8

A Practical Agenda

The agenda set out below may not be readily accepted by the developed countries, if they maintain the frame of mind that has prevailed in the past, where each country has attempted to extract the most out of trade negotiations by using their bargaining power. Given the weak bargaining power of the developing countries, they have, unsurprisingly, not fared well.

But the world is changing fast. There is widespread recognition of the inequities associated with past agreements, and this makes it increasingly difficult for at least those countries with democratic governments to sign another unfair agreement. Even in the developed countries, there is widespread recognition of these inequities and almost embarrassment at the extent to which trade agreements are shaped by special interests. The protests in Seattle and other international meetings around the world are evidence of dissatisfaction with globalisation as it has been practised so far.

The developing countries have also recognised that if they stand together there can be no new agreement that does not address their concerns. As we argued in the introduction to this paper, the kind of agreement that the developed countries were asking for – at least as part of their bargaining position – would arguably have put new demands on the developing countries without offering them much in return. There is an increasing feeling that no agreement is better than a bad agreement.

Concerns about terrorism, combined with the resolve of the international community to reduce poverty, as set out in the Millennium Development Goals, have put a new spotlight on the plight of the developing countries. While poverty may not cause terrorism, poverty and despair provide fertile feeding grounds. As aid levels have fallen (in real terms and especially relative to need), many of the developed countries are talking about the importance of trade. But what developing countries need is access to the markets of the developed countries. They cannot achieve this on their own, so this is where an international agreement – to pursue a common international concern – would be of value.

A practical agenda for a development round would focus on a discussion of what measures would improve the plight of the developing countries. It would postpone any discussion of new demands until after the problems and imbalances of previous rounds have been addressed. From the list of suggestions in the previous two sections, the following constitutes a 'minimal' list which should be the basis of a development round of negotiations:

1. Special and differential treatment

Trade negotiations must begin from the premise that the less developed countries deserve special and differential treatment, both because they have been disadvantaged in the past, and because of the differences in their current circumstances. This will entail a movement away from the principles of reciprocity *and* bargaining which have underlain most trade negotiations thus far. It will entail unilateral concessions by the developed countries, both to redress the imbalances of the past and to further the development of the poorest countries of the world. The costs to the developed countries of such concessions is likely to be low, the benefits to the developing countries enormous.

2. Institutional reforms

a. *Greater transparency and openness in process; no green room negotiations.*

b. *The creation of a representative 'trade council' with partial rotation of membership for negotiation of key issues.*

c. *The establishment of international tribunals to adjudicate in the first instance on accusations of dumping and other unfair trade practices.*

d. *The establishment of international tribunals to adjudicate in the first instance on claims of intellectual property involving indigenous products.*

e. *The creation of a permanent advisory body to help the developing countries to bargain more effectively for their own interests.*

f. *The creation of an independent evaluation unit, which would assess the incidence and development impact of alternative proposals, as well as evaluate the extent to which any bilateral or regional trade agreement diverts trade.*

g. *The right of the WTO Secretariat on its own to initiate cases.* (Developing countries may feel uneasy about initiating cases against large powerful countries, partly out of fear, for example, that foreign assistance will be reduced.)

3. Regional and bilateral trade agreements

These agreements undermine the multilateral trade system. The argument that they are an important stepping stone towards a multilateral system is unpersuasive. Indeed they impose costs on the developing countries, as they must continually adjust to ever-changing artificially created advantages. Moreover, the process of 'divide and rule' may lead to an outcome which is more to the disadvantage of the developing countries.

a. *There should be strict enforcement of restrictions already in place on regional and bilateral trade agreements, intended to ensure that the benefits of such agreements arise mainly from trade creation rather than trade diversion.*

b. *The independent body described above should evaluate each proposed trade agreement in these terms.*

c. *The use of political conditionality in trade agreements, apart from a requirement that countries should be committed to democratic processes, should be prohibited.*

4. Investor issues

a. *An agreement among all countries that they will not compete for companies by providing tax concessions or special infrastructure benefits, enforced both by private rights to action and by trade sanctions.*

b. *An agreement by all countries concerning transparency in relation to all payments to governments (especially mineral, oil and other resource royalties), and an agreement by the capital exporting countries that they will not allow deductibility of any payments which are not so published.*

c. *A universal Foreign Corrupt Practices Act.*

d. *The elimination of bank secrecy, not only in relation to terrorism, but also to tax evasion and corruption.*

e. *The recognition of the right of countries to impose regulations on companies in relation to health, safety or the environment, or for the advancement of disadvantaged groups.*

f. *The recognition of the right of countries to subsidise domestic firms, on a temporary basis, to promote the development of new industries.*

5. Agriculture

a. *The recognition of the right of countries to impose countervailing duties against agricultural subsidies, regardless of the form those subsidies take.*

b. *A re-examination of the distinction between trade distorting and non-trade distorting subsidies, with a heavier burden placed on those claiming that particular forms of subsidy are not trade distorting. (Explicit attention should be paid to the consequences in the more realistic cases, for example when there are capital constraints.)*

c. *A commitment to the phasing out of preferential treatment granted to exporters from one set of countries to another; while special and differential treatment for developing countries as a whole is beneficial, when it is directed at particular countries, it gives rise to trade diversion rather than trade creation.*

d. *A commitment by developed countries to the elimination of all production and export subsidies over the next five years for commodities the consumption of which is primarily in the developed world. Other agricultural subsidies should be eliminated over the next ten years.*

Included in production subsidies are subsidies for fertilisers, capital, water and energy. The developed countries should divert some of the money saved in subsidies to helping consumers in the developing countries who are adversely affected by the increased prices.

6. Manufactured goods

a. *The elimination of all tariffs on all manufactured goods from low-income countries.*

b. *The reduction of tariffs and other trade barriers on textiles to a level not exceeding the average level of tariffs on all other commodities.*

7. Services

a. *The recognition of the right of developing countries to restrict foreign banking, and in particular to impose lending requirements, particularly for small and medium-sized enterprises.*

b. *The recognition of the right of developing countries to impose domestic reinvestment restrictions on funds raised within the developing country.*

c. *A reduction in restrictions by developed countries on unskilled labour-intensive services (such as construction and transportation services). As part of the liberalisation of these services, temporary migration of individuals should be allowed.*

d. *The rights of temporary migrants should be fully recognised. This includes the right of their children to education, rights to health care services and civil rights.*

e. *An agreement that there should be no restrictions on offshore contracting of internet services.*

f. *An agreement that further negotiations for liberalisation of services in skilled intensive areas will be put on hold until the imbalance of previous rounds of negotiations has been fully redressed.*

8. Non-tariff barriers

a. *There should be an agreement on a single standard governing unfair trade practices for developed and less developed countries; the standards should reflect those employed in anti-trust laws. Two approaches could be taken:*
   i. *National treatment: each country could be allowed to set its own standard, but the standard would have to be non-discriminatory;*
   ii. *A single standard for the world could be negotiated.*

b. *The procedural reforms outlined above would ensure fairer treatment of developing countries.*

c. *Dumping: Whatever approach is taken, it should entail using economically relevant cost* *concepts (marginal not average costs); eschewing discriminatory procedures (like best information available); and eliminating the use of the surrogate country method for allegedly non-market economies.*[96]

d. *Countervailing duties: Privatisation in competitive auctions will be deemed to have extinguished a subsidy; the provision of credit at LIBOR plus rates will not be deemed a subsidy, even if such rates are substantially below the interest rates prevailing in the country. Providing energy and water (or other commodities) at prices that do not reflect environmental impacts will be deemed a subsidy.*

e. *Safeguards: Developed countries should face higher threshold impacts before safeguard measures can be resorted to.*

9. Intellectual Property

The provisions of TRIPS should be re-examined, with a view to:

a. *Ensuring access not only to life-saving medicines, but also to medicines that have an impact on the many debilitating diseases prevalent in developing countries.*

b. *Advancing the interests of developing countries in acquiring new technology, to close the 'knowledge gap' that separates them from the more developed countries.*

c. *Preventing bio-piracy.*

10. Competition issues

a. *National treatment of domestic and foreign producers in competition law (effectively, the elimination of dumping duties).*

b. *The recognition of the right of governments to enact special provisions for disadvantaged groups and small and medium-sized enterprises.*

c. *Anti-trust action against international cartels (including those in which governments are a party and including provisions for class actions).*

d. *Anti-trust authorities should recognise the impacts of mergers and anti-competitive actions outside the country.*

e. *Those adversely affected by a merger or other anti-competitive action should have the right to bring actions (including class action suits) in foreign courts.*

Notes

1 See the US Farm Bill of 2002 (Farm Security and Rural Investment Act 2002), which increases domestic support to agricultural producers, and the European Commission's Luxembourg reform of the common agricultural policy, which did little to cut the total level of European agricultural support.

2 Of particular concern was the lack of transparency (including 'green room' negotiations, in which only a few chosen countries from the developing world engaged in negotiations with the United States and Europe) and the disadvantageous position the developing countries had in these negotiations, simply because of their complexity and developing countries' limited staffs. See, for example, the open letter dated 6 November 1999 sent by 11 developing countries to the WTO chairman, Ambassador Ali Mchumo of Tanzania, expressing their concern over the lack of transparency in the WTO green room process.

3 A widely quoted World Bank study estimates that sub-Saharan Africa was actually worse off as a result of the terms of trade effects generated by the Uruguay Round. The UNDP estimates that under the WTO regime, in the period 1995–2004, the 48 least developed countries will actually be worse off by $600 million a year, with sub-Saharan Africa worse off by $1.2 billion. The UNDP also estimates that 70 per cent of the gains of the Uruguay Round will go to developed countries, with most of the rest going to a relatively few large export-oriented developing countries (UNDP HDR, 1997). Similar concerns have been raised about the 'allowed' trade restrictions. Textiles remain the one major area covered by quotas. These are supposed to end in 2005 and there is concern that the developed countries will either fail to fulfil their commitments (a ten-year transition period was provided to facilitate 'adjustment', but little adjustment occurred in the first eight years); or that they will replace the quotas with extremely high tariffs; or that they will use safeguards or other non-tariff barriers. While it is often emphasised that average tariffs of developing countries remain higher than those of developed countries, it is also true that *developed countries' average tariffs against developing countries are higher than their average tariffs against developed countries, even taking into account existing preferences.*

4 See the editorials in the *Financial Times* and the *New York Times*; Robert B. Zoellick, 'America will not wait for the won't-do countries', *Financial Times*, 22 September 2003, p. 23.

5 Most notable in this regard was the request by a number of developing countries that the Cancun draft be prepared on the basis of views and inputs put forward in open-ended consultations, and that where there was no consensus, the differing positions or views should be clearly indicated. The proposal was rejected by a coalition of developed countries.

6 The smaller developing countries recognised that in these bilateral discussions their bargaining position was even weaker than it was in the multilateral setting. Several of the bilateral trade agreements made since Cancun have shown that these worries were justified. On the other hand, the US has not succeeded in making a bilateral trade agreement with any major developing country.

7 Indeed, after Marrakech the GATT Secretariat put forward a higher estimate of the minimum gain of $500 billion per year. For a discussion of the projections see Safadi and Laird (1996), 'The Uruguay Round Agreements: Impact on Developing Countries', *World Development* 24 (7): 1223–42. For a survey of the various estimates see Dani Rodrik, 'Developing countries after the Uruguay Round', paper prepared for the Group of 24, mimeo, August 1994. See also Will Martin and L. Alan Winters (eds), *The Uruguay Round and the Developing Countries*, Cambridge University Press, 1996, and T. N. Srinivasan, *Developing Countries and the Multilateral Trading System*, Westview Press, 1998.

8 The gain to developing countries was estimated at up to $90 billion, or roughly one-third of the $200 billion total gain predicted at the time (OECD, 1993).

9 The models themselves also make assumptions that may not be fully appropriate for less developed countries. See Charlton and Stiglitz, 2004.

10 The developed countries were given a decade to remove their textiles quotas; many thought the extra time would allow them a smoother adjustment process. In practice, little if any adjustment has occurred. The day of reckoning was only postponed.

11 These may underestimate the relative effects of subsidies if developing countries' exports are more concentrated in those agricultural products which attract subsidies.

12 Many developing countries have been unable to meet their Uruguay Round obligations because of these high costs. By January 2000, up to 90 of the WTO's 109 developing country members were in violation of the SPS, customs valuation and TRIPS agreements. Estimates of the cost of compliance with the Uruguay agreements vary widely depending on the quality of the existing systems and the strength of institutions in each country. Hungary spent more than $40 million to upgrade the level of sanitation of its slaughterhouses alone. Mexico spent more

than $30 million to upgrade intellectual property laws. Finger (2000) suggests that for many of the least developed countries in the WTO, compliance with these agreements is a less attractive investment than expenditure on basic development goals such as education.

13 Estimates of the downward impact on world prices caused by OECD domestic support are 3.5–5 per cent for many agricultural commodities, including wheat and other coarse grains and oilseeds (Dimaranan *et al.*, 2003).

14 Diao, Diaz-Bonilla and Robinson (2003) report that protectionism and subsidies by industrialised nations cost developing countries about US$24 billion annually in lost agricultural and agro-industrial income. Latin America and the Caribbean lose about US$8.3 billion in annual income from agriculture, Asia loses some US$6.6 billion and sub-Saharan Africa loses nearly US$2 billion. Their estimates do not include dynamic effects.

15 In May 1995 the US Patent Office granted to the University of Mississippi Medical Center a patent (#5,401,504) for 'Use of Turmeric in Wound Healing'. The US Patent and Trademark Office (USPTO) revoked the patent after dozens of references to the procedure were found in Indian texts.

16 For a discussion see, for example, Chang (2002).

17 See, for example, Joseph E. Stiglitz, 'Some Lessons from the East Asian Miracle', *World Bank Research Observer*, 11(2), August 1996, pp. 151–77.

18 Additionally, given the apparent barriers to service trade, there might be large gains from liberalisation. (See Brown, Deardorff and Stern, 2002.) Their estimate of the global gains from service liberalisation is as high as $400 billion. However, these estimates may overstate the benefits of liberalisation if many of these barriers are exogenous and not related to economic policy.

19 More than one-quarter of the world's top 40 service exporters in 2002 were developing countries.

20 As discussed in the next section, these labour-intensive services are not the ones that have been given priority in the Doha Round so far.

21 These centred around: (i) government procurement; (ii) trade facilitation; (iii) competition; and (iv) investment. The names, however, are somewhat misleading. Competition did focus, for instance, on anti-trust measures. The developing countries had already expressed their hostility to the initiative by the OECD for a multilateral investment agreement. There was no reason to believe that the WTO provided a venue in which an agreement acceptable to the developing countries could be worked out. In any case, it was clear that this was an initiative of the developed countries, not of the developing countries. Similarly, while developed countries hoped to have greater access to government procurement in developing countries, there was little hope that developing countries could make much inroad in procurement by developed countries, especially in the central area of defence. This too was a developed country agenda item.

22 Section 7 of 6 June 2003, Communication from Argentina, Bolivia, Botswana, Brazil, Chile, China, Colombia, Cuba, Dominican Republic, Ecuador, El Salvador, Gabon, Guatemala, Honduras, India, Malaysia, Mexico, Morocco, Nicaragua, Pakistan, Paraguay, Peru, Thailand, Uruguay, Venezuela and Zimbabwe (TN/C/W/13) makes it clear that 'reform of agricultural trade is of central importance for many developing countries' and is '*an essential ingredient of the negotiation and its outcome*' (original emphasis).

23 Oxfam (2000) argues that 'agriculture is the key to unlocking the Doha development agenda, and without constructive steps on this issue, the broader negotiations cannot really restart'.

24 See the statements by Indian Ambassador K.M. Chandrasekhar, Brazil's Ambassador, Luis Felipe de Seixas Correa and China's Ambassador Sun Zhenyu.

25 On domestic support, no specific figures were given for reducing most trade-distorting support. The text potentially widened the scope for the use of blue box support – a step backwards in terms of liberalisation. Also the text did not focus on trade-distorting elements of the green box measures. See the critical response by Kenyan Ambassador Ms Amina Chawahir Mohamed who said that 'the EC-US text falls short of our expectations and as such we find it difficult to accept it as a basis of our further work'.

26 The US Farm Security and Rural Investment Act (FSRIA) of May 2002 has a value of about $190 billion over the next ten years, about $83 billion more than under previous programmes. It sets target prices which are lower than the pre-1996 levels, but the total effective support is larger because average world commodity prices have fallen and the range of commodities included in FSIRA is larger than in the 1996 FAIR Act. That act was intended to phase out farm subsidies, but even before the passage of FSRIA had achieved additional support through emergency measures.

27 It provides counter cyclical payments (CCPs) to US farmers which respond negatively to world prices. This type of measures has allowed the US to dump its farm surplus on world markets. For example, the US exports corn at prices 20 per cent below the cost of production and wheat at 46 per cent below cost (see Cassel, 2002).

28 The recent preliminary WTO ruling against American cotton subsidies (based on a complaint from Brazil) has lent support to the critics. America claimed, remarkably, that their subsidies did not adversely affect other

cotton-exporting countries. Such claims clearly undermine the credibility of the position of the developed countries.

29 CAFOD (2003). 'Singapore Issues in the WTO: What do developing countries say?'.

30 Finger (2000) estimated the implementation of three of the Uruguay Round's six agreements that required regulatory change (customs reform, intellectual property rights, and sanitary and phytosanitary measures). His analysis suggests that the average cost of restructuring domestic regulations in the 12 developing countries considered could be as much as $150 million. In eight of these countries this figure is larger than the entire annual development budget.

31 By January 2000, up to 90 of the WTOs 109 developing country members were in violation of the SPS, customs valuation and TRIPS agreements.

32 Part of the reason the EBA has had such a limited effect is that almost all EC imports from LDCs (more than 99 per cent in 2001) were already eligible for preferences under other schemes (Brenton, 2003). In 2001 the EBA initiative granted duty-free access to imports of all products from the least developed countries, except arms and munitions. Total exports from these LDCs to the EU increased by 9.6 per cent in 2001. However, in practice the EBA was only relevant to the remaining 919 products (of the EU's 10,200 tariff lines) which had not previously been granted duty-free status under either the GSP or Cotonou Agreement. Of these 919 products, imports from LDCs were recorded in just 80 products in 2001. Brenton notes that total exports of these products actually fell from €3.5 million in 2000 to €2.9 million in 2001. Moreover trade in these goods in 2001 amounted to just two-hundredths of 1 per cent of the total value of LDC exports to the EU. Thus it appears that the direct impact of the EBA initiative has not been significant in the short term, and given the small size of trade in affected products, is not likely to be large in the medium term.

33 Moreover, beginning in 2008, cotton textile producers will have to use American cotton, further limiting the benefits of AGOA.

34 In 2001 average unemployment rates reached 14.4 per cent in Africa, 12.6 per cent in the transition economies and 10 per cent in Latin America. Such statistics, however, often under-represent the true level of unemployment, for instance, the prevalent high levels of disguised unemployment.

35 See, for instance, the papers cited in Appendix 1, especially contributions by Hertel (1997) and Anderson *et al.* (2001).

36 For instance, Dasgupta and Stiglitz (1977) show that the change from quotas to tariffs may expose countries to much greater risk. Newbery and Stiglitz (1984) show that the adverse effects from increased exposure to risk may be so much greater that everyone in both countries may be worse off.

37 The incidence, in this case, depends on the extent to which there are disturbances in the domestic markets, and the extent to which the external disturbances are correlated with the domestic disturbance.

38 This includes not only trade liberalisation, but also investor protections. Investor protections will attract more investment. But if that is the case, countries will have an incentive to undertake such actions on their own. There are some legitimate worries, spelled out below; excessive investor protection may compromise general welfare concerns, for example about safety or the environment.

39 See, for example, Bhagwati (2002), who argues, accordingly, that intellectual property should never have been part of trade negotiations.

40 In the case of intellectual property, there is a concern about free rider problems, given the public good nature of research. There is, accordingly, a need for collective action – including possibly collective action related to the protection of intellectual property. On the other hand, because of the public good nature of knowledge, providing free access to such knowledge to the developing countries is one of the efficient, low-cost ways by which developed countries can provide them with assistance.

41 Bio-piracy is the attempt by a Northern firm to patent a traditional food or medicine from a developing country in order to capture the intellectual property rents. The developing countries may be forced to pay for what they view as rightfully theirs. See below for a more extensive discussion.

42 H. Horn and P. Mavroidis (2003). 'Which WTO Provisions are Invoked by and Against Developing Countries', CEPR.

43 For manufactured goods average tariff rates are 1.5 per cent for developed countries and 11.5 per cent for developing countries. For agriculture, average tariff rates are 15.6 per cent for developed countries and 20.1 for developing countries (Hertel and Martin, 2000).

44 For a historical argument, see Ha-Joon Chang (2002). More recent theoretical analysis includes that of Dasgupta and Stiglitz (1985).

45 For instance, the US anti-trust laws impose a very high standard for predatory pricing, much higher than is employed in the US fair trade laws which pertain to the actions of foreign firms. Indeed, it has been argued that

using the US domestic standard, few foreign firms would ever be found guilty of dumping, but using the dumping standard, most American firms could be found guilty.

46 Super 301 authority – which expired in 1997 but was re-instituted in January 1999 – enables the US Trade Representative (USTR) to identify the most significant unfair trade practices facing US exports and to focus US resources on eliminating those practices.

47 See, for instance, Prassad *et al.*, the report of the IPD Taskforce on Capital Market Liberalisation (2004) and Stiglitz (2000).

48 See Stiglitz (2000).

49 John Rawls (1971), *A Theory of Justice*. He emphasises that we should assess whether (in the current context) a particular change in the trade regime would be generally agreed to, behind a veil of ignorance in which the participants in the discussion did not know whether they were to be born in a less developed or a more developed country. For alternative frameworks (which in the current context would arrive at quite similar views) see A.K. Sen, *Development as Freedom* (1999).

50 See, for example, the open letter dated 6 November 1999 sent by 11 developing countries to the WTO Chairman, Ambassador Ali Mchumo of Tanzania, expressing their concern over the lack of transparency in the WTO green room process.

51 Both increased transparency and the provision of (impact assessment) information discussed in Section 4.1 reduce information asymmetries.

52 For a discussion of the concept of global public goods, see Kaul *et al.* (2003). See also Stiglitz (1994, 1995).

53 Trade agreements might also be useful as a mechanism for governments to overcome domestic political opposition to trade reform.

54 The problem, of course, is that political globalisation has not kept pace with economic globalisation: international trade agreements are seldom looked at through the same kind of lens as domestic legislation. When discussing domestic policy we do not demand that the poor give up an amount commensurate with what they get. Rather, we talk about social justice and equity.

55 Anderson (2001) compares the benefits of developed country liberalisation on developing countries with the benefits of developing country liberalisation on developed countries. As a proportion of GDP in each group the benefits to developing countries of the former exceed the benefits to developed countries from the latter by a factor of 6. Given this imbalance in pay-offs it is not surprising that developed countries are in such a strong bargaining position.

56 Average tariff rates – when weighted by the amount of trade – may be particularly misleading, since high tariffs lead to little trade, and accordingly such high tariffs may be given little weight in the computation of the average, even though they have a very distortionary effect.

57 Average tariff rates on industrial goods imported into the OECD countries fell from around 40 per cent in 1950 to 1.5 per cent in 1998 (Hertel, 2000). In spite of these low average rates, there are tariff peaks, many of which adversely hurt developing countries so that, provided these are addressed, developing countries do have something to gain.

58 In the discussion below we note the initially extremely small impact of the Everything But Arms initiative – with the rules of origin providing one of the explanations. Countries can only receive preferential treatment for their exports if a large fraction of the value added originates in the country.

59 Two arguments are put forward by those who advocate reciprocity, even after recognising the asymmetric position of developed and less developed countries. The first is a political economy argument. It is argued that without some reciprocity, the North is unlikely to make any concessions to developing countries. We do not address that issue here. The question posed to us was what would be on the agenda of a true development round. What would a global trade regime that promoted developed look like? Still, we note that developed countries voluntarily provide assistance (unilaterally) to developing countries, partly because they believe it is the morally right thing to do, partly because they believe political stability may be enhanced by strengthening developing countries. It seems strange to argue for unilateral assistance, which in many cases only partially compensates for the damage done by unfair trade agreements. The second is a paternalistic argument: developing countries need economic reforms such as trade liberalisation; but special interests within developing countries make such reforms difficult. Only by insisting on them through multilateral trade agreements (or through conditionality on assistance) can such reforms occur. There is a large literature explaining why such conditionality undermines democratic processes and, in any case, is not likely to produce genuine reform.

60 See John Gallup, Jeffrey Sachs and Andrew Mellinger, 'Geography and Economic Development', paper presented at the Annual Bank Conference on Development Economics, World Bank, April 1998.

61 FAO (2003).

62 Developed countries' share of world trade in manufactures has fallen from 90 per cent in 1970 to 72 per cent in 2000 (World Bank, 2002).

63 But note that most of the progress in trade negotiations during the past half century has focused on the liberalisation of manufacturing (other than textiles) – the goods that are of diminishing importance to the advanced industrial countries but of increasing importance to middle-income developing countries. There is a certain irony in this: while the US and Europe may have thought that they were negotiating trade agreements that were of most benefit to themselves, in fact they negotiated a global trading regime that, if it is fairly implemented (and if non-tariff barriers are set aside) is of most benefit to China and other middle-income developing countries.

64 They may not, and the disparity between factor payments and the value of marginal products may differ across countries if the degree of market imperfections differs.

65 For an example of an initiative in this area see the case of the financial institution PRODEM in Bolivia which focuses on the promotion of savings and the offer of new financial services to remittance receivers. See UNDP (2003), 'Worker Remittance as an Instrument for Development, Comparative Research – UNDP El Salvador'. A number of best practice scenarios from Latin America and Asia were presented and documented in the November 2000 ILO conference in Geneva on 'Making the best of Globalization: Migrant Worker Remittances and Micro-Finance'.

66 In 2001, Banco do Brasil issued $300 million worth of bonds through Merrill Lynch using the future yen remittances from Brazilian workers in Japan as collateral. The terms of these bonds were more favourable than those available on sovereign issues (with a BBB+ Standard and Poors rating compared to BB- on Brazil's sovereign foreign currency rating). For a review of securitisation of remittance flows see Ketkar, Suhas and Dilip Ratha (2000), 'Development Financing During a Crisis: Securitization of Future Receivables', mimeo, Economic Policy and Prospects Group, World Bank, Washington DC.

67 Total OECD spending on agricultural subsidies is more than US$300 billion per year. This is almost six times the total aid from OECD countries to all developing countries (US$50–60 billion per year).

68 This includes Mexico, 'Rest of South America' (a regional average which excludes Argentina and Brazil), China, Indonesia, Korea, 'Rest of South Asia' (a regional average which excludes India), Tanzania, Zambia, 'Rest of sub-Saharan Africa' (a regional average which excludes Tanzania and Zambia), and the average of the Middle East and North African countries. Brazil, India, Argentina and Vietnam are net exporters (Dimaranan, Hertel and Keeney, 2003).

69 The WTO classifies domestic subsidies according to their distortionary effect on trade: amber (directly trade-distorting); blue (indirectly trade-distorting production payments); green (non-trade distorting).

70 The distortion is even larger if one recognises that the quantities imported are reduced as a result of the high tariff barriers. (In the measure cited, a prohibitive tariff would have no weight in the measure, since there would be no imports.)

71 2,063 dumping cases were initiated between 1995 and 2002. The three most common initiators were the US (279), India (273) and the EC (255). See Finger and Zlate, 2003.

72 For a more complete description of these abuses, see, for instance, J.E. Stiglitz, 'Dumping on Free Trade: The U.S. Import Trade Laws', *Southern Economic Journal* 64(2), 1997, pp. 402–24.

73 See Economic Report of the President.

74 This is governed by Article XIX of GATT 1994, which deals with 'Emergency Actions on Imports of Particular Products', and also by the Agreement on Safeguards. To quote the appellate body in the US Steel case: 'Together, Article XIX and the Agreement on Safeguards confirm the right of WTO members to apply safeguard measures when, as a result of unforeseen developments and of the effect of obligations incurred, including tariff concessions, a product is being imported in such increased quantities and under such conditions as to cause or threaten to cause serious injury to the domestic industry that produces like or directly competitive products'.

75 Moreover, dumping is sometime found in competitive industries, where no rational firm would ever engage in predatory pricing, since there is no way it could establish the monopoly power required for it to recoup the losses it makes when it sells below marginal cost.

76 For a discussion of harmful tax practices see OECD (1998). For welfare losses from international tax competition see Charlton (2003).

77 Oman, Charles (2000). *Policy Competition for Foreign Direct Investment: A Study of Competition among Governments to Attract FDI*, Development Centre Studies, OECD, Paris.

78 OECD countries adopted a similar approach in their efforts to identify and reduce 'harmful tax competition' (OECD 1998). While the OECD's mandate here covers mainly general tax rates rather than specific incentives, the criteria used to determine 'harmful' tax policies is instructive for investment incentives. Two of the criteria cover transparency and discrimination between foreign and domestic firms. The European Commission's 1999

'Code of Conduct (Business Taxation)' has taken a similar approach.

79 Three alternative frameworks could regulate incentives with reference to either their: (i) size (capping the total financial benefit available); ii) use (for example specifying geographical areas or sectors in which they are allowed/prohibited); and (iii) instrument (proscribing instruments perceived to be particularly harmful).

80 See Charlton (2003) for a discussion of the EU's state aid regulations as applied to foreign investment incentives.

81 The United Nations Environment Programme (UNEP) estimates that the costs of global warming may exceed $300 billion annually. These costs stem from more frequent natural disasters, loss of land as a result of rising sea levels and damage to fishing stocks, agriculture and water supplies. In some low lying states such as the Maldives, the Marshall Islands and the Federated States of Micronesia losses linked to climate change could by 2050 exceed 10 per cent of GDP (UNEP, 2001).

82 See, for example, J.E. Stiglitz (2000, 2004) and the forthcoming IPD task force report on *Capital Market Liberalization* (Oxford University Press, forthcoming).

83 The distinction is perhaps not quite as strong as has sometimes been represented. Allowing immigration of labour will benefit both the recipient and sending country; but there are likely to be groups that are directly adversely affected in the recipient country, who will be vocal, and often politically effective, in their opposition. On the other hand, investors seldom oppose capital market liberalisation, as they focus on the consequences of lowering the cost of capital. Of course, entrenched industry may resist the entry of competitors in their line of business.

84 One famous case involved a Texas company attempting to patent Basmati rice. In that case, India challenged the patent and prevailed.

85 Patents could not, for instance, be granted for traditional medicines or goods, or slight variants of those traditional medicines, when the usefulness of those commodities has already been recognised within the developing country.

86 There is already in motion a backlash among the more technologically advanced of the less developed countries. Brazil is pushing for open source software, and China may adopt its own telecommunications standards, which will enable it to avoid paying high royalties for the use of technology based on other standards. An unbalanced intellectual property regime can contribute to overall global inefficiency in the use and production of knowledge.

87 The US requires domestic shrimpers to use protective technology called 'Turtle Excluder Devices', which are a kind of trap door through which turtles can escape from shrimp nets. In 1989, Congress essentially banned importation of shrimp caught by foreign shrimpers who do not use Turtle Excluder Devices.

88 This is because the developing countries, on average, are already in warmer climates.

89 It is important that the decision about whether a trade sanction is to be imposed is taken by the international community; otherwise special interests within a country may well try to disguise protectionism behind a cloak of environmentalism or labour rights.

90 The right of a government to demand compulsory licensing has been recognised even by the US, the staunchest defender of intellectual property rights; when it was worried about anthrax, it forced the compulsory licensing of Ciprio. The only issue is: under what conditions should such compulsory licensing be allowed? A development round would have provided answers that more directly addressed the concerns of the developing countries.

91 Fink, Matoo and Rathindran (2001) suggest that the GATS should require domestic competition law to consider the effect of collusive agreements on foreign markets. (The relevance of this point goes, of course, well beyond the service sector.)

92 For example without significant adverse effects on other groups. The alternative should be 'Pareto Superior'.

93 On participation see Blackhurst, Lyakurwa and Oyejide (2000); on transparency see Francois (2001); on representation see Winters (2001).

94 Finger and Schuler (1999), 'The implementation of Uruguay Round Commitments: The development challenge', Policy Research Working Paper No. 2000, World Bank, Washington DC.

95 Michalopoulos, C. (2000), 'The role of special and differential treatment for developing countries in GATT and the World Trade Organization', World Bank mimeo.

96 In the surrogate country method, dumping duties are imposed, not by comparing price with actual costs, but with the costs in a 'similar' market economy. The methodology has often been implemented in a totally distorted way; in one case, Canada was judged as the country most 'similar' to Poland.