TRADE FOR DEVELOPMENT
he Doha Development Agenda, which emerged from the WTO ministerial conference in 2001, acknowledges the need to focus on developing country concerns regarding global trade and its effect on poverty reduction and development.

On the eve of the WTO ministerial meeting in Cancun, major challenges remain and several issues need to be revisited. Our Special Report provides a forum where prominent trade specialists can express their views, present their research findings, and make recommendations. We intend this collection of essays to serve as background reading for the development community at large, to acquire a better understanding of the issues that will be discussed in Cancun.

The Special Report opens with an article by T. Ademola Oyejide, who examines the linkages between trade reform and growth. Sok Siphana presents a successful experiment in Cambodia, where “mainstreaming” trade contributed to alleviating poverty. Kevin Watkins warns us that agricultural support in the form of subsidies and tariffs in industrial countries is adversely affecting poor farmers in developing countries. Julio Nogués, too, focuses on agriculture, and points out that lack of coherence between the trading system and the international financial system hurts agricultural exporters in developing countries; he refers in particular to Argentina. Kennedy Mbekeani traces the positive impact that reforms in infrastructure will have on economic growth. Bernard Hoekman offers his view on the controversial concept of more favorable treatment for developing countries. Richard Newfarmer discusses the prospect of an international investment agreement to expand trade and promote development. John S. Wilson examines the role of trade facilitation in the global context. Finally, Will Martin explains how China used the WTO as an instrument to tailor its own successful trade policies.

We welcome our readers to join the debate, and send us their opinions on the topic of trade for development.
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China, Egypt join WTO's Information Technology Agreement

CHINA AND EGYPT, ON 24 APRIL 2003, joined a WTO agreement on removing all tariff barriers to information technology products such as personal computers and telecom equipment. The Committee of Participants on the Expansion of Trade in Information Technology Products approved the participation of the two countries, which became the 58th and the 59th members of the WTO’s Information Technology Agreement (ITA). From the 29 participants that negotiated the ITA during WTO’s First Ministerial Conference in Singapore in December 1996, membership has now risen to 59 that account for 95 percent of world trade in IT products.

This WTO agreement is helping push the information technology revolution forward. Beginning in 2000, most of the world trade in information technology products (worth $828 billion in 2001 for office and telecom equipment, a large part of which are IT products) became completely free of tariffs under ITA. Participation in the ITA means that the country must eliminate tariffs and all other duties and charges on covered IT imports from all WTO members. For more information visit: www.wto.org

Emission reduction initiative gets new donor

THE COMMUNITY DEVELOPMENT CARBON FUND (CDCF) was advanced in May with an agreement between the Ministry for the Environment and Territory of Italy and the World Bank. According to the terms of the agreement, Italy will contribute $7.7 million to the Bank’s newly established Community Development Carbon Fund (CDCF) and receive in return certified emission reductions from small projects in least developed countries and poor communities in all developing countries. These projects will measurably improve the quality of life of the communities involved. The CDCF is focusing on a flexibility mechanism of the Kyoto Protocol, the Clean Development Mechanism, which will allow OECD countries to fulfill some of their greenhouse gas emission reduction commitments through projects in the developing world. The Italian signing follows a Canadian government commitment of $2.5 million to the CDCF. Carbon finance activities have taken on a new sense of urgency as evidence continues to mount that the Earth is getting significantly warmer, and that some changes in climate are inevitable. For more on the Prototype Carbon Fund visit: www.prototypecarbonfund.org/splash_noflash.html

Horn of Africa gets first Country Innovation Day

AT THE END OF FEBRUARY, a mix of civil society representatives met in Addis Ababa to compete for award funding and share knowledge in the first Development Marketplace Country Innovation Day in the Horn of Africa. Bringing together social entrepreneurs from Ethiopia, Sudan, and New South Sudan, the three-day forum focused on empowerment of community-based organizations, strengthening NGO networks, and establishing a bridge among these communities. The integrated package of peace building and civil society empowerment was supported by approximately $500,000 in awards. Award funding came from the World Bank, Canada’s bilateral aid agency, CIDA, Ethiopia and Global HIV/AIDS Program, Ireland Aid, UNDP, and Oxfam UK. Additional Country Innovation Days are scheduled in the upcoming months in Egypt, Central Asia, Belarus-Ukraine-Moldova, Peru, Guatemala, Brazil, and Vietnam, as well as a global competition currently open to all in the development community.

For more information, visit www.worldbank.org (click on Opportunities, click on Grants, click on Development Marketplace).
As this issue of Development Outreach goes to press, the fate of the Doha Development Agenda hangs in the balance. Most of the important deadlines Ministers set for themselves in November of 2001 in Doha, Qatar—on agriculture, TRIPS and health, implementation issues (including textiles), special and differential treatment, and dispute settlement—have come and gone without agreement. Though some progress has been made (for example on facilitating WTO accession for the Least Developed Countries), the missed deadlines reflect the struggles of the international community in reforming the trading system to make it more supportive of development and poverty reduction.

This issue of Development Outreach touches upon all of the controversial issues in the Doha Development Agenda. We are pleased that such a distinguished panel of international experts has taken up the challenge to write concise papers that highlight pro-poor development outcomes of the Doha Development Agenda. Not everyone will agree with the positions taken by the authors on the difficult trade issues they analyze—but all aspire to search for pro-poor development results.

Several common themes stand out. First, market access for developing countries is essential to promote pro-poor development. However, benefits from trade reforms and liberalization would be more effective if combined with appropriate complementary policies. For example, Ademola Oyejide underscores the importance of a stable macroeconomic framework as well as sound institutional support, and argues that these can help mitigate any short-term costs. John Wilson emphasizes measures to increase transparency, streamline trade procedures, and build capacity that would facilitate trade and reduce transaction costs.

Second, reforming agriculture is central to development. Kevin Watkins highlights the costs inflicted upon developing country markets from rich country protection of agriculture. Measures such as subsidies, high tariffs and export dumping seek to undermine poverty reduction efforts. Julio Nogués shows how agricultural protectionism can result in increased financial costs and aggravate debt problems, with reference to Argentina.

Third, any agreement in the Doha round is not necessarily a pro-poor development outcome. Some authors point to possible pitfalls in the system. Bernard Hoekman points out that trade preferences without MFN access for the products produced by other developing countries will not benefit the majority of the world’s poor, since most of the world’s poor live outside the LDCs. Richard Newfarmer, for example, finds that an international agreement on investment would be beneficial for developing countries only if an agreement leverages market access in products of concern to developing countries and if companion domestic policy reforms are undertaken.

Other authors write eloquently on these same themes through the lens of quite diverse country experiences. Sok Siphana points out that lessons can be learnt from Cambodia’s experience in implementing its trade policy. Kennedy Mbekeani presents the case of Southern Africa Development Committee (SADC) countries, which highlights the need for greater liberalization of the services sectors and a more favorable outcome from the GATS for the less developed regions of the world. Will Martin shows how the Chinese experience of accession to the WTO can be helpful for many other developing countries seeking to gain membership in the WTO.

Negotiators are dealing with hard issues, many left over from earlier rounds—tariff peaks and escalation that have protected particular interests at the expense of development, agricultural barriers that have protected powerful and relatively wealthy farm voices while denying market access to the world’s poor farmers, and closed services markets—including labor services—that have not realized their development potential. These are also the issues that affect developing countries most profoundly. A trade round that makes progress in these areas can improve the lives of the world’s poor. We hope this issue of Development Outreach contributes to an understanding of possible pro-poor outcomes.

Uri B. Dadush is Director, International Trade Department, The World Bank
WIDESPREAD POVERTY is clearly the major challenge for low-income developing countries. It is characterized not only by insufficient incomes, but also by limited access to land and capital, poor health and education, and the scarcity of economic and social infrastructure. Given the pervasive nature of poverty in these cases, rapid and sustainable economic growth is generally viewed as the primary vehicle for poverty reduction. The basic proposition is that if the economies of low-income countries grow rapidly enough and their income distributions are not unusually skewed against the poor, poverty reduction should occur. If, in turn, trade reform stimulates growth, this should promote poverty alleviation. In my note, I will bring the issue of trade and development into focus by examining the linkages between trade reform and growth, and the mechanisms through which growth impacts upon poverty.

Trade reforms and economic growth

IN CONCEPTUAL TERMS, TRADE POLICY WORKS by inducing substitution effects in the production and consumption of goods and services through changes in prices. These effects, in turn, change the level and composition of exports and imports. In particular, the changing relative prices induced by trade reform cause a re-allocation of resources from less efficient to more efficient uses. In addition trade reform expands the set of economic opportunities by enlarging market size and increasing the effects of knowledge spillovers. These are the key components of the effects of trade reform, which together induce growth of output.

The full efficiency, output and associated welfare gains of trade reform tend to accrue in the long run. The substitution effects and the more efficient re-allocation and use of resources resulting from relative price changes take time to work themselves out. The time taken may vary by sector (in a given economy) and across countries due to differences in the efficiency with which particular markets function and the extent to which supply response capacity constraints may be binding.

The realization of the growth effect of trade reform in a low-income country is contingent on two sets of conditions, one internal and the other external. Internally, trade reform is most effective when it is combined with the maintenance of macroeconomic stability and sound institutions. In addition, the liberalizing country must have the appropriate infrastructural and institutional support for generating adequate supply responses. The growth benefits of trade reform are likely to be limited or elusive in low-income countries which lack a supportive policy environment and whose entrepreneurs are constrained by weaknesses in the institutional and market infrastructure for production and trade. On the external front, a supportive environment may also be crucial. In particular, external market access constraints may deny a low-income country the full growth benefits of its trade reform.

Since developed countries constitute the main export markets of low-income countries, developed-country market access barriers limit their export opportunities. Currently, global market access barriers penalize low-income countries because their exports are concentrated in products characterized by highly restrictive market access conditions. External market access barriers are especially high in agriculture and labor intensive manufactures with tariff peaks (i.e. tariffs in...
excess of 15 percent) and tariff escalation constituting special problems. With tariff escalation, tariffs rise with the level of processing; this has the effect of reducing the demand for processed imports from low-income countries, preventing appropriate structural adjustment in developed countries and frustrating the diversification of low-income countries into high value-added exports. In addition, production-related support for agriculture in developed countries boosts their own output and this displaces low-income country exports in developed-country markets. Furthermore, the unwanted production surpluses of developed countries are typically dumped into world markets, with the aid of export subsidies, where they depress prices.

A coherent program for enhancing the growth benefits of trade reform in low-income countries consists of at least two components. One is to expand external market access opportunities for the exports of low-income countries. Another is to help relax their supply response capacity constraints so that they can take fuller advantage of the new opportunities. By
reducing or eliminating biases against the exports of low-income countries in developed country markets, part of the first component would be achieved. By extending multilateral duty-free and quota-free market access, with generous and flexible rules of origin, to all exports of low-income countries, the developed countries would help to achieve the remaining part of the first component. This would help to eliminate the deficiencies of existing preferential market access schemes and significantly increase the export growth of low-income countries. As for the second component, low-income countries need assistance to address their export supply response capacity constraints through investment in the building of appropriate economic and social infrastructure.

Trade-led growth and poverty alleviation

Economic growth that is induced by trade reform has a special feature, which may be important for poverty alleviation. This derives from the observation that trade reforms have costs that have to be incurred well before the related stream of benefits can be realized. The resource reallocation, which is an integral part of the reform process, is not costless. As workers are displaced from less efficient enterprises, some amount of transitional unemployment and output loss may be experienced. There is also an inherent distributional problem. The economic agents that have to bear the “burden” of the reform may not necessarily be the ones who reap its benefits or the sharing of the cost may not occur in the same proportion as the sharing of benefits. In effect, while trade reform tends generally to promote economic growth, it is also likely to generate both winners and losers; hence the impact of trade-led growth on poverty reduction may not necessarily be unambiguous.

Conceptually, growth induced by trade reform may affect the poor through the associated changes in the prices of their consumption baskets, changes in their wages and employment, as well as changes in government taxing and spending behavior. For instance, a reform which benefits poor farmers by increasing their producer prices may hurt the urban poor by raising their food prices; whereas a reform which lowers the domestic prices of imported food would be beneficial to poor consumers while penalizing the local poor food producers with low prices. When trade reform leads to the growth of economic sectors that employ more of the poor and pays them higher wages, it tends to promote poverty alleviation. But if the same reform results in retrenchment in a previously protected economic activity that employs many of the poor, their poverty status may worsen. Finally, if a trade reform leads to the reduction of government revenue, social expenditure may fall with a negative impact on the poor.

These are examples of some of the possible short-term costs and trade-offs implicit in a growth strategy that is driven by trade reform. In the long run, however, evidence suggests that in countries which have experienced trade-led growth, the income growth of the poor has, on average, kept pace with the overall average income growth. More specifically, trade-led growth can reduce rural poverty when it expands employment in small-holder agriculture and can lower urban poverty when it is associated with increased output and export of labor-intensive manufactures such as textile and clothing.

The existence of possible negative, though short-term, effects of trade reform implies that while trade-led growth should eventually reduce poverty, it may not do so from the start. Because some of the poor may suffer and some of the non-poor may fall into poverty in the transitional period, trade reform is typically part of a comprehensive reform program, which also includes appropriate compensatory and mitigating measures. These would offer social safety nets, including retraining opportunities, targeted specifically at addressing the short-term costs of trade reform.

Conclusion

Trade reform can stimulate growth in low-income countries if their supply response capacity constraints are eliminated and the external market access barriers, which they face, particularly in the developed countries, are removed. Trade-led growth can, in turn, aid poverty reduction in low-income countries if the associated trade reform is part of a comprehensive program, which incorporates appropriate complementary and mitigating measures for addressing its short-term costs.

T. Ademola Oyejide is Professor of Economics, Department of Economics, University of Ibadan, Nigeria, and Executive Director, Development Policy Center.

References:
Mainstreaming Trade for Poverty Alleviation

A Cambodian Experience

BY SOK SIPhana

There is ample evidence that trade and investment reform and deeper integration with the global economy, undertaken within a comprehensive development strategy, are key strategic elements for achieving higher economic growth, a necessary condition for poverty reduction. The linkages between trade policies and poverty have been addressed recently at length by several papers (World Bank, McCulloch, Winters and Ciero 2001). These are convincing arguments that trade may facilitate international diffusion of knowledge, thereby speeding up growth, and may complement or occasionally substitute for aid in the development process. Nonetheless, trade liberalization and reform cannot work and have never worked as stand-alone policies or measures. In other words undertaking trade reforms and developing trade policies in isolation without the presence of mutually supportive policies will not bring about the full benefits resulting from trade reform and liberalization. Trade needs to be mainstreamed into the development plan of the country.

For a Least Developed Country (LDC) like Cambodia where one third of its population live below the poverty line, trade priority areas of action need to be reflected in poverty reduction and national development plans and strategies.
Preliminary government studies suggest that economic growth has helped reduce poverty, but that the proportional benefits to the rich have been greater than the benefits to the poor (RGC 2000a). Concern has also been expressed that economic growth has yet to impact on many of those living far below the poverty line. In that respect, Cambodia has worked arduously for the last few years with its development partners to better understand the potential impacts of trade reforms on the poor, and to develop mechanisms, which truly support pro-poor growth.

Here, I will highlight the main features of Cambodia’s trade policies while putting into perspective its implementing aspects focusing on the poverty reduction linkage as well as the development dimension. It will attempt to share some experiences of the trade mainstreaming process, including positive and negative moments, the lessons learned and obstacles encountered and measures taken to overcome them.

Why Cambodian people are poor

The foundations of the Cambodian economy are household economic units, which employ and provide incomes for the majority of the population. Cambodia is an agrarian economy with 80 percent of the workforce employed in the agriculture sector. The production of rice, for household consumption and trade, is the major economic output for most of the 84 percent of households located in rural areas. Households supplement rice production with other economic activities such as fishing, production of vegetables, fruit and other cash crops, the gathering of forest products, and off farm employment. The landless depend on gathering activities, on communal or State land, and paid employment.

About 36 percent of the population lives in poverty. Poverty incidence is highest (44 percent) in households where agriculture is the primary source of income. Some 90 percent of the poor live in rural areas, and there is a strong correlation between poverty and remoteness from urban locations. About three quarters of the poor are self-employed. The Government’s National Poverty Reduction Strategy notes that people are poor because of inadequate human and physical resources, or the opportunity to generate income and/or accumulate resources. Cambodia’s recent violent history has resulted in many disadvantaged groups, including internally displaced people, returning refugees, disabled people, widows, and orphans. The poor generally are disadvantaged by inadequate food supplies, poor health, physical disabilities, lack of access to land, insecure land titles, lack of skills, inadequate information, and poor access to input and product markets.

Implementing the Trade Mainstreaming Strategy

Cambodia was very successful in mainstreaming efforts. Trade, once an obscure section in national policy documents, found its preeminence in key government policies like the Second Socio-Economic Development Plan (SEDP II, 2001-2005), the National Poverty Reduction Strategy (NPRS), the Governance Action Plan (GAP), and even in the Legal and Judicial Reform Strategy paper. Externally the mainstreaming efforts focused on encouraging broad-based economic cooperation and resource mobilization through regional and global economic linkages. The United Nations Development Assistance Framework (UNDAF 2001-2005), the UNDP Country Co-operation Framework (2001-2005), the ADB and World Bank’s Country Assistance Strategies all have the trade agenda embedded in them.

Now mainstreamed into the NRSP, the role of trade will be firmly situated within Cambodia’s coherent national policy context and its trade-related technical assistance needs will be better identified, prioritized and sequenced, on the basis of sound policy diagnosis, and therefore stand a much better chance of being financed by donors and agencies.

Impact on export

One of the most recent newcomers in the international trade of garments
has been Cambodia—a non-WTO member country and an LDC. It has been one of the fastest growing garment exporters over the past 8 years—in 1995 the exports of garments were about $26 million and in the years 2000 to 2002 the corresponding annual figure exceeded $1 billion. In early 2002 Cambodia ranked number 16 amongst the top suppliers of garments into the U.S. market.

Cambodia is today an established supplier of low price, medium quality garments, employing around 220,000 workers in 185 factories, out of which only 23 are Cambodian-owned. Almost 90 percent of the garment manufacturers are foreign-owned, coming from Hong Kong (China), P. R. China, Singapore, Taipei, South Korea, Malaysia, Thailand, Indonesia, Bangladesh, England, Germany, Australia, Canada and the United States.

Foreign trade wise exports of garments dominate the sector (nearly $1,303 million in 2002 out of the total foreign trade of $1,467 million) followed by three or four products and services—tourism, sawn timber, remittances of expatriate Cambodian workers, and rubber. Other exports are small, though a number show strong promises (e.g. shoe manufacturing, rice, fish, specialty agriculture and agro processing, handicraft. See Tables 1 and 2).

Bearing in mind its narrow export base, Cambodia has worked hard both to boost the productivity of its current exports and to move up the value-chain. For example, improvements in rice seeds, irrigation, and farming methods would go a long way in increasing both labor and land productivity and strengthening Cambodia’s export capacity in this product. Likewise, Cambodia has begun making a shift to higher value agricultural production (spices, nuts and seeds, fruits, etc.) and more processing (e.g. milling of exported rice, extraction of essential oils, processing of wood, etc.) which would also bring more value from exports to the country. In this regard, bringing the country trade regime in line with the WTO rules and disciplines, lowering the costs of trade facilitation, strengthening the trade promotion capacity, improving the investment environment are some of the areas Cambodia needs to look at carefully to implementing its pro-poor export led growth strategy.

Concretely, the Governments of Cambodia and Thailand are working on joint development strategies, which are sector specific, i.e., tourism, agricultural and industrial sectors. They are defined through the assessment of comparative and competitive advantages of the two countries. Through this bilateral economic cooperation Cambodia can secure another source of regional development support to help sustain overall economic growth. Using Cambodia’s GAP and taking advantage of existing infrastructure facilities in neighboring countries, Cambodia is envisaging setting up 3 Export Processing zones as soon as possible next to Thailand’s border in Poipet, Koh Kong, and Pailin with the potential to create 100,000 jobs and approximately $60 million of annual wages.

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Farm Fallacies that Hurt the Poor

BY KEVIN WATKINS

APART FROM WRINGING their hands, endorsing human development goals, and promising more aid, what can governments in rich countries do about poverty in poor ones? Answer: get serious about reforming their farm policies. Industrial country agricultural support is destroying the livelihoods of poor farmers across the developing world, reinforcing an unequal pattern of globalization in the process.

Two years ago developing countries joined the Doha round of World Trade Organization (WTO) negotiations on the clear understanding that it would create the conditions for agricultural trade reform. Northern governments solemnly promised to improve access to their own markets, cut support to agriculture, and stop the subsidized dumping of agricultural surpluses. Keeping that promise is vital if the WTO talks are to live up to their billing as a ‘development round’.

Unfortunately, one of two less benign outcomes now looks likely: no deal at all, or a deal that perpetuates the present distortions and inequalities.

Why does this matter to the world’s poor? Partly because three-quarters of them—about 900 million people—live and work in rural areas, most of them as small farmers. And partly because northern agricultural policies are destroying the markets on which they depend.

Devastating subsidies

THE UNDERLYING PROBLEM is this. Each year, industrialized countries provide over $300 billion in support to agricultural producers—roughly six times the amount they spend on aid. To put this figure in context, it is more than the total income of the 1.2 billion people in the world living on less than $1 a day.

High levels of agricultural support translate into increased output, fewer imports, and more exports than would otherwise be the case. Small farmers in developing countries suffer damage through various channels. Subsidized exports undercut them in global, and even local, markets, driving down household incomes. Meanwhile, those seeking access to northern markets have to negotiate some of the world’s highest trade barriers.

The US and the EU are the ‘subsidy superpowers’, accounting for over 60 percent of rich country agricultural support spending. Europe spends more in absolute terms—and its subsidies represent a larger share of the value of farm output. However, the US spends more per farmer. It also concentrates subsidies on a narrower range of commodities. EU and US subsidies matter to the rest of the world because of their dominant position in global markets.

Whatever their wider differences, the U.S. and the EU have one thing in common: political leaders that like to justify agricultural support by reference to worthy social objectives. President Bush signed the controversial 2002 Farm Act claiming that it would protect small family farmers. The French minister for agriculture, Henri Gaymard, has made even more grandiose claims on behalf of the Common Agricultural Policy (CAP). He recently declared it an integral part of the ‘European model’ for a social market.

All of which is abject nonsense. In the real world, farm subsidies are tightly linked to output and the size of land-
holdings, not to social need. That is why the biggest 7 per cent of farms receive over 50 per cent of farm subsidies, both in the US and the EU. Subsidy distribution to agricultural producers in Europe and America is more unequal than income distribution in Brazil, one of the world’s most unequal countries. To make matters worse, many of the benefits end up with corporate exporters or get capitalized into rising land values and input prices.

If industrial country farm subsidies were purely of domestic concern they could be written-off as an act of reckless extravagance guided by perverse economics. Sadly, the subsidy fest for the world’s richest agricultural producers hurts some of its poorest.

Take the case of cotton. When it comes to harvesting subsidies, America’s 25,000 cotton barons are first among equals. In 2001 they received $3.6 billion in government support—three times US aid to Africa. Because the US is the world’s largest cotton exporter, accounting for 40 percent of the world market, these subsidies lowered world prices: by around one quarter according to the International Cotton Advisory Committee. Farmers in Africa have suffered the consequences.

In West Africa alone 10–11 million people depend on cotton cultivation as a source of income. The crop is also a major source of foreign exchange and government revenue. Lower world prices caused by American subsidies mean that desperately poor households have seen their incomes fall, with attendant consequences for poverty. In Benin, the price decline associated with American subsidies translates into a 4 percent increase in the incidence of poverty, or 250,000 people falling below the poverty line. Meanwhile, foreign exchange losses have eroded the benefits of development assistance: Burkina Faso loses more because of US subsidies than it gets in debt relief.

What makes the cotton case so
eugious is that West Africa is a far more efficient producer than the US. Fewer than 10 per cent of America’s producers would be competitive on world markets without support. But in 2001/2002 the subsidy provided to American cotton farmers exceeded the total national income of countries like Burkina Faso and Mali. In a bizarre throwback to the principles of Bolshevik state planning, it also exceeded the value of cotton output. In cotton, as in other areas of agricultural trade, market outcomes owe less to comparative advantage than to comparative access to subsidies.

To be fair, even the US is hard-pressed to match the EU’s capacity for double standards in agriculture. Consider the CAP sugar regime. Europe is among the world’s highest cost producers of sugar. It is also the world’s biggest exporter of white sugar. The reason: subsidies and tariffs. EU farmers are paid three times the world price for sugar, and EU taxpayers and consumers then foot the bill for dumping the resulting surplus —7 million tons of it—on world markets. Non-subsidizing producers then foot the bill for dumping the resulting surplus —7 million tons of it—on world markets. Non-subsidizing exporters such as Malawi and Thailand suffer the twin consequences of lower prices and lost market shares. Meanwhile, high tariffs keep the EU’s own market firmly out of bounds.

Unfair tariffs and export dumping

Import restrictions in agriculture deny developing countries an opportunity to exploit an obvious area of comparative advantage. Average agricultural tariffs in the EU and the US are some five times higher for agricultural goods than for manufactured goods. And tariff peaks in excess of 100 per cent are common, notably in tariff lines such as sugar, beef, dairy produce and processed fruit.

Escalating tariffs—duties that rise with each stage of processing—are another standard feature of the agricultural policy landscape. If Latin American tomato exporters make the mistake of processing the vegetable into sauce, the tariff they face rises by a factor of six percent. Average EU tariffs on fully processed foods are twice as high as on products in the first stage of processing. Tariff escalation serves the deeply pernicious purpose of keeping poor countries trapped in low value-added segments of the agricultural trading system.

Excluded from rich country markets, small farmers also suffer in domestic markets. In their development rhetoric, most northern governments recognize that smallholder agriculture is vital to poverty reduction. Yet the same governments systematically undermine the local markets of food producers through subsidized export dumping.

In Africa, farmers are being pushed out of urban markets by heavily subsidized EU wheat and dairy exports, undermining incentives for production and creating a dangerous dependence on imports. But the problems are not confined to the world’s poorest countries. Mexico has some 2 million maize farmers working on land in rain-fed areas, many on ecologically fragile hillsides. Regional integration is exposing these farmers to competition for US maize imports. Many are losing their livelihoods. This outcome owes less to market realities than to market subsidies. Last year, US maize farmers received $3.2 billion in government support—more than double the total agricultural budget for Mexico.

The Doha round opportunity

The Doha round provides a real opportunity to establish new rules of the game in agricultural trade. There are four basic requirements: a prohibition on export dumping, deep cuts in production subsidies, improved market access, and a provision allowing developing countries to protect their agricultural systems for food security reasons.

Prohibiting export dumping ought to be the most straightforward objective. Unfortunately, the EU’s lamentable proposals for a 45 percent export subsidy cut would leave it with some $4 billion in the dumping arsenal. For its part, the US has refused to bring either its $7 billion-plus subsidized export credit program, or the commercial dumping components of its food aid program, under WTO export disciplines.

The EU has single-handedly dashed hopes for early progress towards improved market access. It has proposed that tariff cuts be based on the failed formula adopted in the Uruguay Round, with average tariffs cut by 36 per cent. Applied to a sector with many tariff peaks exceeding 100 percent, it is hard to see how this will facilitate the “substantial improvement in market access” promised at Doha.

On the question of subsidy cuts there is every prospect of a EU–US deal—but not one that will benefit developing countries. Efforts to reform the CAP have been stymied by political differences between member states. Meanwhile, the 2002 US Farm Act not only increases budget support for agriculture, but also strengthens the links between farm support and production.

Instead of cutting support, both the EU and the US are repackaging subsidies into payments permitted under WTO rules (which they wrote). Nominally, these payments have to be ‘non-trade distorting’, or decoupled from production decisions. But these multi-billion programs will generate production by providing farmers with three key benefits: liquidity, capital, and guarantees against risk.

Another source of Trans-Atlantic consensus is the view that developing countries should have only limited rights to protect their farmers through import controls. Both sides want to see any special WTO provisions in this area restricted to the poorest countries, and to a narrow range of specified ‘food security’ crops. The problem here is that the EU and the US continue to see the WTO as a useful vehicle for prizing open developing country markets, providing outlets for export dumping.

So where does this all leave us? One possible outcome is that the latest bout of EU–US brinkmanship in agriculture will block any deal, jeopardizing the entire Doha round. This would have devastating consequences for poverty reduction efforts—not to mention the future of the rules-based multilateral system. The other, more likely, scenario is a deal that fails to address the real problems facing poor farmers in developing countries. It all calls to mind the old Swahili proverb: ‘When the elephants fight, the grass gets crushed; when the elephants make love, the grass gets crushed’.

Kevin Watkins is Head of Research at Oxfam
Agricultural Protectionism

Debt Problems and the Doha Round

BY JULIO J. NOGUÉS

THROUGH FINANCIAL CHANNELS, agricultural protectionism imposes costs on efficient producers that are higher than those associated with negative allocative effects and export losses usually estimated. The link between protectionism and finance has a direct relationship with the WTO Marrakech Agreement of establishing coherence between international trade and financial matters (WTO 1995). Here, I will call attention to the fact that for efficient agricultural exporters there is little if any coherence between the trading system and the international financial system that they face. I will also present some numbers on the export losses from agricultural protectionism; describe the channels through which this protectionism increases financial costs; and analyze dynamic and poverty effects. Although this article draws on the experience of Argentina, I believe the analysis applies to other indebted countries, particularly in Latin America, which are also net agricultural exporters. In conclusion, I will offer one suggestion for the Doha negotiations.

Agricultural protectionism and exports

ARGENTINA IS AN EXAMPLE of how agricultural protectionism can have sizable negative macro-economic and poverty effects. The reason is that its exports are still composed predominantly of primary agricultural goods and agro-based manufactures (around 20 and 30 percent of total exports...
respectively). Clearly, under a well functioning multilateral trading system, Argentina would proceed with its development and growth through exports of these products and, later, would move into other types of exports. But agricultural protectionism implies increasing difficulties and uncertainties for efficient exporters who continue to see their access to foreign markets reduced and/or their terms of trade decline.

What is the magnitude of these losses? Let me start with the traditional estimates and then move to financial considerations. Keeping in mind the well-known limitations of general equilibrium models, recent estimates by van der Mensbrughe (2002) presented in the following table, simulate the effects on exports of alternative liberalization scenarios for trade in goods. From other estimates such as those presented in Porto (2003), approximately three-quarters of the changes are explained by higher exports of agricultural and agro-based products.

These estimates indicate not surprisingly, that the increase in exports would be the greatest under a dismantling of trade barriers agreed in the WTO. The simulations also indicate that a free trade agreement with the EU would have an impact on exports that is not that different than the impact of a global agreement; this increase is approximately equal to 50 percent of 2002 exports. This is an indication of the huge damage inflicted upon Argentina by the EU’s protectionist agricultural policies.

The literature has also stressed the negative impact of agricultural protectionism on the instability of international prices. A pioneering article by Sampson and Snape (1980) showed how Europe’s variable import levies destabilized international agricultural prices. More recently Gardner (2002) has also addressed this issue and supported the conclusion that an agricultural liberalization would reduce the variability of international agricultural prices perhaps by as much as 50 percent (see also Nogués 2003). This is an indication of the huge damage inflicted upon Argentina by the EU’s protectionist policies.

In spite of the Uruguay Round Agreement on Agriculture (URAA), protectionism has continued to increase since the early 90s. First, implementation of the URAA has been marred with protectionist effects that go beyond what negotiators had in mind (OECD 2001, and Diakossavas 2001). Second, many regional trade agreements have diverted exports and robbed efficient exporters of important export and growth opportunities (Nogués 2003). Unfortunately, the prospects that this situation will change any time soon are rapidly vanishing (WTO 2003). Let me now turn to a discussion of the financial costs of agricultural protectionism.

**Agricultural protectionism and financial costs**

In order to see how agricultural protectionism leads to debt problems, recall that in economies with open capital accounts the market clearing interest rate for sovereign bonds, is approximately equal to the risk-free international interest rate plus the premium for country risk. On the margin at this rate, foreign investors are willing to lend. Therefore, if protectionism increases risk, the cost to efficient country producers from high agricultural trade barriers are higher than what has usually been claimed by the literature.

There are two main channels through which agricultural protectionism can increase financial costs and worsen debt problems. First, to the extent that this protectionism reduces exports, the trade-output ratio of the efficient exporters is also reduced. Lower exports reduce the capacity to repay external debt, and this increases interest rates. Second, high international price variability and an excessive concentration of exports in a few commodities increase vulnerability.

I will concentrate here on the first of these channels. A growing number of analytical and econometric studies have analyzed the determinants of country risk. The following are some of the explanatory variables that have been uncovered by these studies: a) growth expectations: the higher the growth expectations, the lower the risk of investing in an economy; b) degree of solvency: the higher the burden of the debt and the lower the capacity to generate exports, the higher the degree of perceived insolvency; c) structural problems: the more serious the structural problems such as systematic fiscal deficits, the higher the country risk; d) contagion: risk is increased when other emerging markets face financial difficulties, and lenders "fly to quality"; and e) political uncertainty: when there are important differences on economic policies among leading politicians, or when different forms of corruption including political corruption are rampant, risk is increased.

By how much does agricultural protectionism increase risks? Nogués and Grandes (2001) studied the determinants of Argentina’s risk with the explanatory variables discussed above, and found that all of them had contributed in a statistically significant way to the widening of the spread of sovereign bonds (in this case the floating rate bond over the U.S. treasury bond of the same maturity). Here I want to focus on the role played by the solvency vari-

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**ARGENTINA: Export Impact of Alternative Trade Agreements**

<table>
<thead>
<tr>
<th>FTAA</th>
<th>NAFTA</th>
<th>EU</th>
<th>GLOBAL</th>
</tr>
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<tbody>
<tr>
<td>Change from base (million dollars)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>-3,400</td>
<td>800</td>
<td>-1,700</td>
</tr>
<tr>
<td>NAFTA</td>
<td>2,400</td>
<td>2,800</td>
<td>-800</td>
</tr>
<tr>
<td>Rest of LAC</td>
<td>4,800</td>
<td>500</td>
<td>-200</td>
</tr>
<tr>
<td>European Union</td>
<td>900</td>
<td>600</td>
<td>23,200</td>
</tr>
<tr>
<td>Rest of World</td>
<td>1,400</td>
<td>1,000</td>
<td>-3,000</td>
</tr>
<tr>
<td>Total</td>
<td>6,200</td>
<td>5,800</td>
<td>16,300</td>
</tr>
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Source: van der Mensbrughe (2002)
able, which we measured as the ratio of debt service to exports. We found that the elasticity of country risk with respect to this variable is 0.68. With this estimate, the impact of agricultural protectionism on financial costs can be simulated. For example, assuming that agricultural protectionism results in foregone exports equivalent to 25 percent of current exports, from earlier comments a conservative estimate, then country risk can increase between 10 percent and 20 percent depending on whether we assume an elasticity with respect to the solvency variable of 0.5 percent or 1.0 percent. This impact of agricultural protectionism on country risk and financial costs is sizable. For example, the average country risk during 2000 was 672 basis points but according to our estimate, with higher exports, it could have been at least 10 percent lower. When this difference is multiplied by the stock of debt, the added interest costs can be very high. Just to give an idea, at the end of 2000, the total stock of debt (private and public) was in the order of $280 billion dollars.

Agricultural protectionism, slower growth and increasing poverty

TWO ADDITIONAL CONSEQUENCES can be linked to agricultural protectionism: slower and more unstable GDP growth, and increased poverty.

• Slower and more unstable growth. Higher interest rates slow growth rates and this is precisely what happens when agricultural protectionism increases the degree of insolvency in the countries that are efficient producers. Nogués and Grandes (2001) show a clear and statistically significant negative correlation between the level of country risk and the GDP growth rate. Clearly, the dismantling of agricultural protectionism would improve export performance and therefore, expected GDP growth, both of these effects would lower country risk.

Regarding price instability, I recall that between 1997 and 2000 Argentina’s the export prices of its agricultural and agro-based manufacturers declined by 25 percent and 24 percent respectively. Not coincidentally these years also witnessed a massive increase of agricultural subsidies by OECD countries; between 1997 and 1999 this assistance increased from $329 billion dollars to $362 billion dollars. Much of this assistance was provided to compensate OECD country farmers from the negative income effects of declining international agricultural prices (OECD, 2000). Obviously this counter-cyclical protectionism led to further increases in measured risk of efficient country producers.

• Impact on poverty. Paradoxically, there is very little knowledge on the impact that agricultural protectionism has on the poverty rate of the countries that are efficient producers. This lack of knowledge is a handicap and illustrates the weak negotiating ability of Argentina and other indebted countries in bilateral and multilateral forums. Recently, Porto (2003) has estimated the impact that the elimination of agricultural protectionism by the U.S. and the EU would have on Argentina’s poverty rate. The estimates include the elimination of all support granted to agriculture including border measures, export subsidies and domestic assistance, as well as the elimination of tariffs on manufactured exports.

As his measure of poverty, Porto chose the proportion of people living below the poverty line. His conclusion is that: “foreign trade reforms would cause a decline in poverty of up to 11 percent from an initial head count of 25.7 percent to a post policy rate of 22.8 percent” or around 100,000 persons. For reasons explained above, this is a lower bound estimate.

Suggestions for the Doha Round

CLEARLY, agricultural protectionism has had significant negative effects on Argentina that go beyond the static welfare losses that have been traditionally estimated by general equilibrium models. My analysis has been focused on the
GATS Negotiations Must Focus on Services Liberalization

The Case of SADC

BY KENNEDY K. MBEKEANI

The countries that comprise the Southern Africa Development Community (SADC) countries have recognized the economic benefits to be derived from autonomous reforms in sectors such as financial services, telecommunications and transport, which may be viewed as infrastructural backbones of any economy. These sectors have a significant impact on growth and efficiency across a wide range of user industries and overall economic performance. Availability of infrastructure services may lead to export capacity building in other sectors, including the attraction of private investment. For example, improved transport services will contribute to the efficient distribution of goods within the SADC region, and has a significant impact on the region’s ability to participate in global trade. Improvements in social services, such as education and health, are necessary in building human capital, which is key to long run economic growth.

In the absence of services liberalization, the implementation of the SADC Trade Protocol, which aims at creating a SADC free trade area, could result in negative effective protection for goods. The SADC countries include Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. These member states, in 2001, started implementing a free trade agreement and are about to start negotiations on services liberalization. For trade liberalization in the SADC region to have any meaning it is important that services liberalization keep pace with trade liberalization.

The low number of proposals in GATS negotiations by SADC countries reflects the difficulty the countries face to clearly identify negotiating objectives on services—a problem that has to be addressed. On the other hand, the main concern of SADC countries in most sectors is capacity-building and technology transfer rather than access to markets. This article attempts to identify key issues of interest to SADC countries in the GATS negotiations and how the countries can ensure a favorable outcome.

Key issues for SADC countries

The challenge for SADC countries is how to establish their specific needs in the framework of GATS Article IV, leading to transfer of technology and capacity building. Experience shows that in some areas, like construction services, developing country suppliers maximize their capacity building when engaging in joint ventures and partnerships with foreign firms in the delivery of service. This measure—the requirement to establish joint ventures—is considered a limitation on trade liberalization.

Implementation of Article IV provisions at the horizontal level appears to be difficult. Developing countries seem to be better positioned to make progress in negotiations on increasing participation in the trade of services when they focus on how to implement GATS Article IV in the sectors of their interest, and in articulating the associated sector-specific issues and measures of their immediate concern.

Areas of interest to SADC countries include movement of natural persons, construction, tourism and energy services.

Movement of Persons. A number of SADC countries are interested in a further liberalization of movement of persons (mode 4) on a sectoral basis, and in addressing issues that are impeding market access—including issuance of visas, administrative procedures, lack of transparency and economic needs tests. A new approach is necessary to make progress in the negotiations on mode 4. This approach should be handled at a level of detail, so that the negotiations would not be overtaken by non-trade concerns. Some of the issues include setting minimum sufficient international rules that would limit negative trade impact on the movement of natural persons, and would be compatible with the overall development objectives of developing countries, and sectors or categories of professions where liberalization of the movement of persons is critical for the export of services from developing countries.

Tourism. The tourism sector constitutes one of the most important sources of foreign exchange. For many SADC countries, in particular the least developed SADC countries (Malawi, Mozambique, Tanzania and Zambia), tourism is probably the only economic sector which provides concrete...
and quantified growing trading opportunities. It is one of the fundamental pillars of their economic development.

Most countries in the region have already liberalized the tourism sector. However, to ensure that trade is taking place in a fair and competitive environment, other multilateral measures may be necessary for disciplining anti-competitive practices in the tourist originating countries. The competition issue and the treatment of anti-competitive behavior are at the core of the problems of efficiency, viability and sustainability of tourism in SADC countries. Ability to deal with those aspects and to counter their effects is of decisive importance. Moreover, the inadequacy or absence of a domestic legal framework on competition in SADC countries, and the lack of multilateral disciplines and mechanisms within the GATS framework, affect the ability of SADC countries to deal with or prevent anti-competitive practices in their tourism sectors.

The predatory practices and anti-competitive behavior in international tourism produce two main effects on the economic sustainability of the tourism of SAD countries: unbalanced trade benefits, and the deepening of the leakage effect. Their combined impact minimize the positive impacts of spillover and multiplier effects inherent to tourism, and undermine the financial capacity of enterprises and the ability of countries to earmark necessary resources to maintain and upgrade basic infrastructure and quality standards in order to satisfy in an adequate way competitive conditions and international demand.

SADC countries may need to ensure the following:

■ adequate coverage and consistency commitments in all tourism activities;
■ prevention of predatory behavior with anti-competitive practices by dominant integrated suppliers in the originating markets;
■ effective access to and use of distribution systems and information networks on a non-discriminatory basis; and
■ the implementation of an adequate framework for sustainable development in tourism.

Energy Services. The countries of the region can expect to find themselves under pressure to liberalize in many sub-sectors of energy services, and it may be necessary to gain a better understanding of the implications and opportunities of the liberalization of energy markets for energy producing countries. Energy is central to achieving the interrelated economic, social and environmental aims of sustainable human development, and energy services play a crucial role in providing efficient access to energy in support of development. SADC countries are thus faced with the challenge of achieving more reliable and efficient access to energy through the enhanced availability of energy services. To ensure that the link between market access and development is clearly established, access to the region’s energy markets should be made conditional on:
■ transfer of technology and managerial know-how;
■ acceptance by foreign suppliers of public services obligations; and
■ setting up of alliances between foreign and domestic firms, including SMEs.
These principles could be included as negotiated additional commitments in the sector. On the other hand, developing countries should create a favorable environment for foreign and domestic suppliers by setting up a transparent regulatory framework, which ensures fair competitive conditions for all operators, especially access to the network.

construction. SADC countries view the construction services sector not only as a key infrastructure service but also as a tool for upgrading welfare. Development of this sector directly contributes to the attainment of the development goals. The strengthening of domestic and export supply capacity relies upon the ability of SADC countries to upgrade continuously their technological capacity.

SADC countries may seek to attach the requirements of associations and joint ventures, so as to include local companies in the design and implementation of construction projects. This has proved to be the most effective way of obtaining access to transfer of technology.

Construction is one sector that SADC countries can request for sector liberalization of movement of natural persons in exchange for market access. The movement of foreign nationals in developed countries is often subject to visa and residency requirements, and economic needs tests, even for project related work of short duration, and frequently with little transparency with regard to the criteria applied in the issuance of visas and work permits, which often appear to penalize nationals of developing countries.

Conclusion

SUSTAINABLE AND EFFECTIVE INTEGRATION of the SADC countries into the processes of liberalization of the world economy rests upon creating a supportive domestic and international policy and regulatory environments. Fair trade will not be achieved in the imperfect markets, where information will not be equally available to all, where dominant players will impose their own terms of doing business and where the rest will have no tools to address the anti-competitive practices. Among all these concerns, asymmetries in the level of development and the weak position of the SADC countries in the global services trade are the most essential problems to be addressed. As a minimum, the assessment should demonstrate conditions under which SADC countries could expect to achieve a balanced growth and the specific obligations, which they will be able to sustain.

Domestic environment is predominantly open in SADC countries but suppliers of services are not benefiting from the same opportunities as in the developed country markets. Further liberalization along the traditional lines is not likely to bring the net benefits to developing countries and contribute to their balanced growth, unless issues such as movement of natural persons, technology transfer and capacity building are properly addressed in the negotiations.

Kennedy K. Mbekeani is Senior Research Fellow, Botswana Institute for Development Policy Analysis
More Favorable Treatment of Developing Countries

Toward a New Grand Bargain

BY BERNARD HOEKMAN

ALTHOUGH THE PRINCIPLE of more favorable treatment for developing countries is firmly embedded in the WTO, there is considerable dissatisfaction with the existing provisions regarding differential treatment, by both developed and developing countries alike. In terms of the current Doha trade negotiations, it is among the more important issues to be resolved. The medium-term viability of the global trading system is dependent on an effective mechanism that allows all developing countries (that is, the majority of the WTO membership) to integrate more fully and benefit from increased international trade—this is vital for economic growth, development and poverty alleviation.

Currently, special and differential treatment (SDT) provisions in the WTO call for preferential access to markets for all
developing countries, exemptions (transitory and permanent) from certain rules, and promises of technical and financial assistance. There are good reasons for SDT—very small or low income economies lack the institutional development or minimum scale to manage the full panoply of WTO rules or, at least, might find the returns to creating the institutions to apply them effectively outweighed by the costs. They may also lack the resources to overcome natural obstacles to trade, giving rise to a case for preferential access to markets and development assistance.

The Doha Ministerial Declaration called for a review of all SDT provisions in the WTO, with a view to “strengthening them and making them more precise, effective and operational.” In the course of 2002, developing countries made 88 specific suggestions to do so, calling for improved preferential access to developed country markets, exemptions from specific WTO rules, and making the provision of technical and financial assistance a binding commitment. Despite intensive talks and numerous meetings, no agreement proved possible on strengthening SDT provisions. One reason for this was that many proposals sought to convert non-binding (unenforceable) language—so-called best-efforts provisions—into binding obligations that could be enforced through WTO dispute settlement procedures. Another reason for lack of agreement is a difference in views on what types of exemptions make economic sense.

The issues that were brought forward in the SDT context are very difficult, if not impossible, to separate from the broader question of making the WTO more supportive of development. The premise of this article is that the debate on SDT should be seen in the broader context of trade and development. What is needed is a new “grand bargain,” involving actions by developed countries and developing countries. This bargain must encompass greatly improved market access for all developing countries, mechanisms to ensure that the huge differences in the level of development among WTO members are recognized in the implementation of agreements, and increased development assistance (“aid for trade”). What follows sketches the outlines of a possible package.

**Market access for disadvantaged countries**

Trade preferences have been a mainstay of SDT since the late 1960s. Unfortunately, practice suggests that preferences generally deliver little. In many cases, developing countries do not receive significant tariff preferences in products for which they tend to have a comparative advantage. Preferences often exclude important items such as textiles or agricultural products and are subject to binding limits on the value of exports that benefit from lower tariffs, including so-called “competitive needs” tests. Combined with complex administrative requirements and red tape, including documentation of origin, the effect is to reduce the value of preferences. While recent programs such as the EU Everything but Arms initiative give duty and quota free access to Least Developed Countries (LDCs) for virtually all products, this does not extend to larger countries—such as Brazil, China, Indonesia, India, Malaysia, Pakistan and Thailand—which tend to be granted only limited preferences, if any.

An obvious way to strengthen SDT would be for developed countries to extend duty- and quota-free market access to all developing countries. However, this is not feasible politically—the most that may be possible is to extend such treatment to LDCs and similarly small and poor countries. This would be beneficial in helping target SDT on those who need it most, but from a global poverty reduction point of view—which must be taken in light of the Millennium Development Goals—a good case can be made that preferences should focus on the poor, wherever they are geographically located, and not on a limited set of countries. In absolute terms, most poor people live in countries that are not LDCs—e.g., China and India. Research suggests that the poor confront tariffs on world markets that are more than twice as high as those confronting non-poor producers (World Bank, 2002). Reversing this situation would not only be very beneficial to developing countries, but also to developed country consumers.

Given that unilateral deep trade preferences are unlikely to be extended to larger economies, action is required to liberalize trade in goods and services in which developing countries have a comparative advantage on a nondiscriminatory basis. A binding commitment by developed countries to abolish export subsidies, decouple agricultural support and significantly reduce—ideally abolish—tariffs on labor-intensive products of export interest to developing countries on a nondiscriminatory basis should therefore be a key element of an improved SDT regime. Such an approach is generally not regarded as SDT in the WTO—the focus has been mostly on preferential, “better-than-MFN” access—but from a development viewpoint, acceptance of ambitious liberalization benchmarks would provide a strong signal of commitment to poverty alleviation by developed countries.
Implementation of WTO rules

In addition to market access. SDT in the WTO has traditionally included derogations from some WTO rules for all developing countries, with application determined through self-declaration by members that they are a developing country. Given that some WTO disciplines may not be appropriate for very small or poor countries—the regulatory institutions that are required may be unduly costly or not a development priority—there is a need for ‘differentiation’ between developing countries in determining the reach of those WTO rules, especially if implementation requires investment of substantial resources. There are broadly two options that could be used to operationalize greater country differentiation:

- More narrowly defining eligibility for rule-related SDT provisions that are broadly applicable across all agreements to those that need it most—e.g., the poorest/smallest countries; or
- Setting objective country criteria on an agreement-by-agreement basis that link implementation by countries to the attainment of preconditions and the availability of technical assistance.

The first of these options has the advantage of simplicity and transparency, but requires renegotiating the current classifications used in the WTO—which distinguish between the LDCs and all other developing countries. A good case can be made for greater differentiation, given that many countries that define themselves as developing have per capita incomes that are many multiples of the poorest countries. However, this has been a politically sensitive issue in the WTO. The second option would allow the issue of defining general eligibility to be avoided, but is likely to involve significant transaction costs as it would be country-agreement-specific. Whatever approach is chosen, substantial thought and discussion is needed to assess the implications of alternative approaches.

Renegotiation of certain WTO disciplines

Many of the proposals that have been made on SDT implicitly, if not explicitly, reflect a perception by developing countries that some WTO agreements—e.g., agriculture, TRIPS—are not supportive of development. Rather than seek opt-outs under the guise of SDT, a preferable approach is to renegotiate these agreements. A clear signal that such renegotiation can be considered would help move the SDT debate forward.

Aid for trade

The third component of SDT in the WTO is development assistance. Market access and better rules are necessary but not sufficient. Greater technical and financial assistance is needed to strengthen the institutional and trade capacity of low-income countries to increase the benefits of better access to markets. Post-Monterrey, high-income countries have pledged to provide additional aid. The key need now is twofold: action at the national level to determine trade-related technical assistance needs in the context of domestic priority-setting processes—e.g., the Poverty Reduction Strategy Paper (PRSP), and a commitment by developed countries to fund the priorities that are identified.

The quid pro quo

A willingness by developing countries to make liberalization commitments will be necessary to move forward on the three elements of the SDT “package” sketched out above. Such reciprocity is needed in particular on the market access side as far as large or middle-income countries are concerned, for reasons noted previously. This can be done in a way so that negotiating credit is granted to countries that have already implemented significant unilateral, autonomous reforms—e.g., through the adoption of a formula approach to tariff negotiations that uses the level and extent of reduction in tariff bindings as the focal point of liberalization commitments. Given that many developing countries either have not bound tariffs at all or have relatively high tariff bindings, this will automatically imply that credit is given for past reductions in applied tariffs.

Conclusion

The heart of moving forward on SDT is to put in place a mechanism that will effectively promote the interests of developing countries, with an emphasis (priority) on the needs of the poorest countries. Greater differentiation must be part of a new grand bargain—the existing two-fold developing country classification system of LDCs (UN-defined) and other developing countries (self-declared) has resulted in an ineffective mechanism for all.

All three major dimensions of SDT—improved access to export markets for developing countries, greater differentiation in the implementation and enforcement of WTO rules, especially those requiring significant institutional capacity and investments, and expanded development assistance (“aid for trade”)—can be brought together in a package that also includes commitments by developing countries to make market access concessions. SDT cannot be a one-way street. Differentiation implies acceptance on the part of the more advanced countries that they are not eligible for exemptions from implementing negotiated agreements, and a willingness by all developing countries—both low and middle-income—to engage in the exchange of trade policy commitments. The longer-term viability of the trading system requires that its core principles and rules apply to all members.
Among the many questions that WTO ministers will take up in their September meeting in Cancun, Mexico, is the issue of an international investment agreement. Ministers in the Doha declaration chose to launch negotiations on a multilateral framework covering investment, "subject to a decision to be taken by explicit consensus on modalities at the Cancun Ministerial in 2003". Its purpose was "to secure transparent, stable and predictable conditions for long-term cross border investment" that will expand trade. Can new multilateral initiatives on investment policy promote more—and more productive—investment and hence more rapid development? And, can a negotiation that includes this area lead to reciprocity that will expand developing countries’ opportunities?

The drive to include an international investment agreement in the WTO accords comes against a backdrop of one of the most impressive waves of foreign direct investment in history. Foreign direct investment to developing countries grew from less than $30 billion in 1990 to nearly $180 billion
in 1999, and since then have levelled off to about $160 billion (see chart at right).

Whether an international investment agreement contributes to achieving the goal of increasing investment depends on its additive effects to existing international rules through two main channels: increasing market access for investors to enhance competition; and augmenting protection of investors’ rights to reduce risk and thereby raise relative risk adjusted returns.

Increasing market access for investors

As with trade barriers, countries around the world have progressively dismantled restrictions on incoming foreign investment, as nationalist fears of many governments have given way to aggressive pursuit of foreign investment. Countries as diverse as China, Mexico, and most recently, Korea have progressively lowered policy 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. UNCTAD has shown that between 1991 and 2001 roughly 95 percent of the 1393 regulatory changes that were made to national FDI regimes served to create a more favourable environment for FDI (Figure 1). The vast majority of these changes were introduced autonomously rather than in the context of international negotiations.

Today, nearly all countries have removed entry restrictions and limitations on foreign equity shares in manufacturing. The main restrictions on FDI are centered in services—that is, in finance, telecommunications, power, transport, ports, wholesale and retail trade, real estate, and business and legal services (Hoekman and Saggi, 2000).

The potential benefits to unilateral reductions in these policy barriers to entry are substantial. Allowing foreign investors to compete in telecommunications, for example, has revolutionized service in developing countries. The World Bank’s Global Economic Prospects 2002, using conservative assumptions about the effects reforms of trade and transportation, communications, financial services, and other private services, showed that broad and simultaneous services reforms could produce income gains for developing countries of more than 9 percent (World Bank, 2001: 171-172). Realizing this high potential requires more than liberalization of entry; it requires a regulatory framework that, to the extent possible, actively fosters competition and disciplines natural monopolies in network industries; and it requires pro-poor regulation that ensures, where appropriate, universal access and cross-subsidies to the poor or disadvantaged regions (see World Bank, 2001: pp 77 ff).

Including these reforms to national investment regimes in a new international investment agreement has two potential benefits that may lead to greater investment. First, much as with the logic of a trade negotiation, the negotiation
process may lead to greater liberalization of investment regimes than can be accomplished unilaterally. Second, if investment is not negotiated in isolation, but as part of a broader set of trade negotiations, then the traditional mechanism of reciprocal access concessions can help generate support for greater openness at home and abroad. For example, exporters in developing countries who obtain improved access to foreign agricultural markets can be a countervailing force against those who resist the elimination of investment barriers in telecommunications. At the same time, the need to fight these domestic political economy battles makes a country a credible negotiator for improved access. The process, if it works, can produce a double benefit: liberalizing countries would benefit from increased competition associated with foreign direct investment, and their firms would have improved access to foreign markets.

A pre-requisite for entering into an investment agreement is that each country is to ensure that any domestic policy commitment make sense through the lens of promoting national development. While the upside benefit to autonomous liberalization in services (among other areas) is usually high, it may not be for a particular country. Fortunately, the modality under discussion is a GATS-like positive list that would let policymakers set their own pace for liberalization and avoid commitments in any sector where it felt uncomfortable. This provides an unusual degree of flexibility to all governments—even if it slows the pace of multilaterally agreed liberalization.

From the narrow perspective of market access for investors, an international agreement is less urgent. Since most restrictions on pre-establishment market access are in services, a multilateral vehicle for realizing the twin benefits from an international agreement already exists for services, namely the General Agreement on Trade in Services (GATS). The agreement allows countries to designate those sectors it wishes to liberalize and maintain entry restrictions in other sectors a government feels is important. In any case, the fact that market access could be widened under the GATS in precisely the area where most restrictions remain limits the additive value of any new investment agreement—save for the reciprocal access it leverages in other sectors.

A key issue—which can only be determined during the negotiation process—is the value of an investment agreement in leveraging reciprocal commitments among trading partners. If an investment agreement is reciprocated with new market access in markets of importance to developing countries—in agriculture, labor-intensive manufacturers and even services—it may produce the much sought-after double benefit (World Bank 2002). If not, its benefits to developing countries in market access provisions will not add much to existing agreements and to unilateral actions to open markets.

Increasing investor protections

A second possible channel to increase investment flows—distinct from wider market access—is through increasing investor protections. A multilateral set of disciplines on investment protection would arguably help participating developing countries send a positive signal to potential foreign investors that policy changes are locked in, that investments enjoy protection in an international agreement, and that investors have recourse to WTO rules in event of a dispute.

Would an international investment agreement increase investment? One way to test this proposition is to look at the consequences of enhancing investor protections through bilateral investment treaties for flows of FDI among signatory countries. BITs customarily provide a definition of investment coverage, provide investor protections such as against expropriation, require national treatment for post-entry establishments, stipulate compensation for the expropriation of their investments, and provide for a dispute resolution mechanism. In some cases, treaties proscribe any government action that would reduce the value of the private investment, even if it were environmental or other regulations, and establish grounds for compensation. BITs are usually stronger than the international agreement contemplated in the WTO because they allow investors to sue governments in front of an international arbitration panel (see World Bank, 2003). Hallward–Drimeier (2002) analyzed bilateral flows of OECD members to 31 developing countries over two decades. Her analysis found that, controlling for a time trend, BITs had virtually no independent effect in increasing FDI to a signatory country from a home country. Said differently, countries signing a BIT were no more likely to receive additional FDI than countries without such a pact. Even comparing flows in the 3 years after a BIT was signed to the 3 years prior, there was no significant increase in FDI (see charts on page 23, bottom panel). This evidence suggests that protections resulting from a multilateral investment agreement will, by itself, have little impact in achieving the objective of increasing investment flows.

It is worth asking whether enhanced investor protections, in combination with reductions in trade reforms that permit liberalized investment access and more open flows of goods, would lead to increases in foreign direct investment. One example is NAFTA. NAFTA is a comprehensive arrangement that includes significant investor protections in combination with broad-based tariff reductions and border liberalizations. Chapter 11 of the NAFTA agreement allows investors to sue the government in event of regulatory or other actions that might diminish the value of a foreign investment. Lederman, et al (2003) found that NAFTA did increase foreign investment, but their study does not attempt to distinguish the role of enhanced investor protections from access to the Mexican market and its other resources in increasing the flow of FDI.

To the extent that Chapter 11 provided investors with additional comfort over and above the existing investment climate, its protections would have offset these disadvantages.

In a multilateral context, the aspiration of Doha is precisely to combine global reductions in border barriers for goods and services with increases in investor protections. To be sure, the experience of regional arrangements is less relevant to the extent that the preferential trade access diverts investment into the preferential market and/or to the extent that trade openness dominate the effects of additional investor
Dispute resolution merits careful scrutiny

**Benefits flowing from** a multilateral investment agreement also can entail costs if a contractual agreement is broken—as it should. It is important that parties to an agreement understand the contractual liabilities they assume when they sign onto commitments. The Working Group on Trade and Investment has reached consensus that, in contrast to the provisions in bilateral investment treaties, individual foreign investors will not be allowed to sue foreign governments for abrogation of protections; rather the home government of the investor would file an appeal under normal WTO dispute resolution procedures.

Important differences notwithstanding, the rising number of suits under bilateral investment treaties argues that countries should thoroughly discuss remedies in advance. For example, the a tribunal in Stockholm required the government of the Czech Republic to pay one company, Central European Media (CME). $350 million for violation of a bilateral investment treaty that deprived CME from a stake in an English language TV station in Prague (see Peterson, 2003 a and b). Several separate cases under NAFTA similarly have prompted investor suits against all three governments—Canada, U.S., and Mexico; unrelated cases in each of the three countries, for example, have contended that environmental regulations reduced the value of their companies; and in some cases judgments awarded hefty damages to investors.

WTO remedies are different. A WTO panel could “instruct the offending member to bring the inconsistent measure in conformity with its WTO obligations”; and, failing that, “prevailing states is free to resort to…unilateral counter-measures…suspension of the treaty…and temporary compensation or suspension of concessions (WTO 2002: 20). What would be the appropriate remedy for a government that imposed a regulation that effectively expropriated an enterprise? This question has received too little attention to date.

Conclusions

The benefits of a multilateral investment agreement for developing countries hinge critically on the increased market access an investment agreement might leverage for their exporters and on the additional domestic reforms that it spurs at home. If reciprocal concessions in areas of interest to developing countries are not forthcoming, the value of an investment agreement to developing countries is likely to be negligible in terms of new investment flows—even as it potentially exposes them to state-state investment dispute resolution procedures. If, however, negotiating partners, particularly OECD countries, see a multilateral investment agreement as worthy of concessions that reduce their barriers to trade in agriculture, textiles, and other areas of importance to developing countries, an investment agreement with carefully delimited dispute settlement provisions might well contribute to a pro-poor Doha outcome.
THE RELATIONSHIP BETWEEN ECONOMIC GROWTH, trade facilitation, and development is relatively simple in theory. Measuring the benefits of trade facilitation based on empirical evidence, particularly in relation to capacity building priorities, is much more challenging. Economic theory suggests that development is enhanced through income growth—which is driven through increased trade. Expansion of trade is achieved, at least in part, through programs to lower transaction costs in goods and services crossing borders. This might involve streamlined administrative procedures at ports and customs posts, for example. Expansion of trade may also be achieved through modernized transport services and infrastructure brought about through privatization. A broader definition of trade facilitation that aligns most directly with modern commerce also includes regulatory reform, harmonization of standards, and conformance to international regulations (Woo and Wilson 2000).

Trade facilitation is increasingly part of a trade policy debate in both “behind and at the border” issues. During the Singapore Ministerial of the World Trade Organization (WTO) (1996) the subject in a broad context was added as a new issue for possible negotiation. Decisions on the modalities for such negotiations, including talks on measures to increase transparency, streamline administrative requirements, among other subjects, must be made at the Ministerial Conference of the WTO in Mexico in September 2003. At the center of discussions is the role of trade disciplines in promoting trade facilitation goals. In reaching decisions on negotiations, what can be expected from expanded trade disciplines and how will countries determine priorities for capacity building?

Trade facilitation in a modern context

A LIMITED NUMBER OF EMPIRICAL STUDIES of trade facilitation exist to inform policy decision making (see references). Recent work at the World Bank (Wilson, Mann and Otsuki 2003) examines the relationship between trade facilitation and trade flows in the Asia-Pacific region. The study defines and measures trade facilitation using four broad indicators. Each one is constructed using country-specific data for 19 members of the Asia Pacific Economic Cooperation (APEC) to build the following measures: 1) port efficiency; 2) customs environment; 3) regulatory environment; and 4) e-business usage. The relationship between these indicators and trade flows is estimated using a gravity model. The findings suggest that enhanced port efficiency among these countries has a large and positive effect on trade and that regulatory barriers reduce trade prospects. Improvements in customs and greater e-business use significantly also improve trade, however, to a lesser degree than the effect of increased efficiency of ports or streamlined regulations. For APEC as a whole, it is estimated that a program to raise capacity “half-way” to the APEC average in all areas among those below average would yield an increase in intra-APEC trade of about $254 billion dollars. This is about a 21 percent rise in total intra-APEC manufactures trade. About $117 billion of the gain (and 10 percent of the increase in trade) comes from the improvement in port efficiency. About $39 billion of the total gain comes from the improvements “at the border” in port efficiency and customs environment. An additional $116 gain might come from improvements “inside the border” in regulatory harmonization and e-business usage.

The large increase in trade with improved ‘port efficiency’ is due in part to the strong correlation found between trade and port logistics. In addition, countries such as Mexico and China are very large intra-APEC traders. They have much room for improvement in port logistics and related infrastructure. Large exporters such as the U.S., Japan, and Korea would see the greatest increase ($38 billion, $22 billion, and $9 billion, respectively). Many developing countries (Russia, Hong Kong, Chile, and Chinese Taipei) would also experience large double-digit increases in exports to the Asia Pacific region (36 percent, 28 percent, 20 percent and 15 percent, respectively) with capacity building efforts. These results suggest that attention to improvements in port efficiency appears most productive in the Asia Pacific. Moreover, the study suggests that unilateral action to raise capacity can also boost exports. Country priorities and impact of various measures
can be examined, as one way of informing development goals.

For example, Thailand’s port efficiency indicator is near the APEC average. A small improvement to the APEC average would increase Thailand’s efficiency through imports by some $4.4 billion. Thailand’s customs capacity and e-business usage are much further away from the APEC average. An improvement halfway to the APEC average in customs environment would increase Thailand’s imports by $2.4 billion. If the cost of improving customs is less than improving port efficiency, then the net gain of focussing effort on customs might be preferable to capacity building programs exclusively aimed at port efficiency. On the other hand, an improvement halfway to the APEC average in e-business usage would increase Thailand’s imports by $7.9 billion, about 50 percent more than the ‘border’ measures taken together. New analysis at the Bank in a data set covering 75 countries is under preparation to further refine this analysis. In sum, these results should clearly be considered alongside other analytical tools and factors, but can provide one new measure to inform decision making—including development goals aligned with possible new WTO obligations in trade facilitation.

Trade Facilitation and the WTO: What role?

TRADE FACILITATION INCLUDES a range of issues related to multilateral rules and was included in the work program of the WTO in 1996 at the Singapore Ministerial. The scope of possible negotiations is relatively wide and includes subjects such as: documentation requirements, transparency in adminis-
trative and customs procedures, valuation of goods, and fees imposed on imports, among others. The Doha Declaration of the WTO in 2001 stated that decisions on the "modalities" for negotiation would be decided at the fifth Ministerial of the WTO in 2003. There continues disagreement on the merits and scope for possible talks on trade facilitation. Some developed countries, including the U.S. and European Union, believe there is merit in negotiations to tighten WTO disciplines. Proposals on how to improve and clarify trade rules might include improved transparency such as the creation of enquiry points, more systematic consultation between customs administrations and traders, and the establishment of harmonized appeal procedures in disputes over import fees, for example. There has also been discussions of simplified, standardized, and streamlined import/export procedures, new commitments on harmonized fees and charges on imports, reduction of data requirements at customs, expanding pre-arrival processing and post-auditing procedures. These are all associated with current GATT Articles VIII (fees and formalities), Article X (publication and administration of regulations), and Article V (freedom of transit) (www.wto.org/english/tratop_e/tradfa_e/tradfa_e.htm).

Supporters of negotiations also suggest a parallel program of technical assistance to developing countries alongside new obligations undertaken. In contrast, some countries, such as India, Brazil, and several in Africa nations have expressed strong reservations about launching new negotiations. They question the value of new legal commitments in the WTO. Concerns expressed center on the idea that additional rules will exceed implementation capacities and increase the likelihood of dispute settlement action for failure to follow new WTO obligations. Some developing countries also suggest that problems in implementing current obligations must be addressed before expanding the scope of WTO rules in other areas. Finally, improving infrastructure, administrative reform, and related technical training to upgrade skills to facilitate trade is costly. Many developing countries will require assistance in covering capacity building costs over the long-term.

Conclusion

In sum, talks on ways to increase transparency, predictability, and streamline trade transactions could provide benefit to the international trading system. Negotiations are a beginning point—not an endgame with predetermined outcomes. Lowered transaction costs and capacity building improvements, as noted in the new research above and other empirical studies, can provide large gains to trade. Talks on streamlined trade procedures, customs rules, and administrative transparency are also timely and important, given the need to bolster security after the tragedy of September 11, 2001. Rapid implementation of new national security border controls around the world is already underway. What is at stake in trade facilitation is most certainly centered on a development dynamic—not inside the context of elaborate new trade rules. Institutional change and reform is complex and priorities differ across countries. Creative ways to manage dispute settlement in this area are critical. There is a unique opportunity in 2003, however, to discuss a classic win-win situation in which trade disciplines are strengthened, security is enhanced, and developing countries gain the commitment of assistance to raise capacity in areas that matter more and more to success in modern international commerce.


This article draws in part upon "Trade Facilitation and Economic and Economic Development," John S. Wilson, Catherine Mann, and Tsunehiro Otsuki, World Bank Policy Research Working Paper #2988, World Bank, Washington, DC, 2003. The findings, interpretations, and conclusions expressed in this article are entirely those of the author. They do not necessarily represent the view of the World Bank, its Executive Directors, or the countries they represent. Comments by Yvonne Tsikata and Richard Newfarmer are gratefully acknowledged.

References continued on page 34
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China and the WTO
Policy Reform and Poverty Reduction

BY WILL MARTIN

AFTER A MARATHON, FIFTEEN-YEAR STRUGGLE China joined the WTO at the Doha Ministerial Meeting in November 2001. Clearly, China’s entry was important simply by bringing a fifth of the world’s population into the “world” trading system. By the time of accession, China had also become a major player in world trade. When the process of (re)joining the world trading system began in 1986, China’s share of world trade was only 0.7 percent, but this had risen to almost 5 percent in 2001, when China was the fifth largest exporter in the world, and is expected to rise to at least 7 percent following accession, making China one of the world’s biggest trading countries (Ianchovichina and Martin 2002). Since joining the WTO, China has become a major player in the WTO, and particularly in the negotiations on the Doha Development Agenda.

The reform process

WHEN CHINA INITIATED THE PROCESS of joining the world trading system, it had seven years of experience with the “open door” policy under its economic reform program. It had made major progress in increasing exports of raw materials and manufactured products, and the use of foreign direct investment. As the World Bank (1988) noted, the open door policy, along with rural reforms and partial enterprise and price
reforms, had contributed to a dramatic improvement in the performance of the Chinese economy. However, many problems remained: the Foreign Trade Corporations created an air-lock between domestic and foreign markets; export patterns were inefficient; information flows between producers and markets were poor; and foreign exchange markets were heavily distorted.

During the process of accession to the WTO, there was a dramatic improvement in the performance of China’s trade regime, and in economic performance generally. A recent study undertaken by the World Bank and the Development Research Center of China’s State Council (DRC) has documented the extent of the reforms, and pointed to some of the priorities for policy reform if trade is to play a positive role in improving people’s livelihoods and particularly in reducing poverty (Bhattasali, Li and Martin 2003).

A key feature of the reform process since 1986, and particularly during the 1990s has been replacement of direct, quantitative policy instruments with indirect, price-based instruments more suited to a market economy. In the late 1980s, around two thirds of China’s imports were subject to licenses or quotas, foreign trading rights were restricted, foreign exchange was subject to significant controls, and exports were partially planned. As late as 1992, average tariffs were over 40 percent.

By the time of its accession to the WTO, China had made enormous progress in reforming its foreign trade regime (Lardy 2002). As is shown in Figure 1, tariffs declined continuously after 1992. Weighted average tariffs fell from 41 percent in 1992 to 12 percent at accession, and will fall to just 6.8 percent after implementation of the WTO commitments. The coverage of nontariff barriers fell from two thirds, to one-third in 1996 and 22 percent in 2001. All nontariff barriers except for state trading, which is now subject to WTO rules, and is likely to cover less than 10 percent of imports, will be phased out. The dual exchange rate system was abolished in 1994, removing the formerly substantial trade barriers implicit in this regime. Ianchovichina and Martin (2002) estimate the global welfare gains from China’s accession at $74 billion per year, of which around $40 billion accrues to China.

Substantial progress was made not just in foreign trade policies, but also in critical behind-the-border areas needed to support trade, including development of the legal system; enterprise restructuring; strengthening of service sector regulation; and agricultural and rural reforms. Many of these reforms were undertaken as part of the ongoing process of making the changes needed to ensure China’s development. However, it is clear that the process of WTO accession influenced the timing of many of the reforms. In fact, the needs of WTO accession may have helped reformers to push through reforms much earlier than would otherwise have been feasible. Certainly, the reform process initiated by WTO accession requirements in areas such as legal reform was taken much further with the objective of developing the legal structures needed to promote China’s development (Long 2000).

Future expansion

Quantitative analysis undertaken as part of the Bank/DRC project found that the trade reforms required by China’s accession will greatly expand China’s trade. A key element in this will be a dramatic expansion in China’s exports of textiles and clothing after the abolition of quotas on these exports in January 2005. Ianchovichina and Martin (2002) estimate that exports of clothing will expand by over 100 percent as a result of accession. Had she not joined the WTO, China almost alone would have remained subject indefinitely to quotas on exports of these goods. Most of the reductions in tariffs and abolition of nontariff barriers required under the agreement had already occurred by the time of accession. However, there are some major reductions still to be implemented in the motor vehicle industry, and on the formerly highly protected beverage and tobacco sector. The key for the motor vehicle sector will be major restructuring to increase efficiency, improve product quality, and reap economies of scale. If this is done successfully, output and both imports and exports of motor vehicles and components are likely to expand substantially (Francois 2003).

There are likely to be some substantial adjustments in agriculture, and these are likely to have important implications for poverty. The reductions in agricultural protection required by accession are likely to be much smaller than was predicted by many commentators. This is partly because China’s agriculture was only quite lightly protected (Huang and Rozelle 2003), and because China negotiated moderately high tariffs on some key products, such as rice, wheat and maize. However, export subsidies that were formerly important for maize and cotton had to be abolished, and tariffs fell on products such as oilseeds, sugar and dairy products. As a key member of the WTO, China also has the opportunity to press for reduction of the barriers against her exports of (primarily labor-intensive) agricultural exports. This is particularly important because of the need to create rural employment in China. Martin (2001) estimates that the weighted average barriers facing China’s exports of agricultural products are four times as high as those facing her nonagricultural exports—and this estimate that is undoubtedly conservative because of the widespread presence of prohibitive tar-

![THE EVOLUTION OF CHINA'S TARIFF RATES SINCE 1992](image-url)
iff, whose effects are not captured.

Overall, there is likely to be some downward pressure on rural wages and incomes, with some—albeit small—adverse poverty impacts (Chen and Ravallion 2003). Attempts to deal with these problems by slowing down or reversing trade reforms would be very costly, even if they were possible under WTO rules. Policies that deal with these poverty impacts directly by improving rural technology and infrastructure; expanding educational opportunities in rural areas, and reducing the barriers to migration out of the rural sector are much more likely to be successful, and are explicitly consistent with WTO rules.

China has committed to dramatic opening of its services sector under the General Agreement on Trade in Services (GATS). In fact, Mattoo (2002) concludes that China’s accession offer is the largest liberalization of services ever undertaken under the WTO. Over half the sectors and modes of supply have been liberalized, and considerable benefits to China’s firms and consumers are likely. China’s opening was not done unreservedly, however. Many reservations were included on issues such as ownership structure and geographical location, as well as the rights inherent under GATS in areas such as prudential regulation of the banking sector. Liberalization of key service sectors involved in the logistics chain seems likely to allow substantial reductions in costs to firms, which are currently much higher than international norms in China. Luo and Findlay (2003) estimate potential costs savings equal to 10 percent of gross output value.

China has developed a modern intellectual property rights system that takes into account the fundamental differences between its situation and that of the high-income economies for whom production of intellectual property rights are currently more important (Maskus 2003). China has used the flexibility inherent in the TRIPS agreement in areas such as pricing of pharmaceuticals to ensure that people have adequate access to essential pharmaceuticals. Maskus identifies two potential areas of concern—one involving too much regulation, and another involving too little. The first is with proposals to patent software, which seem perhaps too protective of producer interests for China’s stage of development. The second area of concern relates to enforcement, where weaknesses in enforcement are likely to reduce China’s access to state-of-the-art technologies.

Fortunately, China—unlike Japan when it joined the GATT—was able to avoid a situation where major trading partners refused to apply Most-Favored-Nation treatment. However, an unfortunate feature of the accession agreement is the imposition of several types of trade-restricting measures. For up to 15 years, China may be treated as a non-market economy for antidumping policy decisions—a status that makes China more vulnerable to the antidumping measures than other WTO members. For up to twelve years after China’s accession, trading partners can impose product-specific safeguards against China’s exports. For several years after the textile and clothing quotas are abolished, China’s exports of these products may be subjected to special textile safeguards. The antidumping measures are of particular concern because China already faces seven times as many antidumping measures per dollar of exports as the United States. The product-specific safeguards are new protection introduced as part of a WTO agreement, and the textile safeguards include poorly defined and potentially very damaging procedures on trade diversion.

Within China, much has been done to protect those in urban areas who are disadvantaged by trade reform, but the social safety net remains “full of holes” in rural areas (Hussain 2003). Much needs to be done both to increase opportunities for rural residents, and to help protect them against adverse shocks, whether from external or internal developments.

Conclusion

Overall, it is clear that China’s accession builds on the progress made throughout reform process, while marking a turning point through the use of external commitments to reform. While much—and particularly most of the required trade liberalization—has already been done, some major adjustments will be required in formerly highly protected areas like automobiles and beverages and tobacco. Substantial further work will be needed on complementary policies in areas such as improved regulation in financial and other sectors, and in increasing opportunities for and assistance to the poor, and particularly the poor in rural areas.

Will Martin is a Lead Economist, Development Research Group, The World Bank.

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Challenges ahead

ACCESSION OF CAMBODIA TO THE WTO is part of the general strategy of trade policy of Cambodia, which is directed to effective integration of the country into the world economy and global trading system.

Globalization does not come without difficulties, particularly for Least Developed Countries (LDC) like Cambodia. The 1997 regional financial crisis while sparing Cambodia from its direct immediate effects had nonetheless affected indirectly the country as seen from the sharp drop of foreign direct investment from the region. The ratification of the US-Vietnam Trade Agreement by the US Congress has no doubt created some uncertainty as to the flow of FDI away from Cambodia. China’s entry into the WTO has dramatically changed the dynamic of regional trade. The phase-out of Multi Fiber Arrangement (MFA), or the elimination of quantitative restrictions on textile trade, by 2005 will further intensify the pressure on Cambodia to become more competitive in the textile and clothing industry. Moreover, the recent political upheavals in a few other ASEAN countries did not bore well in term of confidence of investors in the region.

Successes or failures of Cambodia will depend to a large extent not only on its ability to balance its rights and obligations under the multilateral trading system but as well on how well the country could position itself to take advantage of the broad opportunities and challenges of regionalism and globalism.

Cambodia is a good example of a country that has, despite its dramatic past and existing shortcomings, emerged as a vibrant economy thriving on the ‘Competitiveness’ paradigm. From the early days of national rebuilding from the ashes of genocide, to capitalizing on its comparative advantage based on cheap labor and exploitation of natural resources, to embracing controversial value-added labor-textile export linkages—thus creating a precedent in the annals of textile negotiations—to defining new dynamic strategic value-adding alliance with its neighbors Thailand and Vietnam, to optimizing its national branding as the Seventh Wonder of the World new tourism destination combined with its open skies policy, to capitalizing on a highly interactive form of Government-Private Sector Dialogue, to projecting the value as a new organic agricultural country, to protecting intellectual property rights, and to revolutionizing the concept of trade mainstreaming for poverty reduction and economic development. In sum, Cambodia, with this ‘Competitiveness’ paradigm in place, is prime to ride the trend of regionalism and globalism and turn trade as a potent tool for poverty alleviation.

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Sok Siphana is Secretary of State for Commerce, IF Focal Point, Cambodia.
years preceding the major crisis after the 2002 devaluation. I have done this because I believe agricultural protectionism partially explains the crises that Argentina is facing. Having said this, I want to make clear that protectionism contributed only a fraction of the crisis, while the hulk was generated at home by bad economic policies, including irresponsible fiscal deficits (Nogués and Grandes 2001) and more recently, by several violations of established institutions including the Constitution.

What is to be done? I started this note by citing the Marrakech Agreement of 1994, according to which the WTO, the IMF and the World Bank should work to achieve greater coherence in global economic policy making. This mandate has never been defined carefully but, while agricultural protectionism persists at its current irrational levels, efficient country producers face a multilateral trading system that is incoherent with the international financial system. This incoherence will be maintained as long as the powerful protectionist agricultural lobbies remain unchallenged.

How can this lobby be challenged? No indebted country would be wise to announce that agricultural protectionism is increasing debt problems; if they did, the perceived level of country risk would automatically jump with the consequent negative effects on the economy. Therefore, the onus appears to be on the side of multilateral organizations. One possibility that might be worth exploring is to make the WTO Working Group on “Trade, Debt and Finance” a negotiating group in the Doha Round. The idea is to have creditor and debtor countries meet at the negotiating table in order to discuss the financial consequences of trade protectionism and the benefits that trade liberalization would have on the international financial system. By incorporating the interests of the creditors, most of whom are from industrial countries, there would be a domestic force fighting against the agricultural lobby; if my Government lowers the barriers that protect you, I have greater chances of recouping my credits. In order to strengthen the incentives in favor of lower barriers, indebted countries facing payment difficulties could tie part of their debt repayments to trade liberalization measures taken by the creditor countries. This proposal implies an important shift in the structure of incentives in favor of trade liberalization. After more than five decades of increasing agricultural protectionism, I believe that only a radical shift in the structure of incentives will start to reverse this trend. The proposal I have presented goes in that direction.

Julio J. Nogués is Consultant and Professor, School of Government, Universidad Di Tella, Buenos Aires
inogues@infovia.com.ar

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- European Bank for Reconstruction and Development
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- Organization of American States (OAS)
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- Trade Compliance Center — US Department of Commerce
  www.mac.doc.gov
- United Nations Conference on Trade and Development
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The book captures some of the struggles young people continue to experience in post-apartheid South Africa. The book is set in the black township community of New Crossroads, Cape Town where violent homes, schools and streets add to the general insecurity, as is the case in many other South African black communities. The stories in this book illustrate life experiences for young people, bearing all the scars of the legacy of the past. It is a testament about the resilience of people who have seen, heard and experienced pain and anguish and yet kept hoping for a better tomorrow.


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