ECONOMIQUITY

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Why do the Rich Countries not take UNCTAD Seriously?

Ever since the World Trade Organisation (WTO) came into being in 1995, the United Nations Conference on Trade and Development (UNCTAD) has been under attack from the rich countries for doing excellent work for the developing countries in the international trading system.

First, let us take a look at UNCTAD's history. Often people have wondered as to why it is called a "conference". An anomaly, which no one has corrected till now. It is not just a conference but also an UN body like many others, such as the UN Environment Programme (UNEP). It is a derivative of the first conference which was held in 1962 in Geneva.

At that meeting nearly 4,000 official delegates from 119 countries, along with representatives of numerous international organisations had participated with a view to look at the linkages of trade and development. It was, perhaps, the largest international event ever held on any subject. In the 1990s, many more international meets did take place with a larger audience.

More than A 'Conference'

However, the first conference decided to make it into a permanent forum with a review meeting to be held after every three years. But one does not know as to why a proper name was not adopted. UNCTAD has become a standing body, and more than a 'conference'.

Humour apart, in the run up to the UNCTAD XI (June 13-18) there was quite a tussle between the North and the South about the Declaration. The US and the EU felt that UNCTAD should focus on capacity building, rather than on policy analysis. However, the South felt differently. And the São Paulo Consensus that emerged carried both the issues as UNCTAD's agenda. But refrain was sounded at the Sao Paulo meeting.

The British Minister for Trade and Investment, Mike O' Brien, clearly hinted that UNCTAD is not an alternative negotiating forum. He said, "UNCTAD should avoid doing what other (WTO) institutions are doing. We need institutions focussed firmly on their core mandate".

Even at earlier meetings, refrain had been sounded. At the Xth meeting at Midrand, South Africa, Harriet Babbitt, a Deputy Administrator at USAID said: "An operational role for UNCTAD in trade negotiations would involve a confusion of institutional roles and a diversion of limited resources to activities for which UNCTAD is not the best suited organisation."

The rich countries have not only tried to curb UNCTAD's role in the international trade arena, but over time have continued to show their increasing indifferences, which one can see from their participation at the meetings.

While most developing countries send their Cabinet-level ministers to UNCTAD meets, participation of ministers of equal rank from Organisation for Economic Co-operation and Development (OECD) countries has been declining. During the three earlier UNCTAD meetings in 1992, 1996 and 2000 only 12 of the 28 rich countries sent Cabinet ministers. In 2004, the figure dropped to half, that is, only six Cabinet level ministers attended.

Strong UNCTAD

Why does the South want a stronger UNCTAD? A good answer is available in what a senior government of India official said at the IX Session of UNCTAD: "If there are new issues, they should be subject to very careful examination and analytical work in UNCTAD on all the implications, and the balances of advantages and disadvantages analysed and disseminated to the people interested in it.

There should be a complete embargo on new issues in the WTO agenda unless it has been subject to very careful examination in UNCTAD." As usual this reflects the North-South conflict of interest in directing the future work of UNCTAD. The North's attitude towards UNCTAD has evolved due to several reasons.

Contd...

Significant Contribution

I would like to express my great appreciation for the article published in The Hindu Business Line on August 3, 2004. As you know very well, UNCTAD can use greater support in the press, not only to correct some widespread misconceptions about its role, but also to advance its cause. Your article made a significant contribution in this context.

I would also like to use this occasion to thank you very much for all the support you and your organisation have given to UNCTAD during my entire tenure. As you know, I will be ending my term as Secretary-General of UNCTAD in mid-September, but I am confident that the excellent relations between CUTS and UNCTAD will continue under my successor.

Rubens Ricupero
Secretary-General, UNCTAD

INSIDE

कट्स CUTS
1984 to 2003 Twenty Years of Social Change

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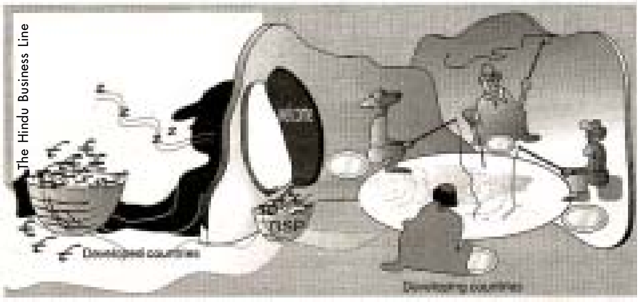
One, for example, UNCTAD has always been critical of International Monetary Fund (IMF) and World Bank (WB) policies. In the last few years when both the Bretton Woods twins are trying to be more legitimate UNCTAD issued a report in late 2002 criticising their new approaches to reduce poverty in Africa. Rubens Ricupero, Secretary-General, UNCTAD, also has been quite critical of the role of developed countries in pushing their agenda in the WTO rounds. In 2001, Ricupero criticised the tariff structure of developed countries and their lip service to the Doha Development Agenda (DDA).

He said: "The average tariffs that were effectively applied by the US, taking into account all imports, was 1.5 percent. But the average tariff on goods from Bangladesh was above 12 percent, while that on goods from France was less than 1.1 percent. Why is that so? The average hides the fact that there are tariff peaks concentrated on exports, such as those exported by Bangladesh, such as garments. Tariffs are not the most important component of protectionist policies."

After the WTO Ministerial Conference in Doha, Ricupero noted: "I myself have refrained from using the description of development round, because I do not see in any sense that it will be conducive to this result - the first condition, of course, is that unequal countries should be treated unequally. The weakest and most vulnerable must receive special and more favourable conditions."

The UNCTAD Research Reports also have often criticised the blatant exaggerations of the merits of liberalisation, freer trade and deregulated capital markets, all of which the West swears by *a la* the Washington Consensus Hence, most developed countries have identified UNCTAD as being an organisation, which primarily caters to needs of the South, and one that is far from providing a balanced platform for both – North and the South.



Agreement on GSP

But the role played by UNCTAD in pushing for a more democratic international trading system cannot be undermined. The agreement on Generalised System of Preferences (GSP) introduced in 1971 was negotiated under UNCTAD and not General Agreement on Tariffs and Trade (GATT). This agreement helped developing countries' exports to an extent of US$70 bn to receive preferential treatment in most developed markets every year.

Besides the GSP, UNCTAD was also responsible for the successful negotiations on the Global System of Trade Preferences (GSTP) in 1989, a scheme of preferential tariffs among developing countries only. In 1980, UNCTAD successfully pushed for the adoption of the Set of Multilaterally Agreed Principles for the Control of Restrictive Business Practices.

One of the most important contributions of UNCTAD is in the field of negotiating International Commodity Agreements, including those for cocoa, sugar, natural rubber, jute and jute products, tropical timber, tin, olive oil and wheat; and the negotiation of the Common Fund for Commodities (1989), set up to provide financial backing for the operation of international stocks and for research and development projects in the field of commodities.

Today the North is talking of reducing UNCTAD's scope to a mere capacity building institution. UNCTAD is probably the only international organisation that is pushing for equity and space for a fair trading system.

However democratic the WTO may seem, it is always the pressures behind the scene that influence the outcomes. This is exactly where UNCTAD comes into picture; trying to make the world a better place to live in!

FORUM

Glad to Participate

I would like to thank CUTS for the publication of the Afro-Asian Civil Society Seminar: "From Cancún to São Paulo". Deepest congratulations on the record time in which you published this very valuable and interesting book.

I am really glad I have participated in this interesting seminar. Keep up your good work and include me whenever possible.

Magda Shahin
Egypt's Ambassador to Greece

Keep Up the Good Work

I think your publication "We've been here before - Perspectives on the Cancún Ministerial" is an excellent reference. Despite an academic economist, I have long held the view that the most insightful commentaries on the trading system can be found in the popular press as opposed to academic journals.

The week after Cancún produced some of the most interesting reading on the predicament of the trading system, especially the precariousness of its future. In this regard, your book is a valuable reference, since it contains a number of commentaries about the WTO - before and after Cancún. Keep up the good work!

Bijit Bora, Counsellor
Economic Research & Analysis Division
World Trade Organisation

Simple Way of Communicating

About two years ago I met a CUTS representative at a workshop organised by the IDRC (International Development Research Centre, Canada) in New Delhi. Since then, I have been receiving CUTS newsletters and other publications with great interest. The Briefing Papers have gained a lot of popularity for their simple and concise way of communicating very important issues to general audience.

"Innovation for Poverty Reduction" is a project commissioned by the Swiss Agency for Development and Cooperation (SDC) in northern parts of Pakistan. Your newsletters and briefing papers hold a lot of relevance for the project. Kindly include them in your mailing list.

Arjumand Nizami
National Programme Coordinator - NRM Programme
SDC, Pakistan

Surge in Oil Price

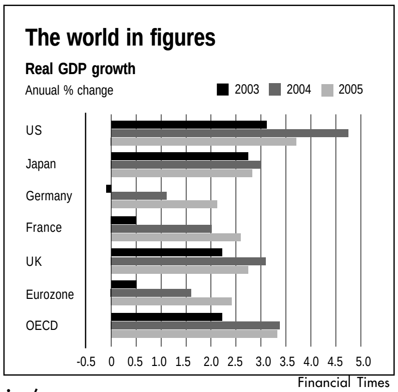
Oil prices surged to record high, sending global equity markets into broad retreat as a move above US$50 a barrel looked certain. "People are worried about higher oil prices cutting into profit margins," said Drew Matus, senior financial economist at Lehman Brothers.

Energy analysts said, rise in oil prices was far from over. "We could see oil price spikes over US$60 this winter if there are further supply disruptions," said Deborah White, energy analyst at Société Générale in Paris.

The Nigerian fighting and the killing of another foreign worker in Saudi Arabia have re-ignited supply jitters from the world's largest oil producing nation. US oil production, refining and imports have been hit by the brutal hurricane season this year, which is expected to affect supplies for up to two months. *(FT, 28.09.04)*

World Economy: Threats to Strong Recovery

The world economy is expected to grow at its fastest rate in four years in 2004. But the recovery is threatened by lagging eurozone performance and other factors. This was stated in OECD's twice-yearly economic outlook. With recovery gaining ground, inflationary pressures were likely to build.



Financial Times

In a similar report of the IMF (World Economic Outlook), it has been projected that unless the events take an "awful turn" the world economy will enjoy one of its strongest years of growth this year.

However, in another report prepared by the credit agency Fitch Ratings, record levels of global household debt are threatening economic growth and affecting some countries' ability to borrow money cheaply.

According to Anirvan Banerji, director of research at the Economic Cycle Research Institute, high US debt levels were unlikely to trigger a crisis, although they might exacerbate one if the housing market turned. *(FT, 12.05.04 & 02.07.04)*

Status of the Chinese Economy

The European Union (EU) will refuse to recognise China as a market economy. An in-depth inquiry by Brussels found the Chinese economy suffering from too much state interference, weak rule of law and poor corporate governance.

The findings deal a blow to the Chinese leadership, which has lobbied countries around the world to grant Beijing market economy status. Beijing has succeeded in winning over New Zealand, Singapore and Malaysia, but it has yet to pursued the world's biggest powers – the EU and US.

China has ordered the preparation of detailed rebuttals to the 'unfair' conclusions of the EU report. China has argued that it qualifies as a market economy according to the EU's criteria. The EU report found that China only cleared the easiest of the hurdles: establishing an "absence of state-induced distortions in the operations of enterprises linked to privatisation". *(FT, 28.06.04 & 29.06.04)*

Competitiveness: Europe & US

Europe is slipping further behind the US in competitiveness as the leaders in Germany, France and Italy fail to take advantage of the economic recovery to reduce taxes and over-regulation. After lagging US growth through the 1990s, European leaders embarked in Lisbon in 2000 on a plan to turn the bloc into what they called "the world's most competitive knowledge-based economy by 2010".

"Unless EU governments start doing their homework, we will never be able to compete with the US," said Reinhard Kudiss, an economist at the BDI association of German industry. The German Chancellor, Gerhard Schroeder's plans for cuts in jobless benefits to curb spending are meeting weekly street protests.

France's employers are hamstrung by a 35-hour workweek. Italy, Europe's most indebted nation, has promised tax cuts without saying how it will pay for them.

The US also ranks highest in world's knowledge competitive index. San Francisco is the most competitive knowledge economy, as investment in both technology and people continue to boost the city's productivity. *(FT, 13.04.04 & BL, 31.08.04)*

Japanese Pledge on FDI Stalled

A pledge by Junichiro Koizumi, Japan's Prime Minister, to double foreign direct investment (FDI) into the country has stalled after just one year. This calls into question his programme of structural reforms and indicating that significant barriers continue to impede FDI.

In a recent report, UNCTAD said that FDI flows into Japan in 2003 dropped from US$9.23bn to US$6.3bn. While there have been improvements in the banking industry, there are doubts about the pace and depth of the changes in other areas.

Among other factors, FDI is driven by cross-border mergers and acquisitions (M&A), and in two key areas Japanese government's commitment to M&A might be called into question:

- cross-border share-for-share transactions; and
- new regulations to defend against hostile takeovers. *(FT, 27.09.04)*

Linking India with Europe

Russia jointly with Azerbaijan and Iran will build a railway to increase the throughput of the north-south transport corridor, which links India with Europe. Railway heads of the three countries agreed to set up a consortium to undertake the construction of a 350km railway from the town of Astara on Azerbaijan's border with Iran through Resht to Kazvin on Iranian territory.

The US$177mn project will be launched in early 2005. Gennady Fadeyev, head of Russian railway Company, did not rule out India, Pakistan and Persian Gulf countries to join the consortium.

The project will be a part of the north-south transport link launched by Russia, India and Iran four years ago. The new route will cut shipment time by 10-12 days compared with the route through Suez Canal and will reduce transport costs by about 15-20 percent. *(TH, 24.05.04)*

Virtues of Public-Private Partnership

*– Dani Rodrik **

An attitudinal change on the part of political leaders that shifts policy frameworks towards a more market-oriented, private sector-friendly paradigm often plays a crucial role in boosting economic growth.

Most economists now agree that institutional quality holds the key to prosperity. Rich countries are places where investors feel secure in their property rights, the rule of law prevails, private incentives are aligned with social objectives, monetary and fiscal policies are solidly grounded, risks are mediated through social insurance, and citizens have recourse to civil liberties and political representation. Poor countries are where these arrangements are absent or ill-formed.

That investors evidently felt better protected in China than they did in Russia is perhaps no surprise to anyone who has observed the evolution of Russia's legal system over the last decade. But the important point is the gap between rules and how they are perceived.

To be effective, a formal legal regime protecting investors' rights requires a non-corrupt, independent judiciary with enforcement power. Setting up such a judiciary is difficult and takes time.

So the efficacy of enhancing property rights by rewriting domestic legislation - changing the formal aspects of the institutional environment - is naturally uncertain. That seems to have been the trap in which Russia's transition was caught for some time.

How did China evade this trap? The largest boom in "private" investment in China took place (at least until the mid-1990s) in Township and Village Enterprises (TVEs). These were firms in which local governments typically held ownership. Private entrepreneurs were effectively partners with government.

In a system where courts cannot be relied upon to protect property rights, letting the government hold residual rights in an enterprise may have been a second-best mechanism for avoiding expropriation. In such circumstances, the expectation of future profits can exert a stronger discipline on the public authority than fear of legal sanction.

Private entrepreneurs felt secure not because the government was prevented from expropriating them, but because, sharing in the profits, it had no interest in expropriating them.

This illustrates a broader point: there is no unique, non-context specific way of achieving desirable institutional outcomes.

China could provide a semblance of effective protection of private property despite the absence of formal rights. The Russian experience strongly suggests that the obvious alternative of legal reform would not have been nearly as effective.

We can multiply the examples. For instance, China provided market incentives through two-track economic reform rather than across-the-board liberalisation, which is usually the standard advice. In agriculture and industry, price efficiency was achieved not by abolishing quotas and planned allocations, but by allowing producers to trade at market prices at the margin.

In international trade, openness was achieved not by reducing import barriers, but by creating special economic zones with different rules than those applied to domestic production.

The good news is that everything we know about economic development suggests that large-scale institutional transformation is hardly ever a prerequisite for jump-starting growth. True, sustained economic convergence eventually requires high-quality institutions.

But the initial spurt in growth can be achieved with minimal changes in institutional arrangements. In other words, we need to distinguish between stimulating economic growth and sustaining it. Once growth is set into motion, it becomes easier to maintain a virtuous cycle with rapid growth and institutional transformation driving each other.

Ricardo Hausmann, Lant Pritchett, and I recently identified and examined more than 80 episodes of growth acceleration - in which a country increased its growth rate by two percent or more for at least seven years - in the period since 1950.

The surprise was not only that there were so many cases, but that the vast majority seemed unrelated to conventional economic reforms, such as liberalisation of trade and prices. To the extent that we can identify growth triggers, they seem to be related to relaxing constraints that held back private economic activity.

Even in the better-known cases, institutional changes at the outset of growth acceleration were typically modest. China's gradual, experimental steps towards liberalisation in the late 1970s were similar to South Korea's experience in the early 1960s.

After taking power in 1961, Park Chung Hee's military government moved in a trial-and-error fashion, experimenting at first with various public investment projects. The hallmark reforms associated with the Korean miracle - devaluation and a hike in interest rates - came in 1964 and fell far short of full liberalisation of currency and financial markets.

Such instances indicate that an attitudinal change on the part of political leaders towards a more market-oriented, private-sector-friendly policy framework often plays as large a role in boosting economic growth as the scope of actual institutional reform.

Such an attitudinal change appears to have had a particularly profound effect in one of the important growth miracles of the last quarter century - India since the early 1980s.

The trick is to identify the binding constraint on economic growth at the relevant moment in time. In South Korea in 1961, the major constraint was the gap between the social and private return on investment. In China circa 1978, the constraint was the absence of market-oriented incentives. In the India of 1980, it was government hostility to the private sector. In the Chile of 1983, it was an overvalued exchange rate. Of course, it is easier to determine these constraints after the fact.

We need to develop a framework for "growth diagnostics" capable of pinpointing where even a little reform can go a long way.

(Professor of political economy, John F. Kennedy School of Government, Harvard University, USA; ET, 21.09.04)*

WTO Accession: Different Stories

Vietnam has been told it will not be able to meet its declared goal of joining the WTO by January 1, 2005. This delay would mean difficulties for the country's garment industry, an important source of employment.

Hanoi had offered the WTO a commitment to cut average tariffs to 18 percent, down from the 22 percent average tariff proposed in earlier negotiations, and greater access to its sensitive services market. Although they praised Hanoi's latest concessions, members of a WTO working committee have asked for more improvements and clarifications.

On the other hand, Cambodia moved closer joining the WTO, when its Senate approved its accession. The government hopes that this move will help protect its billion-dollar garment industry. The country was admitted to the global trading group at its meeting in Cancún.

(FT, 24.06.04 & 07.09.04)

Dropped Out of the GSP List

The European Commission is mulling the exclusion of China, Brazil, India and Indonesia from low import duty rates. It called that trade preferences to be targeted at poor countries.

"We are going to concentrate our generalised system of preferences on countries most in need…that's not China and may be not India, Indonesia or Brazil," Commission offcial Philippe Cuisson said. The Commission is discussing what products should lose trade preferences from Brazil, India and Indonesia.

The EU review ties in with the phasing out of global textiles quotas at the end of this year. Small developing countries such as Bangladesh and Sri Lanka are heavily involved in the textiles trade. They fear that they will be pushed out of the EU market at the expense of China. They are calling for the EU to relax its rules of origin on textiles.

(BS, 30.09.04)

Sour over Chinese Culinary

Kimchi, a spicy side dish made of fermented cabbage, garlic and red pepper, is the symbol of Korean cuisine. But in a blow to national pride, growing amounts of the national food are being imported from neighbouring China.

This highlights the threat posed to South Korea's food and agricultural industries by low-cost competition from its giant neighbour. "Making Kimchi requires lots of labour because it cannot be easily mechanised, so China has an advantage because its labour costs are much lower," said Han Eung-Soo, professor at South Korea's agricultural cooperative college.

Seoul has maintained steep tariffs on many agricultural imports to protect its farmers. But China, seeking to reduce its US$13bn trade deficit with South Korea, is pressing for greater access to the country's market. *(FT, 03.06.04)*

Ready for Big Gains

China and India stand to at least triple their individual shares of the US clothing market after textiles import quotas are abolished next year. This was according to a study prepared by the WTO.

As the deadline (abolition of the quota regime from January 1, 2005) approaches, textiles industries in both rich and poor countries have become fearful about the impact of Chinese and Indian competition. There was a call for extending the quota regime.

But a senior WTO official said there will be no reprieve for the decades-old international textiles quota system. "It's a deal that's already been done. It can't be undone," said Cheidu Osakwe, director of WTO's textiles division.

(FT, 29.04.04; BL, 17.07.04 & ET, 13.08.04)

Help Poor to Gain from Trade

Britain proposed that rich countries increase development aid to help poorer nations implement far-reaching reforms needed to equip them to gain from international trade.

A joint report by the Treasury and the Department of Trade and Industry (DTI) calls for more institutional support for investment in infrastructure and education and for the removal of structural barriers to growth in the poorest countries. It strongly supports further trade liberalisation, saying all economies would gain by opening their markets.

Britain has prepared a study highlighting the economic costs of protectionism. It finds that the net loss to global income as a result of protectionism is US$500bn a year.

In another policy paper, the DTI called for international trade policy to be linked more closely to development policy. "The benefits of trade come at least as much from imports as from exports," said Patricia Hewitt, the trade and industry secretary.

(FT, 19.05.04, 06.07.04 & ET, 20.05.04)

Freeing Trade is Not Cure-all: WTO

Governments will miss out on the benefits from freeing trade if they fail to run their economies well in other ways. This was according to the annual flagship publication of the WTO – World Trade Report 2004.

It argues that the following are necessary for countries to achieve gains in economic efficiency from reducing barriers to trade:

- good macroeconomic policies;
- reliable infrastructure; and
- a functioning domestic market.

Business Standard

The report reflects frustration in the WTO that trade liberalisation is sometimes touted as a cure-all for poverty and slow growth, rather than as one part of a wider process of reform. "We cannot let people believe that trade is the only thing that can help relieve poverty," said Supachai Panitchpakdi, the WTO Director-General.

The report noted that in many developing countries, the increased cost of trading because of poor roads, inefficient ports and stifling bureaucracy exceeded the effect of actual trade barriers. African countries had the highest freight costs in the world, twice the global average.

WTO economists had earlier projected that this year world trade in goods could rise by 7.5 percent as the economic recovery strengthens. *(FT, 06.04.04 & 17.09.04)*

Split over Trade Deal

John Howard, the Australian Prime Minister, refused to bow to pressure to amend a key free trade agreement (FTA) with the US. He said that the proposed change were unworkable.

The opposition Labour Party is pressing the centre-right government to alter FTA provisions that would affect the Pharmeceutical Benefits Scheme, the country's medicine subsidy system. The dispute has divided the business community and legal experts are unsure how to tackle the issue, a complex one that involves patent law.

Labour wants to impose heavy fines on drug companies that seek to exploit the partial deregulation measures in the FTA by using patent laws to prevent or delay the sale of cheaper generic drugs. The Australian Medical Association, the medical sector's chief lobby group, has backed this proposal.

On the other hand, the Business Council of Australia said that the government should accept the amendment because it was not significant enough to warrant derailing the FTA. The Australian Chamber of Commerce and Industry said, it had concerns about Labour's amendment because of the risk to patent laws. *(FT, 06.08.04)*

Japan-ASEAN FTA

Japan and ASEAN have agreed to launch formal trade negotiations next April with the target of seeing a FTA within two years. Japan is pursuing a full spectrum of trade deals with increasing urgency.

This shift is seen as a reaction to moves by China to lead a regional free trade movement. Beijing has already proposed a trade pact with ASEAN. Japan is potentially huge market for agricultural products from ASEAN countries but the country's powerful farming lobby is opposed to liberalising the sector.

Japan has reached consensus on agricultural trade with Mexico. It has signed a trade agreement with Singapore. Bilateral negotiations are under way with Malaysia, Thailand and the Philippines. It is also exploring trade deals with South Korea and Australia.

(FT, 06.09.04)

Peru Pushes for FTA

Peru wants to accelerate negotiations on a FTA with the US. The agreement is the crux of its plan to create jobs in the Andean country. Peru is coordinating the negotiations with Colombia and Ecuador.

It wants to use the trade agreement to be less dependent on its gold, silver, copper and natural gas, and to buffer the economy against price fluctuation of natural resources. It also hopes to find a larger market for textiles and farm products such as lemons, asparagus and mangoes.

"We are little bit of a conflict with China because our market has been inundated with textiles, but we are taking it to the WTO," said Alejandro Toledo, the Peruvian president. "We're trying to learn from Mexico's mistakes." *(FT, 21.09.04)*

Policy Shift in Malaysia

Malaysia's economic tie with two of its biggest regional trading partners, Singapore and Australia, are improving. Kuala Lumpur has shifted towards a more conciliatory policy under the new government of Abdullah Badawi.

Malaysia and Singapore are planning to set up a bilateral business council and a US$2.6mn fund to finance joint investment missions abroad. Such moves have been prompted by a recognition that Malaysia and Singapore must counter growing competition from China and India for FDI.

Australia's move to start free trade talks with Malaysia would overcome years of strained relations. Australia is pushing for a regional trading deal with the 10-member Association of South East Asian Nations (ASEAN). It has already concluded free trade deals with two ASEAN countries: Singapore and Thailand. *(FT, 05.07.04)*

Hit by WMD Fears

A unique trade accord between the EU and Syria failed to gain support from three EU member states. Britain, the Netherlands and Germany made it clear that they would continue to block it unless references to weapons of mass destruction (WMD) were toughened up.

The accord, clinched last December, is unprecedented because it contains a 'conditionality' clause on WMD. It says that Syria should comply with its commitments to the nuclear proliferation treaty, as well as curbing exports of chemical, biological and nuclear materials.

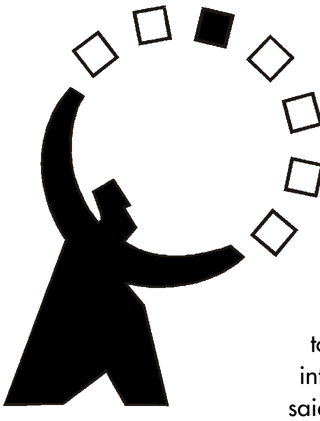
If it does not, then member states could threaten to suspend the trade accord. However, the EU has rarely invoked its conditionality clauses on human rights because member states often fail to agree unanimously.

(FT, 18.05.04)

Closer Ties in South Asia

South Asian Free Trade Area (SAFTA) is expected to be operational from January 1, 2006. EVKS Elangovan, Indian deputy minister for commerce, expressed his confidence while addressing captains of Indian industries at a SAARC (South Asian Association for Regional Cooperation) Economic Cooperation Conference. He iterated that India's approach towards SAARC was positive and constructive.

Speaking at another conference jointly organised by the SAARC Chamber of Commerce and Industry (SCCI) and Federation of Indian Chamber of Commerce and Industry (FICCI), he pointed out how the India-Sri Lanka FTA had brought significant benefits to both the countries. Both the countries were now keen to engage in wider economic cooperation by including trade in services and investment beyond FTA in goods.



Macky Hashim, president of SCCI, said that several barriers still existed in the intra-regional cooperation and integration. There was a need to take effective steps for removal of barriers taking into consideration other vital aspects involved, he said. *(BL, 21.08.04)*

Let the Pleasant Trade Winds Blow

– Joseph E. Stiglitz *

In the year since the breakdown of the trade talks in Cancun, sentiment has increasingly grown in the developing world that no agreement is better than a bad agreement. But what would a good agreement look like?

The British Commonwealth recently posed this question to me and the Initiative for Policy Dialogue, an international network of economists committed to helping developing countries. Our first message was that the current round of trade negotiations, especially as it has evolved, does not deserve even to be called a development round.

Well before the riots that marked the WTO talks in Seattle in 1999, I called for a true "development round" of trade talks to redress the inequities of previous rounds.

The advanced countries, with their dominant corporate and financial interests, had set the agenda for those negotiations. Whether or not developing countries benefited was of little concern. Indeed, in the last round of trade negotiations, the Uruguay Round (UR), the world's poorest region, sub-Saharan Africa, was actually made worse off.

Our second message was optimistic: if the agenda of the current round is reoriented towards development, and if assistance is provided to manage implementation and adjustment costs, developing countries can gain much.

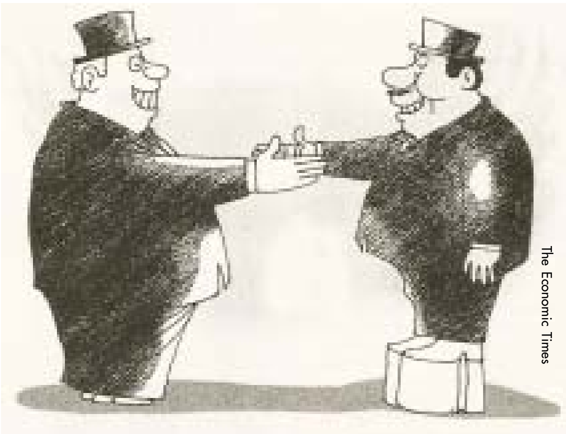
We analysed which reforms in the international trade regime would most benefit those in the developing world, and we presented an alternative agenda based on our findings.

The results were perhaps obvious: more people live from agriculture in the developing world than from manufacturing, so agricultural liberalisation must be high on the agenda.

But genuinely beneficial agricultural reform would need to go further than merely transforming export subsidies into other types of subsidies, because many supposedly non-distorting subsidies lead to more output, which hurts producers in developing countries by lowering prices.

Trade reforms must be sensitive to the effects on developing countries, many of which are net importers of subsidised agricultural commodities. But some subsidies, like cotton subsidies in the United States, are rightly emblematic of America's bad faith. Eliminating this subsidy would help 10 million poor cotton farmers in sub-Saharan Africa. American taxpayers would also benefit. The only losers would be the 25,000 rich farmers who currently divvy up US$3-4 billion in government hand-outs each year.

Developing countries' gains from capital market liberalisation have been widely noted (although recent studies raise some doubts about these benefits). Nevertheless, the



global gains from allowing freer flows of unskilled labour (even temporarily), let alone the benefits to developing countries, far outweigh the benefits from capital market liberalisation. But, as I said, this issue is not on the agenda.

The trade talks in Cancun raised new subjects — the so-called Singapore issues. But even a cursory look at these items reveals that they primarily reflect the interests of developed countries. Indeed, poor countries' development would arguably have been set back if they had acquiesced in some of the demands.

Consider the issue of government procurement. The single largest area of US government procurement is defence, a sector in which even the European Union has found it difficult to make inroads. Are developing countries really targeting this area in the next few years? Clearly, this issue is not high on their agenda.

Competition is another example. Without competition, lowering tariffs may merely be reflected in higher profit margins for a monopoly importer. The most important competition issue for developing countries, however, is reform of dumping duties. The US and EU keep out products from developing countries, alleging that they charge less than the cost of production.

But why would anyone knowingly sell at a loss? This could only be rational if the seller can hope to establish a monopoly position and extract large profits in the future. But few developing countries are in a position to establish such monopoly positions, so the dumping charges are mostly bogus.

As tariff barriers have come down, the unfair "fair trade" laws are increasingly being used as America's favoured protectionist tool. Treating foreign and domestic firms the same with respect to competitive practices would stop these abuses. This, too, should be a high priority of a true development round.

The breakdown of the Cancun talks may yet provide an opportunity for deeper reflection. Now that rich countries no longer need to worry about losing the developing world to communism, they have an opportunity to redefine the global economic order according to the same principles on which they built successful national economies: fair competition and social justice. Unfortunately, this opportunity was squandered in the UR, as developed countries advanced their own interests at the expense of less developed countries.

The round of trade negotiations begun in Doha in November 2001 was launched in a different spirit. It aspired to promote trade as a vehicle of partnership between developed and developing countries. Regrettably, in spite of its name, the development round has offered far less to developing countries than one would have hoped.

(Professor of Economics at Columbia University, USA and a member of the Commission on the Social Dimensions of Globalisation; ET, 23.07.04)*

Brazil Wins Sugar Dispute

Brazil scored its second triumph in less than two months at the WTO. It ruled that the EU's sugar subsidies give its farmers an unfair advantage on global sugar markets.

Sugar is one of the EU's most heavily subsidised crops. The government support have helped European sugar producers become the second-largest exporters in the world, behind Brazil, which is also the largest sugar producer.

The ruling will strengthen the hands of developing nations as they want to reduce farm subsidies in the rich nations by as much as 20 percent. The decision could also trigger a fresh wave of complaints at the WTO.

The WTO had ruled in favour of Brazil in late June in a landmark case against the billions of dollars in annual subsidies that the US pays cotton farmers. "It's going to be very interesting to watch whether Brazil in particular is going to use its legal victories in cotton and now sugar to mount other cases," said Gary Hufbauer, a senior fellow and trade specialist at the Institute for International Economics in Washington DC. *(NYT, 06.08.04)*

Spat over US Apples

The US secured a WTO panel to investigate its claim that Tokyo has failed to implement a WTO ruling against Japanese quarantine requirements for US apples. A US demand for trade sanctions on Japanese goods worth US$143.4mn a year has been separately referred to WTO arbitrators.

In December, last year, the WTO ruled that Japan's strict quarantine regulations to protect against the import of fire blight were not scientifically justified. This is a disease that affects apple trees. Tokyo was given until the end of June to change its rules. *(FT, 03.08.04)*

Homegrown Crisis in Mercosur

Mercosur, the South American trade bloc, stumbled into a homegrown crisis. Argentina decided to impose trade barriers on imported electronic and household appliances from Brazil.

Buenos Aires levied a temporary 21 percent import tariff on television sets and imposed a special import licence for white goods, such as stoves and refrigerators. The move caused surprise in Brazil's government circles and anger among its business leaders. "Clumsy, unnecessary, and short-sighted," said one Brazilian diplomat.

"There is no more reason for the existence of Mercosur," said Maurice Costin, head of trade at the São Paulo industry federation. Roberto Lavagna, Argentina's economy minister, sought to play down the dispute, saying it was an isolated matter. *(FT, 07.07.04)*

India Notched Up A Gain

India has notched up a major gain at the WTO in the dispute with the EU on tariff preferences extended by the European Commission under its drug arrangements window of its GSP. This system accords duty-free entry into the EU market to developing countries.

The WTO appellate body (AB) has held that the EC "failed to demonstrate that the drug arrangements are justified" under relevant provision of the Enabling Clause. The ruling will provide some relief to apparel exporters, who are otherwise disadvantaged due to duty concessions to Pakistan under the drug arrangements.

"The findings of the panel and the AB in this dispute is also a timely reminder that trade policy instruments cannot be used to serve political objectives," an official release issued by the Ministry of Commerce of India claimed.

During the proceedings, New Delhi clarified that it did not dispute EU's right to give financial assistance to individual developing countries facing problems pertaining to drug production and trafficking. However, this could not be done at the expense of other developing countries facing different but equally pressing needs. *(BL, 08.04.04)*

Shrimp: What A Delicacy!

In April, a small group of US shrimp producers petitioned before the US International Trade Commission (US-ITC) against imports of shrimp from six countries – India, Thailand, China, Vietnam, Ecuador and Brazil.

The petition was worth US$2.4bn. The Southern Shrimp Alliance claimed that the growth in imports, which comprise more than 80 percent of the US market, had made their catches unprofitable.

In July US imposed preliminary tariffs on more than US$1bn in shrimp imports from China and Vietnam. A preliminary anti-dumping duty on shrimp imports from India was also imposed. However, these decisions will not become final unless the US-ITC rules early next year that US shrimp fishermen have been hurt by the rising imports. *(BL, 03.04.04; FT, 07.07.04 & FE, 02.08.04)*

WTO Rules against Byrd Amendment

The WTO allowed EU and seven other WTO members to impose up to US$150mn a year in sanctions on the US. The ruling was against the US failure to repeal the Byrd amendment: the law requires the US customs authorities to distribute the proceeds of anti-dumping and anti-subsidy duties to the companies that initiated the cases.

The ruling will certainly fuel anti-WTO sentiment in the US congress. It will also add to transatlantic trade frictions as the US presidential election campaign goes into top gear. Since the Byrd amendment was enacted in 2000, about US$800mn has been paid out to makers of ball-bearings, steel, candles and pasta, among other products.

The Financial Express

Pascal Lamy, EU trade commissioner, said: "I hope the US will now take action to remove this measure, thus avoiding the risk of sanctions." The European Commission has already drawn up a list of politically sensitive US products it targeted in the trade dispute over US steel safeguards last year.

Reacting to the ruling, the US said it would continue to impose duties on countries that dump their goods on its market. Chinese imports have accounted for about a third of all anti-dumping and countervailing duties collected by the US authorities in recent years. *(FT, 01.09.04 & FE, 02.09.04)*

Failing Debt Relief

International efforts to lighten the debt burden on the world's poorest countries are failing to provide the expected level of relief. Charity groups are hoping that the annual progress report by the WB and IMF will add to pressure on wealthy countries to write-off 100 percent of the debt of the most impoverished states.

The Highly Indebted Poor Countries Initiative (HIPC) was set up eight years ago with the aim of eliminating US$100bn of the debt of the poorest countries. So far about a third of the debt has been cancelled some estimates suggest HIPC countries still have about US$90bn in debt stock.

Reacting to this, Max Lawson, policy advisor to Oxfam, said: "We welcome signs that the G7 appears be moving towards a full write-off of debt. The HIPC process - though positive - has been painfully slow." *(FT, 14.09.04)*

"Reduce Policy Risks…"

The annual World Development Report 2005 of the WB ("A Better Investment Climate for Everyone") has come to the conclusion that in order to accelerate growth and reduce poverty, governments must reduce the policy risks, costs and barriers to competition.

"Expanding jobs and other opportunities for young people is essential to create a more inclusive, balanced and peaceful world," the report said. The report points to the following challenges that national governments need to address if investment climates are to improve:

- coming to terms with corruption;
- enforcement of laws;
- building public support for policy improvements; and
- ensuring that lessons from others are not mechanically transplanted without critically looking at suitability. *(BL, 29.09.04)*

Corruption Costs US$1tn

Contrary to common perception, corruption is rampant not only in the developing but also in developed countries, with more than US$1tn being paid in bribes in each year across the globe. This was according to Daniel Kaufmann, director of World Bank Institute's (WBI's) Governance Programme.

He noted that a calculation of total amounts of corrupt transactions is only part of the overall costs of corruption, which constitutes a major obstacle to reducing poverty, inequality and infant mortality in emerging economies.

WBI research shows that countries that tackle corruption and improve their rule of law can increase their national incomes by as much as four times in the long term and child mortality can fall as much as 75 percent.

According to another report prepared by the US Senate's Foreign Relations Committee, corrupt use of WB funds may exceed US$100bn and while the institution has moved to combat the problem, more must be done. *(BS, 15.05.04 & BL, 02.08.04)*

Recognise Cultural Diversity

Countries must recognise and embrace cultural diversity in their own minorities and in immigrant communities if they are to develop in a globalising world. This was stated in the annual Human Development Report of the United Nations Development Programme (UNDP).

It argues that cultural diversity is as much a necessity for human development as democracy and economic opportunity. It advocates federal political systems, acceptance of multiculturalism, and affirmative action for disadvantaged groups.

It also says cultural differences cannot be used to deny core non-negotiable values such as human rights, rule of law, gender equality and tolerance. Citing India with more than 600 language groups, it says India's citizen's are more deeply committed to their country and to democracy than many long-established western democracies. *(FT, 16.07.04)*

Asia Faces Catastrophe

Asia faces an AIDS catastrophe if the region does not take tougher steps to prevent its spread. This was according to a report prepared by the UNAIDS. It also warned that combating the AIDS epidemic will require annual spending of US$20bn by 2007, four time today's level.

Peter Piot, executive director of UNAIDS, said: "Asia is in a similar sort of position to Africa 15 years ago. This is not a time to misread the signals, with Asia facing life-and-death choices in preventing a full-blown AIDS catastrophe."

In 2003, more than 10mn young people aged 15-24 years were living with AIDS. Out of this, 62 percent were in Africa and 22 percent in Asia. *(FT, 07.08.04)*

Lessons from Shanghai

The developed world's interest in global poverty is "near a low point". This was stated by James Wolfensohn, President of the WB at a conference in Shanghai, which looked at new approaches to the problem.

The aim of the conference was to take the debate about poverty away from "big picture" solutions to practical local options that can

Down to Earth

'travel' to other countries. "There will be a jumble of solutions, because there is no silver bullet to fix poverty," he said.

He used the occasion to declare that the "Washington Consensus" with its emphasis on open markets, fiscal stringency and privatisation has been long dead. There is no one size that fits all, and the key lies in learning from successes. Some key lessons learnt were:

- Empower local communities to control the way the money set-aside for them is spent, because the poor must be in the lead to find solutions to their poverty;
- Most successful efforts to reduce poverty are joint ones in which government, NGOs and local groups cooperate; and
- Pay attention to transparent functioning and close monitoring.

(FT, 26.05.04 & BS, 31.05.04)

Emerging Economies Need Help to become Dynamos

– Rubens Ricupero *

Recent indicators point to a rebound of the world economy, largely due to the strngth of the US recovery. Job creation is on the rise in the US, as witnessed in three consecutive months of increases; Japan appears to be emerging from recession and overall, the world's economic prospects look better than they did a few months ago.

What is less widely publicised, however, is the contribution of developing countries, particularly those classified as emerging economies, to this reinvigoration of global economic activity. Few people probablky know, for instance, that sales to the developing world currently account for nearly half of all US exports and for one third of those of the EU. How many reaslie that China's massive import demand is a big reason for the new dynamism of the Japanese economy?

A new international economic configuration is emerging in which developing countries - particularly those with high rates of economic growth - are becoming dynamos of economic activity. The world as a whole stands to gain from this major structural evolution.

Yet not only does this new, healthy facet of interdependence tend to be neglected, but more worryingly, it is looked uppon with apprehensiion and even with hostility by some - on the grounds that it entails relocation of industrial activity and services jobs overseas, including via outsourcing.

While this structural evolution may lead to job losses in advanced countries, it should be recognised that these short-term costs will ultimately be trumpied by long-term gains through the increasing availability of cheaper services to consumers in both advanced and developoing countries and, as we have begun to see, by increasing demand among developing countries for goods and services originating in the developed world. It is therefore in the interests of the international community to facilitate the emergence and consolidation of this new economic configuration.

This entails action on two fronts. First, market access should be improved for products from developing countries. This can be secured both through multilateral trade negotiations under the WTO and through regional and bilateral trade agreements. Second, we should ensure that developing countries can strengthen their supply capacity and diversify away from the supply of primary commodities into the production of goods and services with dynamic demand.

The ideal conditions on both fronts: it is easier for advanced countries to make trade concessions and provide support when their economies are growing than when they are trapped in economic lethargy.

The 11th session of the UNCTAD, taking place this week in Brazil, is the main UN ministerial meeting on development issues this year and will address the twin objectives outlined above.

In addition, the meeting will break new ground by trying to identify the kinds of national policies required to translate increased opportunities for trade in developing countries into development gains and poverty reduction. This link has been viewed by some as virtually automatic.

However, the experience of numerous developing countries has shown that trade alone is no guarantee for development. Latin America's impressive trade performance, for example, has failed to offset the impact of six years of negative per capita growth and there are 20mn more poor people today in the region than in 1997.

The conference will consider in detail the kinds of policies required to ensure that trade becomes a force for poverty reduction. This means exploring ways to optimise the impact of FDI and of technology transfer on the economic development of these countries.

It means ensuring compliance with commitments made by their developed partners for the provision of official development assistance and debt relief measures. And it means identifying the essential features of successful domestic development strategies.

This meeting can be used to help restore confidence in the potential of international trade to help economic development by addressing the concerns of developing countries. Market access and supply capacity must be developed in tandem so as to secure real development gains for poor countries - particularly the least developed among them. This is the sole means of ensuring a flourishing trading system and an international environment which is sustainable in the long run.

(Secretary-General of UNCTAD; FT, 15.06.04)*

New Round of GSTP Launched

Developing-country ministers meeting in São Paulo for UNCTAD XI launched the third round of trade negotiations under the GSTP. In the "São Paulo Declaration", they envisage a "package of substantial trade liberalisation commitments" to promote economic complementarities among them.

The GSTP is reserved for the exclusive participation of members of the Group of 77 and China. It must be based and applied on the principle of mutuality of advantages in such a way as to benefit equitably all participants, taking into account their respective levels of economic development and trade needs. The Agreement recognises the special needs of the least developed countries (LDCs) and envisages concrete preferential measures in their favour. To date, 43 countries have ratified/ acceded to the Agreement.

(UNCTAD Press Release, 17.06.04)

"Dirty Dozen" List Under Fire

A "dirty dozen" list of industrial chemicals blamed for causing deaths and birth defects will be outlawed by a UN pact with many experts wanting other poisons added to the blacklist.

In May this year, the 2001 Stockholm Convention on Persistent Organic Pollutants entered into force after ratification by 50 countries. It called for ending the use of a range of pesticides, dioxins and polychlorinated biphenyls.

"The Convention will save lives and protect the natural environment...by banning the production and use of some of the most toxic chemicals known to humankind," said Klaus Toepfer, head of the United Nations Environment Programme. *(ET, 17.05.04)*

Road Tax Rattles "Gas Guzzlers"

The French government is ironing out the kinks in a radical green road tax. The move will sharply push up the cost of purchasing four-by-four vehicles, people-carriers and high-performance sports cars.

Drivers of outsize sports utility vehicles and other "gas guzzlers" will have to pay a tax of up to US$3,900 on new models from next January. This is part of a controversial air pollution prevention plan championed by the environment ministry. The scheme will also encourage purchases of smaller, cleaner vehicles by handling consumers tax credits or cash of up to US$850.

Politicians elsewhere in Europe are also taking aim at 4X4 vehicles, with London mayor Ken Livingstone calling them "completely unnecessary" and their owners "complete idiots".

However, industry observers believe that the measure could discriminate in favour of the two big French car manufacturers. PSA Peugeot Citroen and Renault, which account for about 60 percent of French new car sales, are heavily weighted towards the production of small and mid-sized cars. *(FT, 03.07.04)*

Shrimp Farming and Environment

The explosive growth of shrimp farming in developing nations, many in Asia, has caused a "shocking environmental crisis" of deforestation and pollution. This was highlighted in a report prepared by the London-based Environmental Justice Foundation.

The farming of shrimps has increased rapidly in a number of poor countries, with Thailand, China, Indonesia, Vietnam and Bangladesh the top five producers by weight. The report detailed a series of environmental costs such as the destruction of mangrove forests and other wetland areas, while the use of dangerous chemicals had contribute to a build-up of pollution. *(ET, 20.05.04)*

Failure of Emission Plans

The European Commission is to start legal action against six EU states for failing to submit their plans to cut carbon-dioxide emissions. This is a sign that Brussels is struggling to maintain the EU's commitment to address climate change concerns.

EU's environment commissioner, Margot Wallström said that her preliminary analysis of national plans submitted was that many were too generous in the allocations granted to the companies. "Too many advances and a resulting low price will create little incentive to change behaviour," she said.

The Commission has written to some countries to ask for clarification about their submitted plans, including Germany, which is likely to have the most significant influence on carbon prices across the market.

The scheme is set to force companies that exceed their national allocations to buy extra allowances from more efficient companies, or face heavy fines. However, according to a report of the Carbon Disclosure Project, international companies are showing an "increased sense of urgency" about climate change. The Project is an institutional initiative that calls on companies to reveal how prepared they are. *(FT, 20.04.04 &19.05.04)*

Global Methane Initiative

The US, which had evaded signing the Kyoto Protocol, would join Australia, Japan and others in an international climate change initiative to recover and use methane as a clean energy source. Methane is the second most abundant greenhouse gas after carbon-dioxide.

The Methane to Markets Partnership will be officially launched in November at a function in Washington DC. The US will commit US$53mn over five years to the initiative. It is intended to reduce global methane emissions to:

- enhance economic growth;
- promote energy security; and
- improve the environment by reducing greenhouse gas emissions. *(FE, 04.08.04)*

'Greening' of Financial Sector

The 'greening' of the financial sector has been gathering speed since the WB's "equator principles" were launched. A succession of banks has declared support for stringent commitments to the environment. Citigroup and 25 other big financial institutions have signed the equator principles – an agreement to adhere to the International Finance Corporation's social and environmental safeguards.

But environmental activists are stepping up campaigns, accusing banks of failing to implement their promises. BankTrack, an international network of non-governmental organisations, has launched an attack on banks saying they have violated the agreement.


The Hindu Business Line

"NGOs still have some hope for the principles," said Michelle Chan-Fishel of Friends of Earth. "But if the equator banks continue to finance controversial deals, pursue an anti-environmental lobbying agenda and cloak themselves in secrecy and unaccountability, public confidence will be irretrievably lost."

The NGOs also criticised 11 equator banks for warning the WB not to accept a recommendation by the Extractive Industries Review to phase out lending to coal and oil projects. *(FT, 04.06.04)*

The Greening of Growth

*– James D. Wolfensohn **

When the world's leaders met at the Millennium Summit four years ago, they agreed on a set of goals aimed at cutting global poverty in half by 2015. They also set targets for the environment, because they understood its centrality to long-term economic growth, human development and the stability of the planet. The problem is that today, ten years shy of when the 2015 goals are to be met, progress on the environment is alarmingly slow. So much more is possible.

The phase-out of ozone depleting substances through the Montreal Protocol, for instance, shows what can be done when the international community works together. Thanks to the protocol, it is estimated that up to 20mn cases of skin cancer and 130mn eye cataracts will be avoided.

This kind of success should encourage us. But now we need to match our action with the scale of the challenge. Our world is not only unbalanced, but endangered.

Deforestation is increasing, with almost 100 million hectares lost in the last decade alone - much of it due to millions of poor farmers in Africa and Latin America being forced to cut down trees because they have no other access to land or energy sources.

At the same time, carbon dioxide emissions are rising: the European Union's target is to cut greenhouse gas emissions by eight percent by 2010; but with current policies, only 0.5 percent will be achieved. Of the world's faunae, 12 percent of birds, 24 percent of mammals, and 30 percent of fish are either vulnerable or in immediate danger of extinction.

The environmental challenge is even more stark in developing countries, where five billion of the earth's six billion people live. In these nations, the environment is linked directly to human development and to poverty. More than a billion people in developing countries lack access to clean water; more than two billion have no access to basic sanitation. Five to six million people, mostly children, die every year due to waterborne diseases, such as diarrhoea, and air pollution.

On current trends, the millennium targets for the environment will not be met. What needs to be done? As a starting point, we must recognise the fundamental imbalance in the global environmental equation. Richer countries do much of the environmental damage. Accounting for only 15 percent of the world's population, they cause 50 percent of global carbon dioxide emissions - with all their implications for climate change. But the poorer countries pay much of the 'costs' - losing up to eight percent of their gross domestic product (GDP) per year due to environmental degradation, as well as suffering devastating effects on health and human welfare.

The Economic Times

Rich countries' larger contribution to environmental damage means that they must shoulder greater responsibility for fixing the problem. That means changing the way they produce and consume energy - reducing subsidies, ensuring appropriate pricing, and adequately taxing environmentally damaging products.

It also means providing more resources to developing countries for environmental conservation. Between 1990 and 2000, financing for environmental concerns followed roughly the same path as overall development assistance flows: it stagnated. Aid for the environment averaged about US$2bn per year - far short of what the international community, first at the Rio Summit in 1992 and then at the Johannesburg Summit ten years later, said, was needed. In terms of global priorities, this figure compares with the US$900bn that the world currently commits to military expenditures each year.

If the war on environmental degradation is to be won, we need a major turnaround. In this connection, three areas can help speed up progress:

- Developed countries must set the example by moving toward environmentally friendly production and consumption patterns, including more control of greenhouse gas emissions and use of innovative mechanisms such as Carbon Funds to buy offsets (reductions in greenhouse gases) from developing countries. Richer countries must also increase bilateral and multilateral aid commitments. Reversing the declining trend in contributions to the Global Environment Facility (GEF) would be a good start. Since its inception in 1991, GEF funding has declined by almost ten percent as a share of the combined GDP of the 38 contributing nations.
- Developing countries must improve their policies governing the critical sectors of water, energy, transport and trade, including pricing policies. This would help reduce consumption of scarce natural resources. Beyond this, environmental concerns must be integrated more fully into development policymaking.
- The international community must make a much more serious commitment to renewable energy, efficiency, and other environmentally friendly energy sources. A business-as-usual approach would mean that by 2030 carbon dioxide emissions would be 70 percent higher than today, and renewable energy would account for a mere 4 percent of total energy usage, up from two percent now. We need the kind of common effort launched a generation ago in agriculture that led to the Green Revolution.

Another two billion people will be added to global population over the next 25 years – the vast majority in poorer nations – with huge demands for energy and economic growth. If that growth is not achieved in an environmentally sustainable way, its effects on poverty and human well-being will be disastrous. It will be too late 25 years from now to make the right choices. For the sake of our children and our children's children, we must act now.

(President of the World Bank; ET, 05.06.04)*

Standards Down Sharply

The standards for approving patents in the US have fallen sharply in recent years. This is according to a book titled "How our Broken Patent System is Endangering Innovation and Progress and What to do about it".

Adam Jaffe of Brandeis University and Josh Lerner of Harvard Business School argued that the patent approval process in the US is in a dreadful state of decline. From 1983 until last year, the number of applications tripled to 55,418. The number of approvals rose at abut the same rate from 59,715 to 189,597, according to the US Patent Office.

However, the authors claimed that the rate of approval is much higher than those figures suggest. This is because a significant number of new patent applications were previously rejected and have been refilled.

They said patents are easily approved because "underpaid, inexperienced and overworked patent examiners" are pushed "to resolve cases as quickly as possible".

(FT, 21.06.04)

End Up Paying Big

Intellectual property rights (IPR) have often been accused of benefiting only the rich. But the tables have turned on electronic giant Sony when they had to pay millions of euros after they lost a patent infringement case for the Sony walkman. Such cases are galore:

- John North who invented the vacuum cleaner won a patent suit against Electrolux and got a compensation of US$17mn.
- Charlie Hall, a 24-year student at San Francisco State University, built a water bed. He applied for a patent in 1969 and received it two years later. In 1991, he successfully sued Intex Plastics for copying his design and won US$4.8mn.

(BS, 06.06.04)

Clash over IPR Regime

Brazil and Argentina called for a "development agenda" at the World Intellectual Property organisation's annual meeting. This had set the stage for a clash over the future of intellectual property protection.

Intellectual property protection is a means of promoting innovation and the transfer and dissemination of technology and "cannot be seen as an end in itself", the proposal by the two countries said.

Brazil has been in the vanguard of moves to ensure IPR enshrined in international pacts do not override public interest or development needs. This reflects its domestic agenda, which includes promotion of generic drugs and open source software.

(FT, 14.09.04)

Patently Failing to Cash On

South African research institutions are failing to patent their research at a sufficient rate. This will have potentially serious implications for the economy, according to the Department of Science and Technology.

An international comparison showed that South Africa's annual patent rate was only 2.5 patents per million people, compared to 779 in South Korea and 75 in Australia. South Africa earns the bulk of its international royalties for music, and energy or mining-related patents.

According to Adi paterson, the Department's chief operating officer, dismal patent rate was due to:

- lack of skills at tertiary institutions;
- insufficient incentives; and
- absence of a solid regulatory framework. *(Business Day, 09.09.04)*

Menace of Software Piracy

More than one in three programmes running on computers around the world are illegal copies of software. According to a survey by the IDC research firm, while US$94.5bn was spent globally last year on software applications, another US$54bn worth was illegitimately installed. The survey was carried out on behalf of Business Software Alliance (BSA).

The piracy rate rose dramatically in parts of Asia and eastern Europe. China and Vietnam recorded a 92 percent rate, with Ukraine at 91 percent, Indonesia 88 percent and Russia and Zimbabwe 87 percent. The lowest rates of piracy were the US's 22 percent, New Zealand's 23 percent and Denmark's 26 percent.

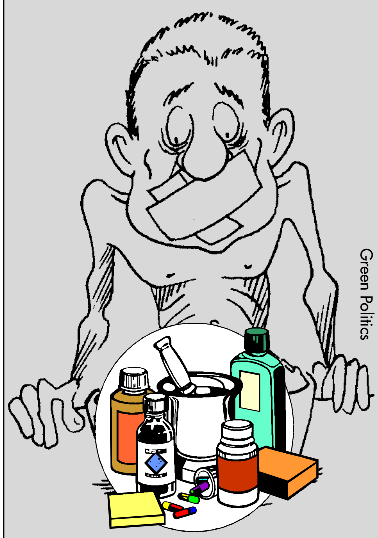
The BSA, whose members include Microsoft, Intel, IBM and Apple, said regional differences were caused by factors such as:

- software prices relative to income;
- strength of intellectual property protection;
- availability of pirate copies; and
- cultural differences. *(FT, 08.07.04)*

"No Bar" to Drugs in Poor Countries

A new dispute has erupted over drug patents in developing countries. A report prepared by Amir Attran, a fellow at the Royal Institute of International Affairs in London, claimed only 1.4 percent of 'essential' medicines are protected by patents in poor countries.

He analysed the World Health Organisation's list of essential drugs and found that only 19 of the 319 drugs were covered by patents. By analysing patent applications for



Green Politics

these drugs in 70 countries, he concluded in 98.6 percent of cases the developing nations faced no obstacle in purchasing generic versions of the recommended drugs.

The data shows that "poverty, not patents, imposes the greater limitation on access," he said. However, the research was denounced by activists who said it obscured the real obstacle posed by patents.

James Love, director of the Consumer Project on Technology, a non-profit lobby group, said the real issue was the impact on healthcare when new global patent rules are implemented next year.

"It is a debate about the future, not the past. The noose is tightening as we speak. It is not realistic to say that because of behaviour a few years ago, drug patents do not matter," he said. *(FT, 05.05.04)*

Not Many to 'Nurse'

Hospitals in the US are feeling the pinch on account of shortage of nursing professionals. The American Nursing Association has reported that an estimated 126,000 nursing jobs were lying vacant across US hospitals.

The US is increasingly looking at India as a source for nurses, as the flow from Canada, Ireland and the Philippines dried up. The demand for nurses in the US is on an ascent due to increase in number of senior citizens.

Countries like UK and others are also recruiting Indian nurses in large numbers. But the quality of nursing profession in India needs to be further improved, said P Krishna Murthy, registrar of AP (Andhra Pradesh – a state in India) Nursing Council.

In a related development, the US senate judiciary committee has recommended temporary suspension the regulation requiring all healthcare professionals to obtain a VisaScreen certificate. This certificate, issued by the Commission for Graduate of Foreign Nursing Schools, verify that their education, licence and experience are equivalent to that of a US healthcare worker. *(ET, 10.04.04 & 28.09.04)*

Jobs Trend Better in Europe

Europe has done better than the US at creating jobs and the EU's employment rate has climbed while America's has shrunk. This is according to an European Commission report: Employment in Europe (annual report comparing trends in the US and EU from 1998 to 2003).

"Contrary to the general view of sclerosis in Europe, it is Europe which has been a job machine," the report said. It found that US industry has lost almost 2.5mn jobs in the five-year period while EU industry added 390,000, thanks to booming activities in some countries.

The findings could help dispel growing concerns in Europe about the relocation of jobs to other countries. The issue of 'delocalisation' has sparked particularly heated controversy in France and, to a lesser extent, Germany. *(FT, 24.09.04)*

US Offshore Jobs to Rise

While reinstating the earlier projections of 3.3mn US services jobs going offshore by 2015, Forrester has increased its near-term numbers by 240,000 for 2005 in comparison with the November 2002 projections. The research and consultancy firm now projects 830,000 jobs to shift offshore by the end of 2005.

Offshoring, says Forrester, will be the catalyst from turning attention from growth to efficiency in the services sector of the US economy. By the end of 2003, 315,000 jobs had been shifted offshore.

US-based services and technology vendors like IBM, PeopleSoft, Agilent, and Accenture have scaled up their operations in places like India, China and the Philippines. *(FE, 18.05.04)*

Remittances: India on Top

Remittances by the Indian diaspora touched a new high of US$18.3bn in 2003. This makes India the highest recipient of worker remittances in the world. Other top countries are Mexico ($13.2bn), the Philippines ($7.6bn), Brazil ($5.2bn), and Colombia ($3.1bn).

Interestingly, remittances have been strong, despite the tech-meltdown in the US and the general slowdown in the global economy. Bankers do not rule out the possibility of a reverse migration and a part of the remittances reflecting in-homing of Indians bringing back their savings.

Most of the emerging markets have been receiving higher amounts through worker remittances than through other channels like foreign investment and official debt.

(ToI, 06.04.04)

'Sweatshop' Report Released

The Fair Labour Association (FLA), an anti-sweatshop initiative backed up by Nike, Reebok and others, produced its most comprehensive report so far on its efforts to improve working conditions in the global supply chain.

FLA's second annual report provides information on conditions at 110 sub-contracting factories in 20 countries. It was based on unannounced visits by FLA-accredited monitors.

The report recorded problems such as inadequate overtime and benefit payments, and violation of safety requirements. It also highlights the challenge to promote standards in the fragmented international supply chain, where an individual brand sub-contractors to scores of factories round the world. *(FT, 20.08.04)*

ILO Laments Lack of Basic Economic Security

The vast majority of world's people are living in countries that provide little basic economic security. According to the International Labour Organisation (ILO), this provides the breeding ground for "a world full of anxiety and anger".

Its study says that providing people with basic economic security fosters individual well-being and is beneficial for growth and social stability. Economic security is also linked to political democracy and civil liberties, as well as government spending on social security.

Guy Standing, head of the ILO's socio-economic security programme, said, economic and social insecurities were multiplying with globalisation and the policies associated with it. The ILO report is based on household and workplace survey covering more than 48,000 workers and 10,000 enterprises worldwide.

Economic security index

Rank	Country	ESI
1	Sweden	0.977
2	Finland	0.947
3	Norway	0.926
4	Denmark	0.910
5	Netherlands	0.865
6	Belgium	0.829
7	France	0.829
8	Luxembourg	0.813
9	Germany	0.793
15	UK	0.736
25	US	0.612

Source: ILO

Over 90 countries representing more than 85 percent of the world's population were rated on various forms of work-related securities, such as:

- income protection and inequality;
- accidents at work;
- unionisation;
- skill acquisition and use;
- unemployment; and
- informal working. *(FT, 02.09.04)*

A PAN for the Wild West Too

*– Suresh Prabhu **

The world is celebrating Christmas, or so it seems, at the wrong time of the year. The mood is upbeat but underneath the festivity there lies a sombre reality, something that all of us need to know.

After a lot of uncertainty and amid the fear of collapse of the Doha round, surprisingly at Geneva, in the General Council, all have agreed to take the talks forward. Having cleared the decks on some of the most contentious issues, both the sides are claiming victory.

As things stand today, the fine print does not appear to substantiate the claims of either side — protection and sustainable development. In fact, it appears that the rich have managed to get away with murder (of carrying the most irrational regime of subsidies forward), by agreeing to reduce it from what is allowed by the WTO.

Rather than moving away from this regime in a planned timeframe and with a changed (out of the box) thinking, we have agreed that this be perpetuated in the developed world. This is aimed at protecting the already protected western agriculture markets.

Nowadays, we are constantly engaged in several multilateral negotiations and also a large number of international conferences on diverse subjects like AIDS, sustainable development, environmental and social issues, millennium development goals (MDGs), the works. The world community is busy innovating newer ideas to debate.

The issues may be different but there is one theme that commonly emerges: almost in all the pressing problems, the rich countries expect the poor to take action and the poor in turn demand resources for implementing these actions, and rightfully so.

Unfortunately, so far the west has not provided their poorer counterparts with any resources to fulfil these lofty ideals. The classic example of this is the MDG declaration committing to remove world poverty by making a beginning to reduce it by half by 2015.

The WB has already stated in the World Development Report for 2004 that external assistance would be very crucial for realising this goal. Unfortunately, no resources have been forthcoming.

Sometime back, the International Union for Conservation of Nature (IUCN) had organised a large conference of NGOs in Durban called World Park Congress. The theme of the conference was as follows: six billion human beings had used all the available landmass for their own habitation, agriculture, manufacturing and so on.

In the process, man had encroached upon the natural habitat of wild animals. The ecosystem, therefore, was threatened. So, we need a totally protected area network (PAN) that is out of bound for humans.

This would allow the protection of biodiversity and conserve some very precious biological resources, which cannot be created by human beings. The participants were happy because the number of protected areas and their total extent had more than doubled since 1992. But the environmentalists were concerned on how to bring more areas under PAN.

Two things were very obvious. First, the developing world must bring more areas under PAN. You can't expect this from the developed world because they have very little biodiversity left with them due to indiscriminate industrialisation and in the quest of attaining economic growth.

Second, the rich must provide the requisite resources and in sufficient quantities so that the poor countries can realise that goal.

These are important decisions that need to be implemented, but as in all other such decisions, in this instance too everyone is waiting for the rich to wear their philanthropic cap some day.

The governments of the developed nations certainly would respond to these demands by citing their own set of problems, ranging from fiscal deficits, their ageing infrastructure waiting for more investments and funds needed in their own countries for modernising health, education, etc.

This is now a well-known phenomenon. For, we have been talking of global action in many instances but no money is put where the mouth is.

We need to change the rules of these negotiating games where poor demand money and rich offer verbal, moral but no financial support. Let's begin with, say, the PAN issue.

Two things are required: land for protection and conservation, and money to bring about implementaion, and for compensating the loss of possible agriculture revenue from this land, suffered on that score. Now it's this "opportunity cost" that the conservationists had demanded in Durban.

Similarly, in Geneva trade negotiators from 147 countries agreed to work out a new deal on several subjects, most importantly, agriculture. The developed world pays almost US$350bn on trade-distorting domestic subsidies.

We have a scenario wherein the poor can carry out agriculture, in the process create employment, remove poverty, export more and demand no money from the rich. What is that the rich need to do? Convert their farmland into PAN. It's a win-win situation for all.

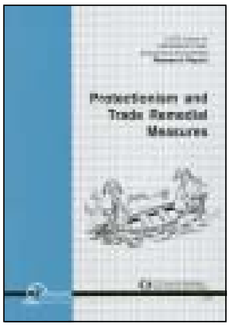
It's in conformity with the principles of free trade that its proponents have been preaching to the poor for so many years now. So, now what's economically viable sustains, as the artificial support of subsidy is removed.

We need not expect money for MDG, AIDS, and also for PAN from the rich. Equity will be restored in protected areas, as there would be more areas under conservation. WTO negotiators need not burn midnight oil to create an impression of an agreement when there is none.

Can't we try this to bring about convergence of some of the most diverse and complex negotiations and give some well-deserved rest to fatigued negotiators? It should satisfy all as we still provide the protection we are clamouring for. In any case, why support agriculture that is economically unsustainable? Swap it instead with real sustainable development.

(Member of the Indian Parliament and former chairman, Task Force on Interlinking of Rivers; ET, 09.09.04)*

Protectionism and Trade Remedial Measures



Many have argued that there is no economic rationale behind the use of trade remedial measures and therefore, they should be scrapped. According to this school of thought, the use of trade remedial measures is often guided by protectionist tendencies and causes more harm than good to the country imposing such a measure. The other school of thought argues that the use of trade remedial measures is warranted in order to protect the domestic industry from unfair trading practices.

In the WTO acquis, three types of trade remedial measures are recognised. These are anti-dumping, countervailing and safeguard measures. They do not constitute a homogenous group. A careful examination of these three measures reveals that the use of anti-dumping (AD) measures is more frequent as compared to the remaining two. In fact, looking at the trend of imposition of anti-dumping measures, it can safely be said that such measures have become synonymous with trade remedial measures. Their use over the years has increased exponentially. Developed and developing countries alike are imposing more and more anti-dumping measures.

This paper examines how protectionism has influenced the use of trade remedial measures. It examines the trends of imposition of trade remedial measures. This trend clearly shows that countries have found anti-dumping measures a safe haven for extending protection to domestic industries. In order to highlight the protectionist nature of anti-dumping measures, the paper looks at the manner in which the countries have interpreted the WTO agreement on anti-dumping. The paper also makes a comparison between anti-dumping measures and safeguard measures.
(*Suggested contribution Rs. 100/US$25)*

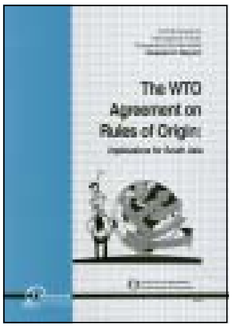
FDI in South Asia: Do Incentives Work?
A Survey of the Literature

Over the last two decades or so, along with trade barriers, countries around the world have progressively dismantled restrictions on foreign direct investment (FDI). Countries as diverse as China, Mexico, Brazil and India have progressively lowered barriers to entry in sector after sector to bring in new sources of capital, increase competition to spur productivity growth, and accelerate the pace of technological progress.

The moot question is, why, in spite of having a friendly FDI policy, the majority of developing countries so far have been unable to attract enough foreign investment? In fact, in South Asia (in particular in Bangladesh, Pakistan and Nepal), the inflow of FDI has actually declined in the recent past. Secondly, there is little conclusive evidence indicating that domestic firms benefit from foreign presence in their sector. Multinational corporations have been successfully preventing information leakage that would enhance the performance of their local competitors in the same industry.

The present paper has looked at the understudied issues of FDI policies in South Asia, particularly from the point of view of the effectiveness of performance requirements imposed by host countries and the costs of accompanying incentives. The survey of theoretical literature on performance requirements indicates that a case can be made for imposing such requirements in South Asia, particularly from the welfare point of view. As regards the costs of incentives, which a country offers to foreign firms, so far only a few studies have tried to quantify them. These incentives are normally given as *quid pro quo* with performance requirements. But, in the bargain, it has been found, these incentives tend to be particularly costly over a period of time. (*Suggested contribution Rs. 100/US$25)*

WTO Agreement on Rules of Origin:
Implications for South Asia



The importance of rules of origin (RoO) has grown significantly over the years. The recent and rapid proliferation of preferential trading agreements and the increasing number of countries using RoO to discriminate in the treatment of goods at importation has focused considerable attention on this issue. RoO can be divided into two categories: non-preferential and preferential.

Non-preferential RoO defines the origin of goods mainly for statistical purposes and for the application of trade measures such as tariffs, quotas, anti-dumping, countervailing duties, etc. Preferential RoO, which is often more stringent, is defined by members of a preferential trade area to ensure that only goods which originate from one of the member countries benefit from a preferential access at importation. It is more evident that RoO are increasingly used by the developed countries to regulate the trade flow. By varying the degree of transformation required, countries are able to use the RoO to control the degree of preference granted. In fact, RoO are being used as a tool for policy and to control market access – often by product or by industry.

The paper tries to critically examine the WTO proposal on the harmonised rules of origin. The study has looked at its implications on South Asian countries, especially India. Further, in view of the contentious nature of the RoO pertaining to textiles, and the big stakes involved for South Asia, the study places special emphasis on textiles and clothing.
(*Suggested contribution Rs. 100/US$25)*

SOURCES: ET: The Economic Times; BS: Business Standard; BL: The Hindu Business Line; FT: Financial Times; FE: The Financial Express; TH: The Hindu; NYT: New York Times; ToI: Times of India; BD: Business Day

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