



## OVERVIEW

# **MAKING GLOBAL TRADE WORK FOR PEOPLE**

Human development is a process of expanding people's choices, allowing them to live secure lives with full freedoms and rights. Human development requires equitable, sustainable economic growth. It also requires promoting gender equality and fostering people's participation in decisions that affect their lives.

By expediting economic growth, creating jobs and raising incomes, globalization has the potential to advance human development around the world. But globalization has also increased vulnerability and insecurity. Multilateral institutions can play a major role in maximizing the potential benefits of trade and globalization while minimizing their risks. But the evolution of these institutions has not kept pace with the challenges of the 21st century.

By expanding markets, facilitating competition and disseminating knowledge, international trade can create opportunities for growth and promote human development. Trade can also increase aggregate productivity and exposure to new technologies, which can spur growth. Indeed, the regions that have grown the fastest over the past 20 years have also had the highest export growth.

But liberalizing trade does not automatically ensure human development, and increasing trade does not always have a positive impact on human development. The expansion of trade guarantees neither immediate economic growth nor long-term economic or human development. Internal and external institutional and social conditions play a significant role in determining whether and to what extent a country or group of people reaps the benefits of trade (Rodrik, 2001).

Pervasive gender discrimination in economic life causes trade policy to have very different effects on women and men. Trade liberalization has also had mixed results for gender outcomes. It is particularly troublesome from a human development perspective if export growth comes at the expense of exploiting female workers, neglecting care work<sup>1</sup> and increasing gender inequalities in opportunities and benefits (Çağatay, 2001).

A key message of this book is that an evaluation of the multilateral trade regime should be based on whether it maximizes possibilities for human development—especially in developing countries. To achieve that goal, the regime needs to shift its focus from promoting liberalization and market access to fostering development

(Rodrik, 2001). The regime should provide developing countries with policy space, giving them the flexibility they need to make institutional and other innovations—while still recognizing that trade liberalization and market access can make important contributions to human development in specific situations and certain sectors.

While the evidence on trade and human development shows that the links between them run in both directions, trade theories do not offer clear or unequivocal conclusions about the direction or dynamics of the relationship. But while the debate about the relationship between trade liberalization, economic growth and poverty reduction continues, evidence shows that trade liberalization is not a reliable mechanism for generating self-sustaining growth and poverty reduction—let alone human development (Rodrik, 2001).

Conventional wisdom holds that trade is linked to human development through economic growth. Though there is no automatic relationship between growth and human development, growth can contribute to human development if increased incomes and higher government revenue translate into social and productive spending that positively influences human development indicators (UNDP, 1996). Meanwhile, the absence of growth makes it extremely difficult to achieve human development objectives.

But what does the evidence reveal about the links between trade liberalization and economic growth? A close study of the empirical literature finds no compelling evidence that trade liberalization is systematically associated with higher growth (see chapter 1). Some leading researchers argue that the only systematic relationship between trade liberalization and growth is that countries dismantle trade barriers as they grow richer. Moreover, the experiences of industrial countries and successful developing countries provide two other important lessons. First, economic integration with the global economy is a result of successful growth and development—not a prerequisite for it. Second, domestic institutional innovations—many of them unorthodox and requiring considerable policy space and flexibility—have been integral to most successful development strategies.

Thus multilateral trade rules need to seek peaceful co-existence among national practices, not harmonization. This point has obvious implications for the governance of global trade, not least because of the need to permit asymmetric rules that favour the weakest members—especially the least developed countries. In the long run such rules will benefit both industrial and developing countries.

## **THE WORLD TRADE ORGANIZATION—A MAJOR SHIFT IN MULTILATERAL TRADE RULES**

Few observers question the potential advantages of trade for human development, and most developing countries support the idea of multilateral trade negotiations. But many people, organizations and developing country governments across the political spectrum have concerns about World Trade Organization (WTO) agreements and how they are negotiated.

This is partly because of how the institutional framework for the multilateral trade regime has evolved over the past 50 or so years. The transformation of the General Agreement on Tariffs and Trade (GATT) into the WTO in 1995 marked a paradigm shift, resulting in significant differences between the two regimes. The GATT system was primarily about negotiating market access for traded goods. But the WTO's extension into new substantive areas, intrusiveness into domestic policy-making, 'single undertaking' mandate, explicit linkage of trade with protection of investment and intellectual property rights, and strict enforcement of disputes and cross-retaliation have extended its authority into areas of domestic regulation, legislation, governance and policy-making central to the development process.

Recent agreements under the trade regime commit members not just to liberalizing trade in goods but also to making specific policy choices on services, investment and intellectual property. These choices can affect human development through their effects on employment, education, public health, movements of capital and labour and ownership of and access to technology. Many believe that these changes link global trade under the WTO much more closely to human development than did the GATT.

The journey from the triumph of the 1994 Marrakesh Agreement, which led to the creation of the WTO in 1995, to the debacle of the 1999 WTO conference in Seattle spanned just five years. Although those consulted gave many reasons for the breakdown of multilateral trade negotiations in Seattle, an important one was different governments' very different perceptions and expectations of the global trade regime. These differences were particularly marked between the majority of developing countries and most industrial nations.

Though some parts of the negotiating process leading up to the 2001 WTO conference in Doha were handled better, basic differences in expectations remain. Some believe that the Doha Round should simply be a continuation of the Uruguay Round, aimed at tightening existing obligations and extending multilateral trade disciplines into new, policy areas that are currently in the domestic domain. Others—including most developing countries and many civil society organizations in both industrial and developing countries—believe that future multilateral trade negotiations should be corrective, making the system more supportive of human development.

## **MAKING TRADE A MEANS FOR HUMAN DEVELOPMENT**

Since its inception the WTO has faced criticism from many quarters for failing to deliver the promised gains from trade integration. As a result a wide range of international experts, policy-makers and civil society organizations have called for an independent review of the global trade regime from a human development perspective.

Efforts to dissect this dissatisfaction must separate the role of domestic policy-making from the role of the international trade regime. Countries are responsible for the extent to which they take advantage of increased trade for long-term development. But the multilateral system can and should be held accountable for

influencing the environment in which government choices are made. While the need for a fair, rules-based multilateral trade system is indisputable, the central question is: does the current regime enable developing countries to design policies that promote human development?

This book is the product of considerable policy research by academics and international experts and extensive consultations with developing country governments and civil society organizations. Based on these contributions, it suggests a framework in which trade is viewed neither as a means only for economic growth nor as an end in itself. Instead, trade should be seen as a means for human development.

Those consulted made it clear that a number of reforms are required to put human development at the centre of the multilateral trade regime. This book identifies and explores the main concerns raised by developing country governments and civil society organizations in terms of their human development implications and impacts. It makes proposals for reform that could help ensure that the global trade regime consistently works for people and human development.

## **KEY REFORMS IN THE GLOBAL GOVERNANCE OF TRADE**

There is widespread hope that a multilateral trade regime governed by a relatively young, one-country, one-vote, member-driven organization with a majority of developing country members has enormous potential for serious governance reform. What should such reform involve?

### *The single undertaking*

The WTO's single undertaking mandate, which compels governments to accept agreements as a complete package rather than on an individual basis, is unique among multilateral organizations. The single undertaking appears to have provided some benefits to developing countries by more effectively subjecting agriculture and textiles and clothing to multilateral trade disciplines. But many developing countries argue that the single undertaking has also sharply reduced their flexibility in choosing which agreements to sign, limiting their options for domestic development policies to those compatible with the new rules and agreements of the global trade regime (TWN, 2001).

Many developing countries argue that the single undertaking's human development impact would be maximized if it ensured that all countries' interests were reflected in the trade regime's rules and agreements. Thus a major challenge for the international trade regime is to incorporate human development objectives as positive obligations in its rules and agreements. Many developing country governments and trade policy specialists argue that special and differential treatment can help achieve this goal.

### *Special and differential treatment*

To ensure progress in crafting trade agreements that support human development, the September 2003 WTO conference in Cancun, Mexico, must reach clear consensus on the importance of special and differential treatment. A conference declaration on special and differential treatment and human development would show a concrete ministerial commitment to achieving the universally agreed Millennium Development Goals.

In terms of human development, possible areas that such a declaration could cover include education, energy, health care, technology transfers, gender equality, environmental protection, cultural integrity and diversity, and the right to use traditional knowledge to promote human development.

### *Governance structure and decision-making*

Formally, the WTO is the most democratic of all intergovernmental organizations with a global mandate. Its one-country, one-vote system of governance makes it far more democratic than many other multilateral institutions. The WTO is also a member-driven organization, with its members involved in day-to-day activities through its general council. In keeping with this status, the WTO's secretariat is relatively small and has limited power and autonomy.

These features suggest that the WTO's formal governance structure provides developing countries with unique opportunities in a global forum for economic governance—especially when they have a clear majority. But such opportunities may be difficult to realize, because informal consensus building has had a far greater influence on WTO decision-making than its formal processes.

Some governance experts and developing country governments have suggested changes to the consensus-building process, including increasing the size of the quorum required to make decisions and allowing countries without representatives in Geneva to participate through videoconferencing or other arrangements. Some developing countries have also encouraged voting for certain decisions, such as those related to the trade regime's governance, budget, management and administration. Such voting could occur by mail or electronically to ensure the participation of members without Geneva representation. This approach would lead to better-informed decisions that are more genuinely owned by the majority of members and be more sustainable in the long run. There is widespread agreement that the least developed countries and small island developing countries require support to bolster their representation and capacity in Geneva.

Academics, policy experts and veterans of trade negotiations have also suggested that the WTO's governance structure allow for more effective organization and participation of coalitions of developing countries as well as developing and industrial countries. Some informal groups of developing countries have already emerged, among them the Like-Minded Group. Another example is the Cairns Group, which brings together industrial and developing

countries to discuss market access for agriculture. Such coalitions should be encouraged and supported.

### *Dispute settlement*

The WTO's dispute settlement mechanism, central to the governance of the trade system, is in many ways a marked improvement over its predecessor under the GATT. The new mechanism is more time-bound, predictable, consistent and binding on all members. As a result developing countries are participating more in the dispute settlement process.

Still, many international experts and developing country governments have argued for important changes in the mechanism's rules and functions. Changes are partly needed because of the perception that trade sanctions are an acceptable way—indeed, to some the only effective way—of enforcing international commitments. This perception has fuelled initiatives to extend the WTO's agenda to cover areas of international economic interaction far beyond cross-border trade in goods.

Given the importance of trade sanctions and retaliation in the dispute settlement process, developing countries are in a weak position relative to industrial countries because their threat of retaliation is less credible. Proposals have been made to rectify this imbalance, and there is a need for mechanisms to ensure that all countries honour WTO rulings. Such mechanisms could include requiring financial compensation and levying penalty payments on countries that delay implementation of dispute settlement rulings. Some experts have also suggested that in certain cases a collective action clause be used against powerful members that refuse to implement dispute rulings.

### *Agenda*

Most developing country members believe that the WTO's agenda is already full. A growing number of these countries, especially the least developed, also believe that they lack the capacity to deal with such a large, diverse and complex agenda in international trade negotiations. Similarly, the Doha declaration recognizes that the WTO's enhanced agenda has led to problems of policy coherence among multilateral organizations and agreements (multilateral environment agreements, regional trade agreements).

Moreover, many parliamentarians and civil society organizations believe that the way the agenda is determined and negotiated has diminished the influence of national legislative processes on economic and social issues of domestic concern. This makes it even more important to develop governance processes in a genuinely democratic, participatory and inclusive way.

### *Relationship with regional trade agreements*

Though there is considerable overlap in coverage between regional and multilateral trade agreements, some regional agreements are considered more development-

friendly by their members. However, a growing number of regional trade agreements incorporate ‘WTO plus’ elements. Many analysts have argued that WTO rules should provide the overall boundaries for regional agreements—but that WTO rules should first be made more flexible and friendly to human development.

In addition, many developing countries believe that WTO rules on regional agreements must be clarified to ensure that the agreements reflect human development criteria and countries enjoy the same special and differential treatment at the regional level as at the multilateral level. The Doha declaration and current negotiations on a number of regional trade agreements (such as the Cotonou Agreement between African, Caribbean and Pacific countries and the EU) provide opportunities to achieve these goals.

### *Accountability and external transparency*

The global trade regime’s mechanisms for accountability and transparency to outsiders are considered inadequate by a wide range of policy-makers, academics and civil society activists. As a result there are growing demands for increased public accountability and transparency in the WTO’s functioning.

Although the WTO has responded by sharing more information and documents, developing countries and civil society organizations do not consider these valid substitutes for more transparency—much less for their actual participation in meetings. But member states have had great difficulty in agreeing to more formal roles for civil society organizations within the WTO and its dispute settlement process. Some industrial countries have argued for opening the dispute process to private lawyers, but this move has been strongly opposed by many civil society organizations and governments from developing countries.

### *Broad national ownership*

Global governance of trade not only needs to be made more fair, it also needs to give greater voice to vulnerable populations not being represented by their governments at the national and international levels. Thus widespread participation in national dialogues involving multiple stakeholders—including parliamentarians, civil society organizations, community groups and the private sector—should be encouraged and supported. Broad, equitable ownership of such discussions can significantly contribute to long-term human development. In addition, trade ministries should be encouraged to develop an institutional ethos conducive to gender-sensitive trade policies.

## **PROPOSALS ON SPECIFIC AGREEMENTS AND ISSUES**

WTO agreements, and issues planned for or under negotiation, can affect human development directly and indirectly. They can affect income, equity, employment, public health, food security, gender outcomes and ownership of and access to

technology. By prohibiting or limiting the use of certain policy instruments or reducing market access, they can constrain flexibility in efforts to enhance human development. They can also impose significant opportunity costs if they lead to forgone growth or income that could potentially have been translated into human development. This overview focuses on the agreements and issues with the most significant potential or actual impacts on human development.

### *Agriculture*

Agriculture remains the economic mainstay for the world's poorest people, providing employment for more than 70 per cent of the population in developing countries. Thus the WTO's Agreement on Agriculture has a pivotal influence on human development.

**MARKET ACCESS.** Although the Agreement on Agriculture eliminated many non-tariff barriers to agricultural trade, agricultural tariffs remain significantly higher than industrial tariffs. Average tariffs on industrial goods fell from 40 per cent in 1945 to 4 per cent in 1995, yet agricultural tariffs still average 62 per cent. Nearly all the sources consulted for this book believe that this disparity persists because many industrial countries have lowered average tariffs in a way that fulfils the agriculture agreement's technical requirements—but that violates its spirit and intent.

Moreover, tariff peaks and escalation remain pronounced in many industrial countries. For some agricultural exports of interest to developing countries (sugar, rice, dairy products) the major economic powers maintain tariffs of 350–900 per cent. In contrast, many developing countries have been compelled to cut their tariffs and non-tariff barriers as conditions for World Bank and International Monetary Fund (IMF) loans.

**FOOD SECURITY, FARMER LIVELIHOODS AND EMPLOYMENT.** OECD members provide about \$1 billion a day in domestic agricultural subsidies—more than six times what they spend on official development assistance for developing countries. Moreover, since 1997 such subsidies have increased by over a quarter.

Many food policy experts, developing country governments and civil society organizations believe that these subsidies—and the related dumping of agricultural exports by industrial countries—have serious implications for developing countries. For example, rapid growth in international trade has made developing countries much more dependent on food imports, with potentially enormous effects on gender and distribution outcomes. In South and Southeast Asia women perform 60 per cent of food cultivation and production tasks. Rural African women produce, process and store up to 80 per cent of food. The erosion of domestic food production has numerous repercussions for food security, social cohesion in rural communities and women's income, employment and status.

To correct this situation, many developing countries believe that they must have greater flexibility in developing their agricultural policies, to ensure that they achieve food security and other human development objectives. They also require increased market access, especially in EU and North American markets—where reductions in domestic support and export subsidies and the elimination of export dumping are long overdue.

The proposals embodied in the ‘development box’—developed by civil society organizations and presented in WTO negotiations by a group of developing countries—are important because of their significance for human development.<sup>2</sup> If agreed, these proposals should apply only to developing countries and include a revised special safeguard mechanism. Some civil society organizations and developing countries have also argued for a ‘positive list’ approach to the development box, with illustrative criteria to ensure that this approach is not abused.<sup>3</sup> Many believe that the development box, especially if made operational through a positive list approach, could put human development at the heart of negotiations on agriculture.

### *Commodities*

Unlike other agricultural and industrial products, trade in most commodities continues to occur outside the GATT and WTO framework. Yet many if not most commodities are subject to tariff peaks and escalation—especially in industrial countries. In addition, the potential benefits of liberalization in the minerals and metals sector are being nullified by anti-dumping actions and even by the resurgence of voluntary export restraints.

Since the mid-1990s markets have collapsed for several major commodities of export interest to developing countries. In response there have been calls by producer associations of developing countries for the adoption of supply management schemes aimed at raising the dismally low prices of many commodity exports. Collapsing terms of trade have had dramatic implications for human development through reduced employment, wages, incomes, livelihood security and social well-being.

Many analysts have indicated a pressing need for future multilateral trade negotiations to address the problems facing commodity exports—especially given their direct effects on human development, particularly for the poorest countries and people. An umbrella agreement on commodities could cover supply, financing and market access issues. Resource allocations should focus on enhancing developing countries’ research and development capacity as well as their competitiveness in supplying and marketing dynamic new exports. In addition, compensatory financing is needed to help bridge shortfalls in export earnings. This issue is especially urgent for the least developed countries.

### *Textiles and clothing*

Because of its labour intensity and large share of female workers, the textiles and clothing sector has enormous implications for human development in developing

countries. Increased market access for these products in industrial countries can also improve human development outcomes in developing countries.

Under the WTO Agreement on Textiles and Clothing, the Multifibre Arrangement is to be phased out and quotas are to be eliminated. The liberalization is final and binding, with an outer deadline of December 2004 for all categories of textiles and clothing.

Developing countries have several concerns about the Agreement on Textiles and Clothing. Most believe that it liberalizes trade in a much wider range of textile and clothing products than was originally intended. They are also concerned that, through recourse to anti-dumping measures and technical barriers to trade, major importing countries may not fulfil the letter and the spirit of the agreement.

There is also widespread apprehension about what the elimination of the Multifibre Arrangement will mean for some developing countries—especially least developed countries such as Bangladesh. China’s accession to the WTO will also have important implications for trade in textiles and clothing, particularly for some least developed countries. Among the anticipated problems are excess supply and falling prices.

Given the sector’s enormous implications for human development, it is crucial that the Agreement on Textiles and Clothing be fully implemented as agreed during the Uruguay Round. The elimination of quotas and the phase-out of the Multifibre Arrangement should significantly reduce protection in large North American and EU markets, giving the most competitive developing countries better access to those markets. (To ensure such access, the phase-out of the Multifibre Arrangement should not be replaced by an increase in anti-dumping actions.) At the same time, negatively affected countries, sectors and groups in both developing and industrial countries—especially women—will require assistance.

### *Trade-Related Aspects of Intellectual Property Rights (TRIPS)*

Many trade policy experts, developing country governments and civil society organizations have concluded that the WTO’s mutual bargaining framework is not suited to intellectual property rights, because low-income countries have little to bargain with.

The Doha declaration on TRIPS and public health affirms developing countries’ right to interpret the TRIPS agreement from a public health perspective. The declaration also explicitly recognizes countries’ ability to grant compulsory licenses and determine the criteria for their issuance. Thus the Doha declaration is an important milestone in the international debate on intellectual property rights. By recognizing that these rights are subservient to public health concerns, it paves the way for interpretations of the TRIPS agreement that are more supportive of public health concerns. And though a political rather than a legal statement, it could be valuable if disputes arise on interpretations of the TRIPS agreement.

Developing country governments and civil society organizations have identified—and should take advantage of—several other ways to use the TRIPS agreement

in a more development-friendly manner. Many developing countries have also lobbied for protection of traditional knowledge and biological resources under intellectual property rights regimes.

Recent debates and proposals have triggered considerable rethinking of the TRIPS agreement. Academics and policy experts have argued that WTO members should explore alternative mechanisms for protecting intellectual property rights. New mechanisms could encourage innovation in both developing and industrial countries and support technology transfers to developing countries. Ultimately, the international community should settle on a way to protect intellectual property that does not involve trade sanctions. Possible reforms suggested include intellectual property ‘ladders’, a ‘TRIPS minus’ model, an intellectual property regime with specific opt-out clauses and separate intellectual property regimes for collective and individual rights.

In the meantime there is an urgent need to interpret and implement the TRIPS agreement in a more development-friendly manner—especially when efforts to do so are challenged under the dispute settlement mechanism. The Doha declaration on TRIPS and public health is a step in the right direction. But concrete action at the international level will need to be supplemented by national legislation that gives full weight to human development concerns.

### *Trade-Related Investment Measures (TRIMs)*

The agreement on TRIMs is intended to eliminate trade-distorting investment measures among WTO members. Introducing no new obligations, it merely prohibits TRIMs considered inconsistent with the 1994 GATT for both agricultural and industrial goods.

Many developing countries have argued that they should be allowed to maintain TRIMs for development purposes. They believe that certain TRIMs can enable small firms to expand to full competitive scale or channel foreign direct investment to bring infant industries to maturity, increasing domestic employment and valued added.

Implementation of the TRIMs agreement has also created problems for developing countries by limiting their flexibility in using performance requirements for foreign investors. Some developing countries consider these requirements—such as those for local content and export-import balancing—essential to their development. Such policy instruments made important contributions to human development in several East and Southeast Asian countries. TRIMs were also crucial to several of today’s industrial countries in the early stages of their development. Developing countries worry that because the TRIMs agreement limits important policy choices and instruments, it is not in their best interests or in those of human development.

The WTO Council for Trade in Goods responded to some of these concerns in July 2001 by extending the transition period for notification of TRIMs by an additional two years retroactively from 1 January 2000, in addition to leaving open

the possibility of a further extension of two years if certain conditions were met. Though useful in the short run, this fails to address the basic concerns of developing countries.

### *General Agreement on Trade in Services (GATS)*

The GATS provides a legal framework for trade in services, defined to cover a range of areas including investment, financial services, communications, transportation, education, energy, water and movement of persons. It also calls for negotiating the progressive liberalization of regulations that impede trade and investment in services.

The GATS provides two types of benefits for developing countries: the potential flexibility provided through its ‘positive list’ approach and through the provisions for human development incorporated in several of its articles.

Still, civil society organizations and some developing countries have found problems with the GATS. These arise from the agreement’s actual application and from developing countries’ inability to fully benefit from its flexibility and beneficial articles. Moreover, a lack of credible data on the impact of services liberalization has made it difficult for developing countries to determine which areas to liberalize and what limitations to include in country schedules. In addition, many civil society organizations have argued that the GATS could facilitate the commercialisation of public services to the detriment of poor women and children.

It is widely held that one of the main shortcomings of the GATS is its lack of progress on the movement of natural persons—an area that offers significant potential benefits for developing countries and human development. Significant barriers impede the temporary movement of skilled and unskilled workers in the services sector, and industrial countries have made few commercially meaningful commitments in this area.

Though many countries support the agreement’s positive list approach, they believe that it should be improved through the adoption of such modalities as the ‘conditional offer approach.’<sup>4</sup> They also believe that the agreement’s development-friendly articles should be operationalized. To enable that, developing countries should negotiate service modes of greatest interest to themselves in the exchange of offers and requests in a manner that ensures that these articles are effectively implemented at the sectoral level.

The extent to which public services are open to GATS rules will ultimately depend on how the agreement’s text is interpreted by the WTO’s dispute settlement body. In the interests of human development, many governments and civil society organizations are calling for exemptions from progressive liberalization for basic public services such as water, health, education and social protection.

Many countries and trade experts have also proposed concrete measures and timeframes for improving commitments on the movement of natural persons, especially unskilled workers. Such measures could have enormous benefits for human development.

### *Environment*

The relationship between trade, capital flows and environmental standards is unclear. Available data say little about whether increased trade and capital flows adversely affect the environment or whether high environmental standards discourage trade and capital flows.

Some observers have argued that human development goals should guide the trade-offs between trade-related environment measures (such as environment taxes or subsidies, technical standards, trade bans and quarantines) and trade policy. Every country should be free to manage its environmental problems in a way that is consistent with its human development priorities and international environmental (rather than trade) obligations. Trade measures designed to protect a country's consumers and environment from hazardous products are legitimate aspects of a human development strategy. But trade measures designed to coerce another country to harmonize its environmental standards are protectionist and inappropriate. Many developing countries believe that some international efforts to harmonize environmental standards are driven by protectionist rather than development concerns.

The WTO Committee on Trade and Environment has focused on fitting environmental concerns within the existing trade regime rather than on finding synergies between environment and trade as equally legitimate policy objectives. The WTO's post-Doha work programme gives the committee a new, more focused mandate. Negotiations will move ahead on the relationship between WTO rules and specific trade obligations in multilateral environmental agreements and on the reduction or elimination of tariffs and non-tariff barriers to environmental goods and services. Developing countries are seeking solutions to their environmental challenges—and want the flexibility to design appropriate solutions without fear of trade sanctions from countries with different environmental priorities.

### *Singapore issues*

The four Singapore issues (so called because they were introduced at the Singapore Ministerial Conference in 1996) on which working groups exist are investment, competition policy, trade facilitation and transparency in government procurement. Crucial decisions on whether there will be trade negotiations on them are expected at the Fifth WTO Ministerial Conference in Cancun, Mexico, in September 2003. But as noted, there is widespread belief among developing country policy-makers and trade negotiators that the WTO's agenda is already full and that many reforms are needed in the global governance of trade and on agreements that have already been negotiated. So, regardless of their merit, it would be wise not to overburden the WTO's agenda with new issues at this time. The main issues surrounding discussions of investment and competition policy in the WTO are summarized below.

**INVESTMENT.** In the wake of recent financial crises around the developing world, most developing countries have argued that any discussions of investment should

focus on foreign direct investment rather than include portfolio or other more volatile capital flows. Many forms of foreign direct investment have longer terms and can contribute to the creation of new productive assets, aiding human development. Overall, however, such investment has had a mixed impact on human development.

Though there are no firm proposals, some WTO members are seeking a definition of investment that includes portfolio and other capital flows as well as foreign direct investment. In addition, some industrial countries are seeking agreement on issues such as the right of establishment for foreign investors, most-favoured-nation treatment, national treatment, investment incentives and protection, abolition of the performance requirements allowed under TRIMs and binding dispute settlement. Many developing countries and international experts argue that agreements in these areas would be premature and overly ambitious.

Many developing countries believe that any attempt to bring investment under multilateral trade disciplines should be approached with caution and subject to further study, keeping in mind the WTO's experience with the TRIMs agreement and the commercial presence and investment aspects of the GATS. They also believe that any multilateral investment agreement will need to provide developing countries with greater flexibility (relative to current bilateral investment agreements) to choose policies that allow foreign direct investment to contribute to human development.

*COMPETITION POLICY.* Competition policy refers to laws and regulations aimed at maintaining fair competition by eliminating restrictive business practices among private enterprises. Thus it aims at limiting monopolies to encourage competition and its benefits. Competition policy covers a range of issues, many of which are unrelated to trade.

While most developing countries recognize the need for competition policies, even the most effective domestic policies will not be able to deal effectively with the current global situation. The global context will, it is argued, require the cooperation of industrial countries. As such, it will require an appropriate framework for international cooperation on competition issues.

Many experts argue that developing countries should continue to develop their competition policies, both to regulate domestic monopolies and to control the possible anticompetitive behaviour of transnational corporations. There is also evidence that human development interests will be served if such policies encourage the development of strategic and genuine infant industries, managerial and marketing capacity and efficient public utilities, services and technologies.

The domestic experiences of industrial countries suggest that competition policies should be flexible in their sectoral application. But even if effective, such policies are unlikely to be able to deal with the increased volume and complexity of transnational business activity over the past two decades. So, governments will also need to coordinate national competition policies to minimize the possibility of abuse.

### *Strengthening capacities*

A global trade system based on mutual bargaining cannot deliver fair and desirable human development outcomes unless all members have the capacity to negotiate and extract benefits from international trade. Strengthening the capacities of developing and especially the least developed countries is thus a crucial, cross-cutting issue that should be viewed as integral to a human development-oriented multilateral trade regime.

Most developing countries lack the capacity to influence the agenda and pace of multilateral trade negotiations, negotiate effectively on issues of concern to them and fulfil their commitments to the trade regime. Many of the reforms proposed in this book seek to enhance such capacities.

Many experts have argued for stronger trade policy research and analysis capacity for developing countries—serving them collectively but existing independently and financed by their governments. This could be a significant input into enhanced trade negotiations capacity in developing country capitals and in Geneva. Moreover, while the need for technical assistance has been recognized in the WTO (and was reaffirmed in Doha), its volume and quality need to be considerably enhanced. New technical assistance programs should be designed in a way that makes it clear they are driven by human development needs and goals.

## **VISION FOR THE FUTURE**

The vision that emerges from the discussion above can be summarized in four basic principles that should be accepted and operationalized:

- Trade is a means to an end—not an end in itself.
- Trade rules should allow for diversity in national institutions and standards.
- Countries should have the right to protect their institutions and development priorities.
- No country has the right to impose its institutional preferences on others.

A human development-oriented trade regime would give governments the space to design policies that embody these principles. Ideally, the regime would also help developing countries build their capacity to gain from trade. Among the elements that such a regime would need to emphasize are regular human development assessments of trade agreements and issues, policy space for the coexistence of diverse development strategies, and asymmetric rules for industrial and developing countries.

Market access is important for enabling developing countries to reach a level of development at which they can compete on an equal basis. But it is not enough. Developing countries gain less from trade than do industrial countries, partly because of falling commodity prices and specialization in exports with low value added. Developing countries also lack capacity to compensate those adversely

affected by trade liberalization. Industrial countries, by contrast, gain much more from trade and have developed mechanisms to help cope with the vulnerabilities induced by liberalization. If it is to consistently serve the needs of human development, the global trade regime must reflect these differences more seriously and effectively than at present.

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By expanding markets, facilitating competition, disseminating knowledge, increasing exposure to new technology and stimulating gains in productivity, trade can spur economic growth, reduce poverty and support better human development outcomes. Moreover, higher levels of human development increase the likelihood that countries and communities will gain from trade.

Today, however, the global governance of trade is generating inequitable outcomes. Though not surprising in a world of unequal players, this set-up makes it difficult for developing countries—especially the poorest and weakest—to formulate policies that promote human development. Thus policy-makers in both developing and industrial countries face an urgent challenge: to ensure that the multilateral trade regime allows people to fully benefit from the potential contributions that trade can make to human development.

## NOTES

1. *Care work* refers to services that nurture other people, that are costly in time and energy, and that are undertaken as contractual or social obligations.

2. The *development box* includes a set of measures that would allow developing countries the flexibility they need to enhance domestic agricultural production for home consumption and to take other measures necessary to protect the livelihoods of farmers and reduce poverty.

3. A *positive list* is the list of items, entities, products, and the like to which an international agreement will apply, with no commitment to apply the agreement to anything else.

4. Under the conditional offer approach developing countries would indicate a willingness to undertake liberalization commitments if industrial countries undertake to implement certain provisions or make additional implementation commitments regarding the increasing participation of developing countries. The conditional offer approach would recognize differences in capacity and levels of development.

## REFERENCES

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