by region



Source: International Exhibition Logistics Associates (http://www.iela.org).

Note: The number in parenthesis indicates the number of countries selected from each region to calculate the average.

This leads us to the all-important issue of technical assistance and capacity building (TACB). The July Framework has dealt extensively on this issue, including recognising that multilateral and inter-governmental agencies such as the World Bank, and World Customs Organisation need to work in a harmonised manner. However, TACB programmes for trade facilitation should take into account three crucial factors.

First, there should be an institutional approach to TACB. Donor agencies should undertake efforts to improve the existing institutions in the developing and least developed countries, rather than introduce new institutions.

Second, the developing and least developed countries should learn from each other, rather than borrow the concepts from advanced industrialised countries. The nature and contours of problems faced by these countries are quite similar. In other words, donor agencies should follow a triangular approach to TACB: Northern donors-Southern recipients-Southern providers. This requires a high-level of co-ordination between and among donors, recipients and providers (of know-how and do-how).

Third, and before undertaking TACB activities, there should be a comprehensive audit (economic and social) of existing trade facilitation instruments/institutions and associated systemic and governance issues.

Conclusion

Nobody can deny that unnecessary transaction costs cause difficulties in cross-border movement of goods. This is particularly true for small and medium enterprises (SMEs), as they do not have the means and resources for facilitating quicker movement of their produce. The challenge of WTO members is to recognise, understand and manifest these development dimensions of trade facilitation during the Doha Round of negotiations.

According to an United Nations Co-operation on Trade and Development (UNCTAD) report, direct and indirect transaction costs are adding up to ten percent of total value of global trade, which is equivalent to approximately US$400bn. Trade facilitation can significantly reduce these costs. But the question is who will benefit the most. It appears that big businesses will be the major beneficiaries, as they are in a better position to take advantage of such measures.

The challenge is how to channelise the benefits of trade facilitation to small and medium enterprises, particularly in the developing and least developed countries. There should also be a mechanism to transfer resources generated (either through savings or through revenue generation) from trade facilitation measures at the domestic level to infrastructure and social development for the benefit of the poor. This will happen if countries can take care of the systemic and governance issues at the domestic level.

(A different version of this article written by Bipul Chatterjee of CUTS-CITEE was published in October 2004 issue of 'Bridges', ICTSD, Geneva)

2004 Nobel for Economics

Finn Kydland and Edward Prescott won the 2004 Nobel Prize for Economics, "for their contributions to dynamic macroeconomics; the time consistency of economic policy and the driving forces behind economic cycles" cited the Royal Swedish Academy of Sciences.

The Laureates showed how effects of expectations about future economic policy could give rise to a time consistency problem. According to their theory, if economic policymakers lack the ability to commit in advance to a specific decision rule, they will often not implement the most desirable policy later on. Their awarded work established the foundations for an extensive research programme on the credibility and political feasibility of economic policy.

While earlier research had emphasised macroeconomic shocks on the demand side of the economy, Kydland and Prescott demonstrated that shocks on the supply side might have far-reaching effects. The Laureates laid the groundwork for more robust models by regarding business cycles as the collective outcome of countless forward-looking decisions made by individual households and firms regarding consumption, investments, labour supply, etc.

(FT, 12.10.04; The Royal Swedish Academy of Sciences, 11.10.04)

Oil to Spill on Global Growth

World economic growth is being threatened by the continuing high price of oil, leading experts at International Monetary Fund (IMF) and International Energy Agency (IEA) have warned. Oil prices have rallied, as a surge in demand forced OPEC producers to pump at their highest level in 25 years, leaving little spare capacity to deal with unexpected outages and sharpening concern over oil supply security.

A study conducted by the IMF and IEA on the impact of high oil prices on the global economy has showed that a per barrel price above US$40 had trimmed growth in Organisation for Economic Co-operation and Development (OECD) economies by 0.4 percentage points. "The impact is greater in developing countries," said IEA's Chief Economist Fatih Birol, "with growth cut by 1.0 point in India and 1.6 points in African countries".

(www.MSNBC.com, 30.12.04 & BL,11.11.04)

Dollar Falls Against Euro

Herve Gaymard, France's Finance Minister, warned of global economic catastrophe if the US, Europe and Asia did not work together to stem the decline of the dollar against the euro. His comments are a backdrop to the wider concerns within the European business community that Washington's refusal to stem the dollar's decline could hurt European competitiveness.

French concerns over the dollar are expressed publicly at a time when the French Government is struggling to meet its eurozone obligations to keep its budget deficit below 3 percent of Gross Domestic Product (GDP) and exports growth is less bright. The dollar is set for a record third year of depreciation, for the first time since 1987. *(FT, 24.12.04)*

G-24 Wants Clout in WB, IMF

The group of 24 (G-24) representing developing countries has demanded revision of quotas to receive greater voice in the World Bank (WB) and the International Monetary Fund (IMF) by basing shareholding on purchasing power parity and not international currency value. The group also urged that the WB president be chosen in a transparent manner, regardless of nationality.

Ministers of the Inter-governmental Group of Twenty-four on International Monetary Affairs and Development held their 72nd meeting on October 1, 2004 in Washington, and called upon the IMF to undertake a more proactive role in international macroeconomic stability and enhance the effectiveness of its surveillance of major economies.

The G-24 also reiterated that the Doha Round should result promptly in improved market access for developing country exports, lead to dismantling of tariff escalation, and the elimination of tariff peaks and NTBs. The communiqué added that the Doha Round should also result in an accelerated reduction of industrial and agricultural tariffs, and the phasing out of subsidies in agriculture. Ministers caution that the dismantling of the quotas under the Multifibre Agreement on January 1, 2005 should not lead to the imposition of other protectionist measures.

(IMF, 01.11.04)

Reforms Lead to Resilience

The IMF has urged countries to take advantage of the economic recovery and continue their reform paths, especially because macro-economic strengthening and structural reforms have helped to make the international system more resilient.

"We have been facing very important shocks; from new terrorist threats to stock market crisis in 2001 to the various business scandals in 2002 (read Enron) to the quick increases in oil prices and changes in US monetary policies today, which in previous times would have damaged the circumstances of the economic recovery" said Rodrigo de Rato y Figaredo, Managing Director of the IMF, in a meeting with a small group of newspersons. *(BL, 02.10.04)*

Tax-to-GDP Rising

The OECD Annual Revenue Statistics Provisional Data for 2003 shows that that tax-to-GDP ratio is rising in 13 of 23 countries, while in other countries it was on the decline. The US saw a reduction of 4.5 percent from 29.9 percent to 25.4 percent.

Business Standard

Substantial reductions were also seen in Finland (3.1 percent), Sweden (3.0 percent), the Netherlands (2.4 percent), Ireland (2.2 percent) and UK (2.1 percent). The largest increase in tax shares was seen in Iceland from 38.1 percent in 2002 to 40.3 percent in 2003, Turkey by 2.8 percent, and Ireland by 1.6 percent.

Several of the largest recent reductions in tax-to-GDP ratios have been in countries with relatively high tax burdens, such as Sweden, Finland and France, while some of the largest increases in tax-to-GDP ratios have been countries with relatively lower tax burdens, such as New Zealand, Mexico and Korea. However, the OECD notes that the US case clearly contradicts the general view. *(FT, 21.10.04 & TH, 20.10.04)*

India May Lag Behind

India was one of the best performing markets in 2003, with foreign fund inflows playing an important role in driving the market up. By the year ending 2004, international investors, though bullish on emerging markets, are not so bullish on India, expecting it to be flat or even dip marginally. "The main macro economic concern for India is inflation. The bond market may weaken, which may also impact equity markets. Corporate growth should be good but we are cautious on certain sectors. I am cautious on Indian IT and also on consumers where competition is intense" said Adrian Mowat, Chief Equity Strategist, Asia Pacific, J P Morgan.

On the other hand, Ajay Bagga, CEO, Kotak Mahindra MF, was quite upbeat "We expect strong corporate numbers over the next two quarters. We are insulated against global recession since exports constitute only nine percent of our GDP".

(BS, 14.11.04)

China's Lopsided Development

China's allegedly lopsided structure of economic expansion has been a cause of concern for country analysts. Growth in China is increasingly being driven by investment in sectors such as property, steel, cement, and fixed-asset investment. There is also widespread concern that Chinese policy makers are giving lip service to market-based

Business Standard

levers, especially after the central bank's continued intervention in managing the lending policies of commercial banks.

Ma Kai, Minister at the National Development and Reform Commission said that credit management will be strengthened and improved along with a mechanism of window guidance under which the central bank tells commercial banks when to rein in lending and when to ease controls. Senior Chinese authorities said that the government is willing to rely more on market levers, and controls will surely not hinder the rapid expansion of the Chinese economy. *(FT, 11.11.04)*

Brazil Falls in Competitiveness

Brazil's deterioration in a series of competitiveness indicators recently has triggered demands for the Government to speed reforms of its large and unwieldy public sector. A recent survey released by the World Economic Forum ranked Brazil behind Namibia and Botswana on account of deep-seated problems in investment climate. A World Bank survey in 2004 showed that Brazil has made little progress on issues ranging from bureaucracy to corruption.

Though Brazil was one of the top three recipients of FDI in the late 1990s, in a 2004 survey by A T Kearney on business investment intentions, Brazil fell eight notches to 17th place. Amongst the many factors that make Brazil unattractive to do business are high taxes, excessive red tape, slow judiciary and high interest rates (between 25 to 125 percent). *(FT, 15.10.04)*

Benefits of Privatisation

"Privatisation has made 400,000 middle-class Pakistanis richer" said Abdul Hafeez Shaikh, Minister for Privatisation and Investment, and Chairman, Board of Privatisation Commission, Pakistan, in a private interview. In privatisation of several manufacturing companies where the Government has sold 100 percent equity, 10 percent is given to employees. The Government has adopted a four-fold path to ensure that privatisation benefits are not restricted to the upper classes:

1. to broaden the base of ownership;
2. to give middle class Pakistanis an opportunity to invest in stock markets;
3. to ensure transparency in the process; and
4. to protect the interests of employees.

"Further, we have passed a law that requires 90 percent of our privatisation proceeds to go towards debt retirement and 10 percent towards poverty alleviation", Shaikh said. *(FE, 19.10.04)*

IMF and Manila at Crosses

The Philippine Government and the IMF are disagreeing over the pace of proposed reforms aimed at averting a potential financial crisis. Philippine's budget deficit is rising steadily since 1998 and stood at US$3.5bn in 2003. The IMF is pushing for the ambitious programme of President Arroyo, i.e. to wipe out the budget shortfall by 2009, by frontloading the bulk of the deficit reduction in the first one-and-a-half years.

Moreover, the Philippine Government officials do not consider the upfront adjustment recommended by the IMF to be politically feasible. While the IMF suggests for a hefty reduction in non-financial public sector deficit amounting to 2.5 percent of GDP by 2005, the Government wanted to cut the deficit by 0.75 percent of GDP a year between 2004 to 2009.

The Philippine non-financial public sector debt stands at 104 percent of GDP, one of the highest in Asia. The country is also one of the most active issuers of sovereign bonds. "The global interest rate cycle has changed and large external financing requirements make the Philippines particularly vulnerable to investor sentiments" the IMF said.

(FT, 05.10.04)

Egypt Gears for Reforms

Ahmed Nazif, Egypt's Prime Minister, has urged business leaders to seize the opportunity provided by a shift in government policy to prove that market reforms can benefit all Egyptians. Egypt needs to provide more than 600,000 new jobs each year. Instead of the traditional policy of the Government to absorb new entrants by creating jobs within the public sector, the Government plans to invest towards providing incentives for expanding the private sector.

Recent reduction in customs tariffs and 50 percent drop in corporate tax rates were the starting point of the ambitious programme. The Egyptian Government is also coming up with a programme to revitalise the financial sector, privatise state enterprises and cut bureaucratic red tape. Since the new direction to economic policy, the Cairo stock market has been performing typically well compared to other emerging markets, where, in 2004, share prices in the exchange rose 83 percent.

(FT, 10.11.04)

Brazil Urged to Reform

Brazilian authorities have been urged by the WTO to shake up the country's financial sector. High costs for private credit and other financial services make it tougher for Brazil's companies to compete globally and often force them to rely on Government-run export aid programmes. The WTO report also said that an ambitious agenda would not only benefit Brazil but also help in bringing about a successful conclusion of the current Doha round of WTO trade talks.

Industry and opposition leaders in Brazil say their Government's priority of strengthening alliances with other developing countries – particularly its South American neighbours – has harmed trade deals with large markets such as the US and the European Union. Critics say part of the problem is Brasillia's emphasis on negotiating jointly with its partners as a way to strengthen its international position.

(Stop WTO Round, 30.11.04 & FT, 30.11.04)

WTO Sets Date for 6th Ministerial

The General Council of the WTO decided that the 6th Ministerial conference of the WTO in Hong Kong would be held from December 13-18, 2005. The approval of new heads of different committees, who will play pivotal roles in the talks and towards a ministerial decision in Hong Kong, was formally approved.

The WTO members reached an interim deal to extend the deadline for the Doha round of talks for one year until the Hong Kong meeting. Many members say the conference should be used to endorse guidelines for the negotiations – such as the formula for tariff and subsidy cuts in agriculture – that could pave the way for completing the talks by late 2006. *(ET, 23.10.04 & FT, 21.10.04)*

Zero Benefits for Poor Nations

Most of the developing countries and LDCs believe the bulk of their benefits from the Doha round will be derived from the elimination of US$1bn per day of agricultural subsidies given to farmers in the developed countries. A UNCTAD study shows that the value of these highly sought after benefits for all developing countries is zero.

This report does show the expected benefits to developing country producers of US$19bn, but this is completely offset by a consumer loss of US$16bn plus US$3bn in lost revenues to developing country governments. For LDCs there is an actual decline in welfare as producer gains are smaller than consumer losses. At the same time, the developed countries, mostly the US and Europe, stand to gain US$7bn from these negotiations, increasing still further the inequality between countries. *(UNCTAD)*

Mandelson for WTO Reforms

Peter Mandelson, the European Union's new trade commissioner, told a hearing of the European Parliament that he would like to see the rules that govern the operations of the WTO improved, including its dispute settlement procedures and ministerial gatherings. Mandelson's criticism highlights continued frustrations among many trade officials at the cumbersome and consensus-driven approach of the WTO.

Further, he also insisted that the WTO was one of the international organisations with the most legitimacy and with enough 'teeth' to play the driving role in multilateral trade negotiations. He expressed optimism that the Doha Round of world trade talks would be completed in 2006. He extended an olive branch to developing countries, which scuttled that Cancún talks after concluding that their concerns were being ignored by the world's leading trade powers, the EU and the US.

Mandelson said the Doha negotiations needed to make "the trade rule book fair for all" and called on the US to match EU's proposal to scrap export subsidies on farm products. *(FT, 05.10.04)*

Key Message of ERA 2004

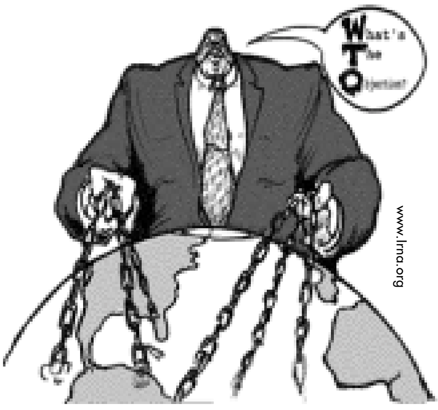
Entitled 'Unlocking Africa's Trade Potential', Economic Report on Africa (ERA) 2004 argues that dynamic trade policies, alongside gradual and targeted liberalisation, are more effective than liberalisation *per se*. Mauritius, South Africa, Namibia and Tunisia are cited as Africa's most competitive nations.

It analyses the collapse of the Doha talks and argues for a comprehensive approach to development that prioritises poverty alleviation. It suggests that successful integration of Africa into the world economy will require better-educated and healthier workforces, improved economic and political governance and better quality infrastructure.

The challenge lies in translating achievements into faster growth. In 2003, only five countries, Angola, Burkina Faso, Chad, Equatorial Guinea and Mozambique achieved the seven percent growth necessary to reach Millennium Development Goal (MDG) of halving poverty by 2015. *(TWN-Africa, 06.10.04)*

Race to Head WTO

The race for the top job at the WTO has begun. Carlos Perez Castillo, former ambassador of Uruguay to WTO, Luiz Felipe de Sexias Correa, current ambassador of Brazil to WTO and Jaya Krishna Cutaree, trade minister of Mauritius, from the developing countries, have already made their candidature public to succeed Supachai Panitchpakdi, current WTO Director-General, when his three year tenure of office expires on 31 August 2005. EU Trade commissioner, Pascal Lamy, is the lone aspirant to the post from the developed world.



Lamy is likely to be the most high profile nominee but he will face stiff competition from developing countries. Lamy, a socialist, also must first be nominated by the centre-right French Government, which refused to reappoint him as France's EU commissioner.

While there is no presumption as to where the next director-general should come from, many believe a developing-country candidate stands a good chance of success, given that three quarters of WTO members belong to the developing world.

(FT, 02.12.04 & 08.12.04; FE, 07.12.04)

Trade Deal with South-east Asia

The 10-member Association of South-East Asian Nations (ASEAN) signed its first major bilateral deal with China. Spurred by China's overtures to the dynamic region, Japan and India agreed to begin their own trade liberalisation talks with South-east Asian countries. Now Australia, New Zealand and South Korea are joining in.

South-east Asia's trade liberalisation talks with the five countries scheduled to be completed in two years, aim to reduce the average tariffs to between zero and five percent within 10 years for the six more developed ASEAN countries and to 15 percent for newer members.

Experts have questioned whether ASEAN has the technical capacity to conduct so many negotiations simultaneously and whether the simple tariff-cutting deals are sufficient to lower the main non-tariff impediments to trade.

(FT, 01.12.04)

Call for Harmonisation

India has called for harmonisation of standards in South Asia with a view to foster smooth trade. It will help implement the South Asia Free Trade Area (SAFTA) in time by 2006. The standing group on quality standards for the SAARC has already approved for setting up a regional standard body. The body would facilitate harmonisation of national standards of member countries in line with the global standards.

Union Secretary for Consumer Affairs, L Mansingh, while inaugurating the regional workshop on certification and conformity assessment, said internationally recognised certification has become a vital element for the developing countries to compete and sustain in the global trading environment. He said, India has attempted unifying the technical regulations with the national standards, which in turn would be harmonised with the global standards to the extent possible in order to smoothen trade. *(FE, 07.12.04)*

Deeper Integration in Latin America

South America's heads of States are to take steps towards regional integration with the creation of the South American Community of Nations. The main objective of the community is to foster political, economic and infrastructural integration.

Some members, led by Brazil, believe the group could help counter-balance US supremacy in the region and improve the bloc's bargaining position, particularly in pending trade negotiations. The proposed community would have a population of more than 360mn, a gross domestic product of US$800bn and exports of about US$188bn.

The integration process has gained renewed impetus with the spread of left-leaning governments throughout the region, from Argentina and Brazil to Ecuador and Peru. Yet, behind the façade, regional unity is fragile at best. Frequent trade disputes within Mercosur, particularly between Brazil and Argentina, have overshadowed the group's initial success and brought trade growth to a virtual standstill. *(FT, 05.11.04)*

Trade Co-operation Deal

Egypt and Israel agreed to a rare trade co-operation deal. The two countries and the US signed a protocol to set up seven special zones, where goods would gain free access to US markets, provided that 35 percent of their inputs come from co-operation between Egyptian and Israeli companies.

The trade protocol stipulates that 11.7 percent of the content of the exports from the zones should originate in Israel. Egypt expects the deal to throw a lifeline to its textile industry, which faces a big drop in exports to its crucial market in January, after expiry of the import quota system.

The Egyptian state press has been trumpeting the expected positive impact on exports and employment in a bid to prepare public opinion for economic co-operation with Israel. Analysts in Cairo say the thaw in relations with Israel is driven by Egyptian confidence that the peace process between Israelis and Palestinians will be relaunched after the death of Yasser Arafat, the Palestinian leader. *(FT, 15.12.04)*

Pak-USA FTA

Pakistan and the US will resume dialogue on concluding a bilateral Free Trade Agreement (FTA). Tariq Ikram, a State Minister and Chairman, Export Promotion Bureau, said bilateral trade promotion was one of the main issues in talks between President Musharraf and President Bush.

Officials of the two countries took a cue from these talks and explored the possibility of resuming dialogue on reaching an FTA. Ikram said Pakistan needs a lot of product diversification in its exports to the USA. Pakistan has already concluded Trade & Investment Framework Agreement (TIFA) with the US and wants to go a step forward to explore possibilities of an FTA which should open opportunities of exporting non-traditional goods in the US market.

Pakistan also seeks inroads in the economic union of all the south American countries for which assistance has been promised by the Governments of Brazil, Argentina and Mexico. *(Dawn, 09.12.04)*

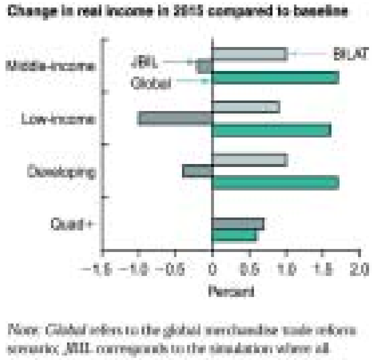
RTAs Erect Obstacles

The rapid proliferation of bilateral and regional trade agreements (RTAs) has done little to free international trade and has not benefited all their signatories, according to a WB report. It questioned the value of RTAs between developing countries with small markets and also warned poor nations that they would suffer diminishing returns – or even economic losses – by rushing into deals with leading industrialised powers.

The report said developing economies would gain most from RTAs that stimulated liberalisation of their service industries, such as telecommunications and finance. The WB said countries also needed sound domestic policy frameworks to profit from RTAs. The report calls for a review of the WTO's ineffectual system for scrutinising RTAs.

(FT, 17.12.04)

Multilateral liberalization is far more beneficial than RTAs



Note: Global refers to the global merchandise trade reform scenario; JBIL corresponds to the simulation where all developing countries sign bilateral agreements with the Quad-plus countries; and BILAT corresponds to the simulation where the bilateral agreements are signed individually. Results reflect unweighted regional averages.
Source: World Bank simulations with the Linkage model and GTAP release 6.04.

Should Trade Rule?

*Nitin Desai**
New Delhi, Business Standard, November 18, 2004

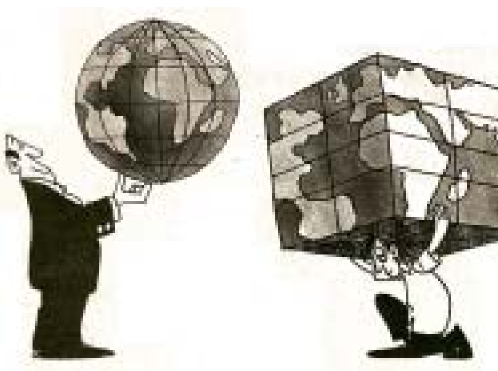
George Bush's re-election has been welcomed by most economic commentators. The expectation is that the BPO boom can continue and that protectionist pressures in the US will be contained. That may well be the case, but judging by what the first Bush administration did with safeguard action on steel and agriculture subsidies, some caution is necessary. A more balanced view must also take into account the policies of Bush's administration towards global institutions, and the broader consequences for India if the drift away, from multilateralism, continues.

In the field of trade this drift away has already started. The Doha Round of trade negotiations does not seem to be making much progress. In the meantime, bilateral and regional trade agreements have become the principal instrument of trade policy for the industrial countries. The US, in particular, seems to be following a systematic agenda and is using bilateral trade concessions as a key foreign policy instrument. The provisions of these agreements go far beyond the WTO rules. For instance, the North Atlantic Free Trade Agreement (NAFTA) includes a chapter detailing safeguards against "expropriation", which sounds unexceptionable, except that the interpretation of the term covers almost anything that would be deemed as a loss of business opportunity.

There was a case in which an American company, Metalclad, was proposing to put up a hazardous waste disposal site in Mexico. The local Government put the land they were going to use in a protected category and thereby prevented them from going ahead. Metalclad appealed, as is allowed under NAFTA, and won substantial compensation from the Mexican authorities. Nor is this an isolated case. There are several others that testify to the broad interpretation of what constitutes "expropriation".

Another example of creeping conditionality is the recent announcement, by the European Commission, that some new trade concessions they are offering will only be available to developing countries that comply with certain global labour and environmental standards. If developing countries, tempted by the concessions, do accept the conditions, negotiating positions in the trade talks will surely be affected. This is the essence of the problem. The piecemeal erosion of developing country positions will create "facts on the ground", making it easier for the industrial countries to argue for the universalisation of these norms.

There is in fact a more general problem that started with the Uruguay Round (UR) mandate creep in the world trade rules. Investment, intellectual property protection, and non-tradeable services (in some respects) have all been brought within the framework of trade rules. The agreements covered by the WTO include provisions on what Governments have to do, for instance, pass laws to protect intellectual property, on the lines specified in the Trade Related Intellectual Property Rights (TRIPs) agreement. The so-called Singapore issues would have meant yet a further



Business Standard

mandate creep. But these fortunately are off the table, except for trade facilitation.

Trade rules are becoming the constitutional framework for economic globalisation. But should trade rule? Whose interests does the present trade regime serve? There are some anti-globalisation activists who question the case for trade liberalisation. Their case rests on their concerns about the impact of widening global trade networks on local culture and specificity, the social and environmental consequences of these, and the resulting inequalities. But, it is hardly possible to design a trade policy on these premises when all other areas of public policy are working towards integrating local markets into national ones.

One should also recognise that, however imperfect the trade liberalisation process, it has helped to reduce poverty in many areas. An Oxfam report that is very critical of the process accepts that in East Asia, trade expansion has lifted around 400 million people out of poverty. Trade does this by allowing people to move to higher productivity work. In the longer run, there can be further dynamic gains. There is of course a downside — the possibility of structural unemployment and greater vulnerability to external shocks. But, on balance, widening trade opportunities are good for poor countries and poor people.

We do not have to reject trade liberalisation. What we have to do is to ensure that it serves the interests of people rather than of special interest groups. That is not the case at present. To take the most egregious example — it is estimated that the TRIPs agreement will increase royalty payments from developing to industrial countries by US$40bn, about half of the gain accruing to US companies. It will increase the cost of medicines, with virtually no countervailing benefits. Was this even considered when the TRIPs agreement was being finalised?

What we need is a reform of the multilateral system and the domestic application of trade regimes that is less subject to special interests, more mindful of diffusion and substantial consumer benefits, besides being more balanced in its coverage. Textiles, agriculture, and the movement of natural persons, to provide a service across borders, should be subject to the same liberalisation impulses as manufactures, services, and the cross-border movement of capital.

Above all, we must resist mandate creep, the pressure to include, within trade rules, matters, which rightfully should be negotiated and dealt with in a different context. Trade negotiations have been driven by a procedural agenda. The goal is liberalisation in itself. At Doha, we argued that the goals must be substantive — not just liberalisation, but the improvement of opportunities for poor people and poor countries.

We must hold the multilateral system to this substantive end and we must reflect this in the way in which we handle trade policy at home, listening far more to the voices of people as consumers and small producers rather than just the large corporations.

(* The author is a former UN Under-Secretary General, and Chief Economic Adviser in the Finance Ministry of India.)

India Criticises Rich Nations

India has, on behalf of the International Textiles and Clothing Bureau (ITCB), criticised the introduction and maintenance of certain measures by the US, the European Union (EU) and Turkey, disregarding the disciplines of the Agreement on Textiles and Clothing (ATC). ITCB, in its submission, noted that during the ATC's implementation, the US substantially changed its rules of origin relating to the import of textile and clothing products, creating significant adverse effects on trade.

Furthermore, the EU introduced new restrictions in the territories of the newly acceding member states, including the Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. Curiously, these states did not apply any quota restrictions before their accession to the EU. *(FE, 11.10.04)*

Seven-Point Action Plan

Ahead of the disappearance of the lingering WTO textiles quotas on January 1, the European Commission has drawn up a seven-point action plan to enhance the competitiveness of the European textile industry, building on the work carried out by the High Level Group for textiles and clothing.

In 2002, the EU imported •71bn worth of textile & clothing products or around 20 percent of total world imports, second after the US, which accounted for 24 percent.

According to a EU communiqué, the seven actions are the Commission's responses to the requests and issues raised, by the High Level Group on 1) Research and innovation; 2) Training; 3) Restructure fund; 4) Anti-piracy; 5) Market Access; 6) Euromed; and 7) Ties with China. *(BL, 19.10.04)*

Textile Quota Regime to Expire

In the final review meeting of the implementation of the ATC, at the WTO Council for Trade in Goods, Mauritius presented post-ATC adjustment-related issues on behalf of co-sponsors Bangladesh, Dominican Republic, Fiji, Madagascar, Sri Lanka and Uganda, for the WTO Secretariat to carry out a study aiming at identifying the adjustment-related issues and costs that might ensue with the end of the ATC. Their plea, backed by Turkey and Tunisia and a number of other countries, centred on the concern over the "sustainability of economic and social development after ATC expiry.

Moreover, a number of delegations, including India, China, Chinese Taipei, Thailand, Brazil and Cuba, said that adjustment costs and challenges were inseparable from trade reform, including in commitments undertaken in WTO Agreements. India and China urged a more active role by the IMF and the WB in addressing adjustment issues. *(BL, 12.10.04)*

Winners and Losers

The demise of the WTO's Agreement on Textiles & Clothing ends an anomaly in the international trading system, and puts clothes and textiles on the same footing as other industrial goods. The World Bank says developing countries should see combined export earnings leap by over US$20bn a year.

But not everyone in developing countries will emerge as winners. The clothing and textile industry, in the US says that 600,000 jobs could be lost domestically. Although, under the terms of China's accession to the WTO in late 2001, the US can limit its textiles and clothing export growth to an annual 7.5 percent until 2008.

Many of the poorest producers, notably in sub-Saharan Africa, will still benefit from duty free access to both the US market, through the African Growth and Opportunity Act (AGOA), and to the European Union, under Brussels' "Everything But Arms" programme. *(BS, 22.12.04)*

Impose Quotas on China

The US industry has lost about 350,000 jobs, over the past four years, in the face of rising import competition from China, and argues that the removal of all quotas will make it impossible to compete with China. Fearing such an outcome, the US textiles and clothing companies are demanding Washington to impose new quotas on Chinese imports when global quotas are dissolved at the end of 2004.

Under pressure from textiles producers, the US has already invoked provisions in China's WTO accession agreement, to put temporary 'safeguard' curbs on Chinese clothing products. The US industry recently filed a further petition for import restrictions, and wants Washington to impose them, even if it judges there is only a threat of – rather than actual – surges in Chinese exports.

Beijing, though, warns that US moves violated WTO principles. The actions have also angered US retailers. Companies say the threat to impose new quotas is disrupting plans to import goods from China next year.

(FT, 13.10.04, 15.11.04; & 03.12.04)

EU to Lift Quotas

The European Union has agreed to lift quotas on Vietnamese textile and garment exports from next year, i.e. 2005. The deal, which is due to come into effect from January 1, still needs final procedural approval from both sides, but EU diplomats said no problems were anticipated. The textile sector is Vietnam's second biggest earner of foreign exchange after crude oil. The removal of the EU quotas, which were imposed in 1992, is of vital importance to Vietnam's competitiveness.

Textile quotas among members of the WTO will disappear at the end of 2004, under the terms of an international agreement struck in 1994. Vietnam, however, is not yet a member of the WTO. In October, Hanoi concluded bilateral negotiations with the EU over its accession, keeping it on track to meet its target of joining the Geneva-based body by the end of next year.

(Business Day, South Africa, 04.12.04)

WTO Report on Anti-dumping

The recent report on anti-dumping measures initiated by different countries including India revealed a drastic decline in their number in the first half of 2004.

The Hindu Business Line

For instance, the WTO Secretariat reported that during January-June, there were only 52 new final anti-dumping measures, from 114 measures during the corresponding period of 2003. The European Community, India and the US, imposed the most, six each. In fact, it was a real sharp decline on the part of India though it was the other way round from the EU and the US.

On new initiation, 16 WTO members initiated 101 anti-dumping investigations against export from 23 different countries, though it is slightly more than that of last year's report.

(BL, 02.11.04)

Row Over Printers Battle

The commercial tussle that erupted, in 1996, between two of the world's largest printing companies, has now escalated into an international tit-for-tat game over WTO rules. The US congress had repealed the 1916 Anti-dumping Act, prospectively when WTO deemed it to be in violation of the US international trade obligations.

Goss, a company named after two Chicago brothers, who started a printing business in 1885, had initially won an award valued at triple the amount of damage suffered by it, under the 1916 Act, Goss persuad the US jury about the fraudulent and predatory tactics that Tokyo Kikai Seisakucho (TKS) used, to win a US$7.4mn contract with the Dallas newspaper and several other US papers.

The real tussle arose when Japan passed a legislation that would allow TKS to sue the Japanese subsidiary for recovery of the money. It declared that any lawsuits filed under the 1916 Act had no legal validity now. The usual practice is to change that law and not to make amends for past damages when a law is found to not be in compliance with WTO rules.

The new Japanese law would allow it to "claw back" the money from Goss's Japanese subsidiary. Though an appeal by TKS lies against the damages award, this has put Goss in troubled waters and it has appealed for help from several agencies of the US Government, but not much interest is being shown by the US to intervene. *(BS, 20.12.04)*

Sugar Prices to Boost

Brazil's victory, over European Union sugar export subsidies, would boost world sugar prices considerably, though the EU intends to appeal against the WTO sugar ruling.

US analysts have argued that sugar prices would not rise because efficient producers, such as Brazil, Australia and South Africa would respond to reduced EU exports by raising supplies.

But Brazil, the world's leading sugar exporter, is not intending to expand its output to fill the gap caused by the EU's reduced production. Rather, Brazil intends to increase its production of ethanol so as to introduce it to the world market as an additive to gasoline.

"I believe that...Brazil will be significantly increasing its production of ethanol in the years to come," said Clodoaldo Hugueney, the Brazilian Foreign Ministry's under-secretary of economic affairs.

(BS, 03.11.04 & BL, 17.10.04)

US to Lift Ban

The United States is now forced to open itself to offshore Internet gambling, as the WTO panel has asked to lift its ban on the same. The WTO panel confirmed the preliminary ruling, saying the ban represented an unfair trade barrier.

The tiny Caribbean nation of Antigua had challenged the US based on GATS, contending that the restriction barred US residents from betting at offshore casinos. Thus, trade commitments the US made, as a member of the 148-nation WTO, are seen to be violated. Moreover, Antigua alleges that the US has caused harm to the country's efforts to diversify its economy.

The US is given a period of 60 days within which it may appeal, after which the final ruling should be made within a period of three months. *(AP, 10.11.04)*

Big Blow on EU

Once the ruling by the WTO, against the European Union's intention to win global protection for its regional food names, is upheld, then the EU's protected list of some 600 foods and 4,000 wines will be opened up to non-European products.

However, the EU cannot block the growers of the US from protecting their food names, in Europe, simply because the US has not adopted a system for protecting such "geographic indications' (GIs). This also means that GIs should never supersede traditional trademarks. In fact, the two co-exist.

The WTO members see this decision as a real shot across the bows of the EU when it is pressing for global trade talks to extend WTO rules on geographical indications, from wines and spirits to food and other products. *(FT, 19.10.04)*

South Korea tastes Victory

It was the second consecutive victory for South Korea, within a short span of time, when an interim WTO report rejected the allegation by the EU accusing South Korea of subsidising its shipbuilders.

The EU made a strong allegation to the world trade body, claiming that the South Korea was effectively dumping ships on the world market, by subsidising its manufacturers through nationalised financial institutions.

"The interim report was in our favour, and we expect it to be adopted as the final ruling," the Seoul's Foreign Ministry said.

In fact, this interim ruling marked a second victory for South Korea, after sources in Seoul told Reuters about the WTO clearance on the country of paying subsidies to chip-maker Hynix Semiconductor Inc.

(ET, 26.11.04 & FT, 30.11.04)

Mandelson's Peace Move Effort

EU Trade Commissioner, Peter Mandelson, is encouraging the two giant trading blocs to draw a line under their long running row. He has launched top-level negotiations to avert a damaging economic war between America and Europe over subsidies for aircraft maker Airbus.

Mandelson, said at a hearing at the European parliament: "I hope that we don't have another trade dispute looming about Airbus and Boeing. I hope that can be kept out of the WTO net with a proper discussion." The new commissioner fears that such a spat could lead to own goals for both sides.

Mandelson's efforts to prevent the trade dispute 'going nuclear' have support from Boeing executives. Michael Jenkins, President of Boeing's UK operations, said: 'We are encouraged that Mandelson wants to sort this out before it ends up in litigation, and look at the whole issue of launch aid for future projects.'

Further, he insisted that: 'If worst comes to worst and the case is taken to the WTO, I am very confident, indeed, of the EU's position and of the counter case.' Such a reaction clearly shows that they appear to have been taken aback by the threatening approach, adopted in the recent months, by Washington.

The dispute over subsidies, granted to the world's two main aircraft makers, has also raised the prospect of an unprecedented double ruling by the WTO, which is based in Geneva. The WTO might conclude that both companies have been benefiting from Government support that contravenes its rules on subsidies. *(FT, 05.10.04)*

Need for Diplomacy

The trade conflict between the US and the EU has raised concerns for many. Whatever the merits of the respective cases, the timing and impact of the battle over subsidies, to the US and European civil aircraft industries are worse.

It would never be a wise decision to move on with such a crucial dispute before the WTO panel, at this juncture. Some form of diplomacy is needed to resolve the dispute and, thus, avoid the show of machismo. The matter should, in fact, be addressed quietly between Brussels and Washington, and possibly with Tokyo.

So, a dispute over air subsidies, at this moment, is totally irresponsible. At least they should wait until the agenda gets over successfully.

(FT, 12.10.04)

US Trade Representative Warns EU

Robert Zoellick, the US trade representative has warned the EU about linking the disputes, over subsidies to Boeing and Airbus, to a long-running fight. He warns that such an action would be damaging to the WTO dispute settlement process.

"The EU likes to stress the importance of following the multilateral system, and the WTO is pretty explicit about not trying to link issues," he said. Such a link would certainly result in a negative relationship with Congress.

(BS, 18.10.04)

Airbus Head Expresses Concern

Manfred Bischoff, Chairman of the European aerospace giant, EADS, has expressed concern about the impact of a trade battle on the transatlantic partnership. "I would assume the EU are wise enough to handle it, to ensure that as little porcelain is destroyed in transatlantic trade as possible. We hope that after the (US) election is over, it will be handled with the same wisdom on the US Government side, to destroy as little in trade relations. We have enough issues. We don't need further ones."

He added: "People are concerned. Boeing is pushing a case which will lead nowhere, will be destructive of transatlantic trade and maybe create a negative atmosphere for exports to Europe. If you are in a glass house, you shouldn't throw stones. Some people say they are hypocrites."

Though, he said, he did not know whether the EU would address the issue purely through the WTO or whether bilateral discussions would continue. He has raised the prospect that the WTO case might be withdrawn. *(FT, 08.10.04)*

EU Questions Japan's Aid

After the US and the EU launched the biggest dispute in the history of the WTO, the European Commission, in Tokyo, called into question the financial aid that the Japanese Government has given to Boeing, for the development of its 7E7 Dreamliner airplane.

Etienne Reuter, Head of Public Affairs at the European Commission, said, "The important subsidies that Japan has pledged to this project had, indeed, been perceived, in the market, as a circumvention of the EU-US agreement of 1992".

A Japanese Government official said yesterday: "We are carefully monitoring the progress of the WTO negotiations, and keeping our fingers crossed that it will not lead to trade friction. But this is an issue that could open a Pandora's box with regard to the 7E7."

In a response to the European Commission, on Japan's stance on the issue, Nakagawa, Japan's trade minister, asked the EU about Airbus subsidies and the issue ended in a stalemate.

(BS, 07.10.04 & FT, 08.10.04)

All Set to Sue

The US has already asked for WTO "consultations" on the subsidies dispute on October 6. The EU now expects the US to call for the creation of a WTO dispute panel, which could impose penalties and decide which aircraft subsidies are allowed. The US move could be made on January 13, when the WTO's settlement committee has its monthly meeting to set its agenda.

A US diplomat agreed that he expected the US "to move forward with the WTO panel" in January. "We are skeptical about the EU's willingness to prohibit subsidies," he says.

Zoellick added, "Litigation is an option that we remain very prepared for." While the case against Airbus is strong, he said, the case against Boeing is weak. The Washington State tax breaks have yet to be given, and the Europeans need to show that the military and NASA hurt Airbus – harder to do since Boeing has lost market share to Airbus. *(DJ, 13.12.04)*

India to Prepare MDG Report

The Government of India will prepare the first MDG report by the end of the current fiscal year. This will indicate India's compliance with the development goals, set by the United Nations, at the Millennium Summit, in September 2002.

The MDG includes 18 targets and 48 indicators, out of which 35 are social, and these would be monitored till 2015. MDGs include halving the 1990 poverty and malnutrition rates, increasing net enrolment to 100 percent, reducing under-5 mortality by two-thirds, reducing maternal mortality by three-quarters, and reversing the loss of environmental resources. These targets are to be achieved by 2015. *(FE, 04.11.04)*

Growth and Poverty Reduction

South Asia will need to maintain an average growth rate of 5.8 percent to achieve the MDGs of reducing extreme poverty by mid-2015. The recent World Economic Outlook (WEO) has projected a growth rate of 6.3 percent for South Asia, for 2005, which is expected to be moderated to 6 percent in 2006. If the trend continues, the desired target would be achieved.

Moreover, unemployment and employment-to-population ratios have not changed much, over the past ten years, despite good GDP growth rates of over five percent. This indicates that there has been employment creation, but just enough to absorb the growing labour force. Though the South Asian region has seen a decline in poverty, the poverty statistics are next only to those prevailing in sub-Saharan Africa.

(FE, 12.12.04)

Declining Global Poverty

The proportion of people living on less than US$1 a day decreased from 40 to 21 percent, of the global population, between 1981 and 2001, says the WB's latest annual report. New data indicates that the number of poor people continues to fall.

Development indicators were improving in countries that had laid good foundations for growth. The number of poor people had fallen in South Asia, the Middle East and North Africa, though less dramatically than in East Asia. However, the absolute number of poor people had risen in African, Latin America, the Caribbean, Europe and Central Asia.

(BS, 30.09.04)

Security Dictating Aid

"Paying the Price, Why Rich Countries Must Invest Now in a War on Poverty" - A report by the campaign group OXFAM, indicates that the "war on terror" threatens to revive an era when foreign aid was dictated by security concerns rather than poverty reduction.

Part of the reason for pessimism, on the effectiveness of aid, derives from the poor record that politically motivated aid had, in supporting growth and development, during the cold war years. Aid flows have also been dictated by domestic business interests – the need to buy goods and services from the donor country.

(FT, 06.12.04)

Child Mortality Targets

Half the world's nations will fail to meet the UN goal, of cutting child mortality by two-third's, in just over a decade's time. UNICEF says that though 90 countries are on track to meet the targets for 2015, 91 are considerably off-track, many of them afflicted by conflict or the AIDS epidemic.

Much of the Middle East, North Africa and the Asia-Pacific region, are on track but Eastern Europe, South Asia and sub-Saharan Africa are lagging far behind. Nearly a quarter of the under-5 deaths occur at, or just after, birth, largely because of lack of healthcare for mothers, including skilled birth attendants.

Acute respiratory infections, diarrhoea and malaria are the biggest killers. Just over half of all child deaths are associated with malnutrition. Vaccines, micronutrient supplements and insecticide-treated mosquito nets could save millions of children. *(FT, 08.10.04)*

Credit Critical for Upliftment

The UN International Fund for Agricultural Development (IFAD) says that access to services, like credit, savings, insurance and money transfers, can lift millions, across the world, out of grinding poverty.

Some nations like India, China, Vietnam and Indonesia were making strides in solving the problem. However, a slow rate of economic expansion and the inability to move to commercially independent financial entities, from Government-led management, were proving to be a major road block in most parts of Africa.

Micro-finance was an option for providing the poor access to commercially viable financial services, away from Government directed lines of credit or international transfers. Anyhow, if there was no market penetration or underlying profitability, the problem could not be solved. *(BS, 16.11.04)*

International Aid Misused

According to a report by the UK's Department for International Development (DFID), the UN MDGs are "off-track" in 72 middle-income countries. Much of the US$17bn a year, given in aid, has gone towards achieving the donors' own political and commercial priorities, rather than making the poor better off. The report says these countries don't need more aid but need "better-focused" aid.

The solution is for the DFID to redirect its funding from programmes on the ground in middle income countries – where one-third of the world's poorest people earn less than US$1 a day to influential organisations. According to the DFID, the challenge is not about delivering large volumes of aid but ensuring that the international system provides the right mix of high quality technical advice and international experience.

Business Standard

It further emphasises that low-income countries, primarily found in Africa and Asia, have the greatest need for development assistance. However, without ground level representation there was no way, that the DFID could guarantee pro-poor policies. It is also equally essential to have strong civil society representation to persuade their Governments to change. *(BL, 07.10.04)*

"Globalisation will Not Cure Everything"

*- Jagdish Bhagwati**

"FTA has become a competitive kind of thing. The Europeans started it, and now the US is using these FTAs with many small countries, mainly with a view to getting them to fall in line with agendas that have nothing to do with trade, like intellectual property protection, capital account controls, labour and environmental standards with Mexico, Jordan and Central America. These are non-trade objectives."

You have talked about the social implications of free trade in terms of gender issues and child labour. But there has been no noticeable improvement in the problem of child labour since reforms began.

You have to pose the counter-factual argument. What would have happened if there was no globalisation? Many studies show that peasant incomes improve as a result of being able to export — you have the example of rice exporters in Vietnam.

But if we look at the macro-outcomes, there are so many factors affecting child labour, you can't really separate the effect of globalisation.

So, we have to say maybe the situation is worsening, but would it have been worse if globalisation had not taken place? Globalisation will not cure everything.

You have criticised Sachs for his "shock therapy" prescription for Russia. What do you think of India's pace of globalisation?

I think we've gone about it at the right pace because the constraints are not lack of will — I have no reason to doubt that the previous Governments, since 1991, wanted change.

But for me as an outsider, just as an economist, to say, look, why don't you move faster, that's crazy because whoever is in charge has to negotiate a political minefield.

The analogy I use is that, if you kick a door open it will swing back but, if you put gentle pressure on it you are more likely to succeed. You can't be technocratic about these issues.

But how do you explain the current vortex of anti-globalisation, including Stiglitz's arguments? Have they got it all wrong?

No, these are legitimate concerns. There were a lot of questions we weren't asking before, and even the people who rant and rave flag the issues that are not in the public eye. But having got the issue into the public policy space, you then have to apply know-how.

Take the World Social Forum (WSF). The only interesting idea that it had was the Tobin Tax, which I think is a bourgeois proposal. Nothing really happened at the forum except for an affirmation of faith.

In fact, people ask me if I'd written my book because of Joe Stiglitz.

I said no, I would never have written my book if I hadn't been in Seattle and heard the other arguments, and wondered if we were missing something. Stiglitz's book was straight out of Bretton Woods. He's not a policy person, he's a fine theorist. Actual policy is much more complex.

BPO is one of the most visible faces of globalisation in India. Is the issue of export of jobs — in services to India, manufacturing to China — a valid argument?

There are three things mixed up in the American debate. The first is the arm's-length service trade, like call centre services and so on, what in GATS terminology is called Mode 1 services.

They're crazy to be worried about this, because it's not that the job is being transferred, it's gone from the US anyway because nobody's going to pay those rates anymore.

In any case, huge numbers of new jobs are turning up so what is there to worry about? Besides, they are the ones who opened up Mode 1 for legal and accounting services and so on.

They'll also be encouraging high-value exports and these are not just high value in terms of transaction value but highly paid people producing it.

For example, students in Delhi will be able to listen to people like Professor Sen or me because we'll now be able to record these things and they will be able to interact with us. So actually, it is the US that will be earning huge fees from such services.

The second problem is foreign direct investment (FDI), which Kerry was talking about. He's afraid of a factory, in some place where he has one of his six villas, being relocated to Nigeria. But there is a lot of investment coming in.

There's this highway through North and South Carolina where textile firms had moved out. Later, several German engineering firms like Siemens moved in, in a big way, and wages there have gone up three-fold as a result, and that part of the highway is now called the Autobahn.

If you focus only on investment going out and not on what's coming in, you can't assess the phenomenon.

The third thing is this "India-China Worry" that we will produce engineers in huge quantities, and that will somehow reduce prices of what Americans are producing on their IT products and so on.

Therefore, the value of exports will fall and as a result welfare will go down. This is a narrow view. You can't just stop the story at terms of trade, you have to see what that will trigger. Look at what happened with Detroit.

When the Japanese came in with their superior production techniques, Detroit had to learn these methods — Just-in-Time, Keirestu and so on — to cope, and that made increased competition.

Ever since Cancun, there has been a move towards greater bilateralism, with more countries signing free trade agreements (FTAs). Is this the way to go?

It has become a competitive kind of thing. The Europeans started it, and now the US is using these FTAs with many small countries, mainly with a view to getting them to fall in line with agendas that have nothing to do with trade, like intellectual property protection, capital account controls, labour and environmental standards with Mexico, Jordan and Central America. These are non-trade objectives.

This is what India is also foolishly doing while objecting to all this. In relation to India, we should say look, when we do our FTAs we're not going to be putting in anything that has nothing to do with trade *per se*. We should pursue those in separate treaties.

Also, if you have very high tariffs and you go for preferential agreements, it leads to trade diversion. In Singapore, for example, which has no tariffs, there is no trade diversion; they only gain access to other markets.

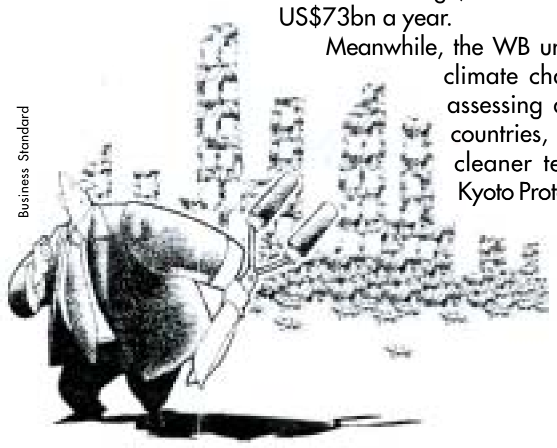
But India is likely to be stunned by trade diversion. The best thing to do would be to negotiate, over a long period, and in the meanwhile reduce our external tariffs, so that we come closer to 5 or 10 percent, then open up to preferential agreements.

Otherwise you will really be hurting yourself. India is not ripe for FTAs in my view. *(BS, 26.11.04)*

**An Eminent economist, currently Professor at Columbia University and Senior Fellow at the Council on Foreign Relations, USA.*

Global Warming and MDGs

Global warming may make it impossible to achieve the Millenium Development Goals of halving global poverty by 2015, and spoil the gains achieved so far through aid, says a report called "Up in Smoke", published by a coalition of groups. Though poor countries are at greater risk from the effects of climate change like storms, flooding, and desertification; they are less equipped to deal with them. The rich countries pledged only US$410mn to help poor countries adapt to the effects of climate change, while they subsidised fossil fuel by US$73bn a year.



Business Standard

Meanwhile, the WB urged governments to take climate change into account when assessing development aid to poor countries, to ensure their access to cleaner technologies. Though the Kyoto Protocol on climate change will come into force, the problems persist with parties to the protocol like UK failing to meet their targets and the continued efforts of US to undermine the treaty.

(FT, 09.12.04, 13.12.04 & 20.10.04)

Eating Away the Planet

People's consumption of resources is outstripping the planet's ability to cope, says the Living Planet Report of the environmental group WWF. Humans currently consume 20 percent more natural resources than the earth can produce. Populations of terrestrial, fresh water and marine species fell on an average by 40 percent between 1970 and 2000, and fossil fuel use increased by 700 percent between 1961 and 2001. People in the west have accounted for most of this consumption.

To deal with the grim situation, United Nations Environment Programme (UNEP) is bringing together ministers and decision makers to identify ways and means to address unsustainable production and consumption pattern and help the poor to consume. "The ultimate focus of these efforts is on the poor. They need to become consumers. For others there is the need to consume differently", says the UNEP Executive Director, Klaus Toepfer.

(ET, 21.10.04 and UNEP News Release, 17.11.04)

Corporatisation of Greens

Increasingly, the environmentalists who slam the big businesses, resemble and even act like professional businessmen as a result of growing funds and the need for openness and transparency. The green movement has grown into a multi-billion-dollar industry, competing fiercely for funds from donors.

Annual reports of many international NGOs show incomes that rival some big corporations. For instance, in 2003, the conservation group WWF's total income was US$382mn and Greenpeace had an income of US$213mn in 2002. Majority of these funds is in the form of grants and donations from the public. This has resulted in the need for professional business practices like publishing balance sheets and income statements as part of annual reports. *(BL, 16.11. 04)*

British E-wastes Flood Asia

A study conducted for the British Environment Agency (BEA) has revealed that every year about 23,000 tonnes of electronic and electrical waste that contains several hazardous and toxic materials harming environment and human health, are being illegally exported from Britain to countries like India, Pakistan, and China. The containers carrying the waste are often wrongly labelled to flout both domestic and international law.

The international trade and movement of hazardous waste are regulated by the Basel Convention, an international treaty of the United Nations Environment Programme. Whereas the British law bans the export of any kind of waste for disposal, still the country exports e-waste worth hundreds of millions of pounds. It involved thousands of old computers, three million refrigerators, half a million television sets, 160,000 of other electrical equipment and millions of discarded mobile phones. *(BL, 17.12. 04)*

Threat of Species' Extinction

More than 15,000 species, from sharks to frogs to trees, are facing extinction and the total is rising like never before, the IUCN World Conservation Union says. Even this figure could be an underestimation as only a fraction of the known species have been assessed, said an IUCN official.

Though steps taken to preserve have borne fruit in some species like the European otter, the overall picture is grim. The green group says that governments are waking up slowly to the importance of conservation in the well being of people; but more has to be done.

Meanwhile, governments at the Convention on International Trade in Endangered Species (CITES) Conference decided in favour of further measures aimed at controlling the illegal trade on species, which is considered a major threat to the species' survival.

(BL, 17.11.04 & FT, 15.10.04)

Sports Sporting Environment

During the Third Global Forum for Sports and Environment, the leaders of sporting goods industry in Sialkot, Pakistan, who produce 60 percent of the soccer balls used around the world, endorsed a declaration calling for environmental concerns to be fully taken into account in their industry. The industry in Sialkot had also tackled the issue of child labour in recent years.

The Declaration agreed to initiate environmental reporting, introduce cleaner technology, improve the use of water and energy during production of sporting goods, and increase environmental awareness among company workers.

The Forum, organised by UNEP and Global Sports Alliance, focused on the theme of "Corporate Environmental Responsibility". It explored ways in which the sports corporations can enshrine sustainable development in their activities and promote the implementation of UN MDGs.

(UNEP News Release, 19.11.04)

Emphasis on Development

World Intellectual Property Organisation (WIPO) will discuss ways of strengthening responses to development concerns. A decision to this effect was taken at WIPO's assemble held in the first week of October 2004. The proposal for a development agenda, spearheaded by Argentina and Brazil, came after poorer countries complained their interests were being ignored.

The development agenda proposal, which won wide backing from WIPO's poorer members, included negotiation of a WIPO treaty to promote developing country access to knowledge and technology and a change in WIPO's constitution to emphasise development concerns.

Further, support for the Brazil/ Argentina proposal came in a declaration signed by 500 scientists, academics, legal experts and consumer advocates, including two Nobel laureates. It called for a moratorium on WIPO negotiations aimed at raising intellectual property standards until development needs were considered. *(FT, 05.10.04)*

Preserve Traditional Knowledge

India urged other South Asian Association for Regional Co-operation countries (SAARC) to take up the work of documentation and registration of traditional knowledge on priority basis. Such a process will help setting up a traditional knowledge digital library for the region (TKDL). In 1994, a documentation centre for traditional knowledge called SAARC Documentation Centre (SDC) was set up in Delhi. Now there is a need for setting up of a SAARC TKDL to protect the region's traditional knowledge from attempts of biopiracy.

R A Mashelkar, Director-General, Council for Scientific & Industrial Research (CSIR), strongly feels that documentation of traditional knowledge has become an important issue since most of the traditional knowledge that exists in public domain has become an easy source for misappropriation.

If proper documentation and registration of traditional knowledge is done, then patent authorities in different countries will not grant patent rights over these traditional knowledge. India, after experiencing cases of biopiracy relating to neem, turmeric and *basmati* rice decided to document its traditional knowledge. Other South Asian countries should also follow suit. *(FE, 27.12.04)*

Trade Pacts to Check Piracy

The global music industry is urging the US and Europe to use trade agreements to demand tougher anti-piracy action from the Governments of Russia, China, Mexico and Brazil amid claims that the four countries are at the centre of an illegal trade worth US$4.5bn a year. Illegal copying has contributed to a sharp decline in the value of recorded music sales, which have fallen from US$40bn to US$32bn over the past four years.

The International Federation of the Phonographic Industry, which represents 1400 record labels, believes the US and EU could, among other measures, seek anti-piracy undertakings from Russia in negotiations over its potential accession to the WTO. According to a rough estimate, piracy accounts for 50-65 percent of all CDs sold in Russia, Brazil and Mexico, and up to 90 percent in China.

China, where intellectual piracy is rampant, may soon make some intellectual property violations criminal offences. This move could ease US concerns over light penalties for the country's thriving pirates of movies, software and music.

(FT, 25.11.04 & BL, 17.12.04)

Chinese Car makers Sued

General Motors (GM) has sued a Chinese car maker for allegedly copying a car designed by its South Korean unit Daewoo. GM has been considering a case against Chery, a state-owned car maker founded in Anhui province in the late 1990s, for nearly two years, since the US car maker discovered the Chinese-made vehicle at a motor show.

The suit, launched in the name of GM Daewoo Auto & Technology Company, a unit of GM, contends that Chery copied the design of the Daewoo Matiz mini-car while also claiming it had developed the vehicle. GM's investigations showed the two vehicles shared remarkably identical body structures, exterior and interior designs and key components.

It is not only GM; a Japanese vehicle maker is also taking legal action against a Chinese vehicle manufacturer, Hebei Xinkai Automobile Manufacturing, for allegedly building and selling exact replicas of one of its cars and is considering similar suits against up to nine other alleged Chinese counterfeiters. *(FT, 17.12.04 & 16.12.04)*

Davidoff Sues Indian Firm

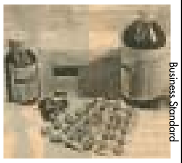
The International lifestyle company Zino Davidoff SA has moved the Delhi High Court to restrain Delhi-based Oscar International from using its reputed trademark Davidoff or any deceptively similar name. Zino Davidoff is a well-recognised name worldwide for cigarettes, shirts and ties, tobacco, clothing, shoes, leather articles, glasses, coffee, perfumes and watches.

Zino Davidoff held Oscar International, the manufacturer of its counterfeit goods, responsible for committing a statutory offence of violation of trademarks. The local company had attempted to make a deliberate misrepresentation to the consumers by claiming that the goods were those of Zino Davidoff.

(FE, 10.12.04)

Regulation on Generic Drugs

The European Commission has proposed a Regulation to allow manufacturers of generic pharmaceuticals to produce patented medicines for export to "countries in need" without sufficient capacity to produce them.



Business Standard

The Regulation would implement within the EU, a WTO decision of August 30, 2003 under which national authorities can grant "compulsory licences" for such production if certain conditions are fulfilled.

The proposed Regulation puts no further restriction on the medicines and diseases to be covered. To help ensure that medicines get to the patients who need them and to protect patent holders, customs authorities will be able to prevent the re-importation into the EU of medicines produced under the system.

The proposed Regulation would set up a system for companies who wish to manufacture medicines for export to apply to national authorities for the grant of a "compulsory licence" from a patent holder who has exclusive rights over the manufacture and sale of the products concerned.

(http://www.europa.eu.int)

Burma Abuse-Case Settlement

Unocal had reached an out-of-court settlement in a landmark case alleging that the company was complicit in human rights abuses committed as part of the construction of gas pipeline in Burma. "This is a landmark settlement that is going to do some great things for the victims in Burma", said Terry Collingsworth, lead lawyer of International Labour Rights Fund.

The settlement is the first reached in any case brought against a US company under the Alien Tort Claims Act. This Act allows foreigners to sue in US courts companies that are alleged to violate human rights abroad. The legal action was filed in 1996 on behalf of villagers abused by Burmese soldiers.

Unocal contested the claims linking it to human rights abuses. It secured a ruling from the court that Unocal cannot be made directly liable for the abuses perpetrated by the Burmese military. However, it had aided the military knowing that such abuses were occurring. *(FT, 14.12.04)*

Trade Unions Unison

The International Trade Movement is set to heal cold warera rift and create a single body in response to the challenges of globalisation. The largest labour federation, the International Confederation of Free Trade Unions is expected to merge with the Christian-based World Confederation of Labour (WCL). The union would have 174 millions members.

Unionists believe such a united body would be:

- Better able to cope with global issues like outsourcing;
- Able to lobby internationally for union recognition of global giants;
- Efficient in handling workers' rights in a globalised economy; and
- Better integrate transnational sectoral unions such as textile workers.

Brent Wilton, Deputy General Secretary of the International Organisation of Employers, said the move would not have a big impact on companies, which tended to deal with national unions. *(FT, 07.12.04)*

West Targets Asia's Talent

Asians will constitute more than 30 percent of the global workforce in next 10-15 years. Richard Pinola, CEO of Right Management Consultants, said that developed countries are likely to face a skill shortage due to ageing population and the resultant social security crisis.

To meet the requirements of skilled employees, companies of UK and US have beefed up their internal re-employment and re-deployment measures. Companies worldwide are spending around 15 percent of their internal resources on skills assessment, development and re-deployment.

This is the reason behind expansion plans of HR companies, like Manpower Inc. and Right Management, to India. There is more relaxed regulatory environment in India and more corporate spending on HR skill development leading to a proper ground for such firms. *(BS, 10.11.04)*

Growing Migration of Women

Economic globalisation has led to a definite trend: an increase in international migration. A recent report of United Nations on the role of women in development points out that 60 percent of the world's migrants reside in the more developed regions.

The report suggests that the US had as many as 35 million migrants in 2000. It may be noted that as of 2000, 49 percent of all international migrants have been women or girls. Europe had the highest proportion of female migrants while western Asia and southern Africa had the lowest. Migrant women are exposed to higher risk of discrimination, exploitation and abuse as compared to their male counterparts or other female workers. In fact, migrant women face dual exploitation – as foreigners and as women.

The report calls for ratifying and monitoring the implementation of all legal implementations that promote and protect the rights of migrant women and girls. *(FE, 25.12.04)*

H-1B Visas Exhausted

The annual quota of temporary visas to US for highly skilled workers had exhausted for this year. This has made impossible for US companies to hire engineers, researchers and others that are critical for their competitiveness. The immediate exhaustion has surprised even the critics of the cap, who have been lobbying Congress to restore the quota of 195,000.

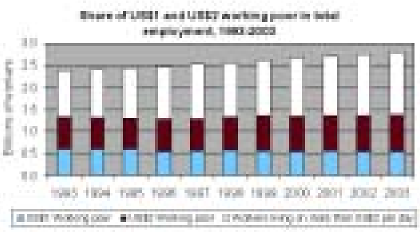
H-1B visas have been popular with US companies who could not find enough highly skilled American workers to fill critical jobs. US companies have been urging Congress to exempt from the quota foreign nationals who hold advanced degrees from US Universities. This would add about 20,000 positions each year.

Unfortunately, the H-1B programme is caught up in the maze of racial politics. The history of immigration in America has always been one of xenophobia. The attempt to allow more H-1B workers into the US is an important battle in this ongoing struggle. *(FT, 06.10.04 & 11.10.04)*

Poverty Rise Amid Workers

Half the world's workers are living on below US$2 a day, says a study by the International Labour Office (ILO). The key to reduce the number of working poor is creating decent and productive employment opportunities and promoting a fairer globalisation", said Juan Somavia, Director General, while releasing the ILO World Employment Report 2004-2005, in Geneva.

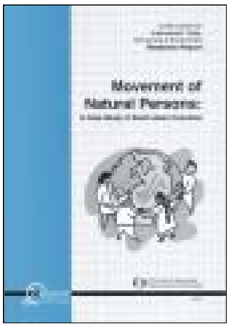
The report analyses the linkages between employment, productivity and poverty reduction. It argues that the benefits of productivity gains begin at the enterprise level, with lower costs of production and increased profits and competitiveness, and can benefit workers in the form of higher earnings and reduced working time.



Commenting on the fast expanding service sector, the report says upgrading the informal economy where most people work in many developing countries is vital. It also calls for more attention to increasing productivity and earnings in agriculture to take care of the large number of informally employed workers in this sector. The report also recommended policies to improve integration of small firms into the broader economy and to narrow the productivity gap with larger enterprises. *(FE, 07.12.04)*

Research Report

Movement of Natural Persons and South Asian Countries



South Asian countries, particularly India, are known protagonists of liberalisation of services trade under Mode 4. Now, more and more developing countries are joining them in raising this issue proactively. India is greatly interested in what are known as the Mode 1 and Mode 4 negotiations in the General Agreement on Trade in Services (GATS). The first relates to business process outsourcing (BPO), which has already raised a controversy with several States in the US banning shifting of such jobs from their domestic market to countries such as India. The second is what is known as "movement of natural persons" where India has been seeking more liberal rules in granting visas for independent professionals.

The study looks at the case of south Asian countries, which have got huge potential to increase their export of services through Mode 4. It focuses mainly on four countries – Bangladesh, India, Pakistan and Sri Lanka. However, there are several constraints that south Asian countries face in exporting their services under Mode 4 to developed countries.

It focuses on the significance of Mode 4 for South Asia, the kinds of barriers faced by these countries in supplying services through Mode 4, and how the GATS negotiations can be used to advance their export interests under this particular mode of service supply. Besides, the study also highlights the role of complementary domestic policy reforms and measures, which are equally important for harnessing benefits if trade under Mode 4 is liberalised.

(Suggested contribution Rs.100/US$25)

Briefing Paper

The End of WTO's Agreement on Textiles and Clothing: Opportunity or Threat?

The share of textiles and clothing (T&C) makes up less than six percent of world trade in merchandise. Still, this sector employs more than 40mn people globally, the majority being in the developing world. Indeed, in some developing countries the share of T&C in total exports exceeds 50 percent.

Import quotas have governed trade in T&C, since the 1960s. This system will phase out by the end of 2004 following a 10-year schedule, as decided during the Uruguay Round of trade negotiations (1986-1994). Manufacturing facilities have been gradually shifted to low-income countries, following a clear economic rationale, while industrialised countries remain strong in the four high valued segments, viz., design, research and development, technical textiles and luxury goods. The year 2005 will witness the abolition of quotas. This development is expected to benefit some countries, while some others may struggle to protect their T&C industries. *(Suggested contribution Rs.20/US$5)*

Newsletters

The current issue of this quarterly newsletter of the CUTS Centre for Competition, Investment & Economic Regulation (C-CIER) covers the business opposition of Competition law in various countries. It focuses on various micro, macro, and corporate and sectoral issues.

It discusses the Brazilian experience on independence of regulatory agencies, competition policy and trade liberalisation and Namibian competition law.

(Subscription Rs.150/US$30)

The year 2004 was marked with a change in the Indian Government, with the United Progressive Alliance (UPA) coming into power replacing the National Democratic Alliance (NDA) Government. 'Development with a human face' has been the mantra followed ever since by the UPA Government, as reflected through its National Common Minimum Programme (NCMP). The NCMP has been and still continues to be a subject of extensive debate at various levels and circuits.

CUTS C-CIER publishes a newsletter Policy Watch, providing a bird's eye view of the policy directives and decisions of the Indian Government. In addition to apprising the readers of the views expressed in various circles about the NCMP, the April-September, 2004 issue of the newsletter takes a look at various issues pertaining to governance, economic reforms and trade in the country.

(Subscription Rs.150/US$30)

SOURCES: ET: The Economic Times; BS: Business Standard; BL: The Hindu Business Line; FT: Financial Times; FE: The Financial Express; TH: The Hindu; BD: Business Day; AP: Associated Press; DJ: Dow Jones; TWN: Third World Network; IMF: International Monetary Fund; UNCTAD: United Nations Conference on Trade and Development

ECONOMIQUITY newsletter: Published and composed by CUTS Centre for International Trade, Economics & Environment (CUTS-CITEE), D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India, Ph: 91.141.228 2821, Fx: 91.141.228 2485 Email: citee@cuts-international.org, Website: www.cuts-international.org. Also at Delhi, Calcutta and Chittorgarh (India); Lusaka (Zambia); Nairobi (Kenya); London (UK). Printed by: Jaipur Printers P. Ltd., M.I. Road, Jaipur 302 001, India.