T | P | F The Trade and Poverty Forum
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1744 R Street, NW
Washington, DC 20009
T 202 745 6694
F 202 265 1662
E tpfinfo@gmfus.org
W www.tradepovertyforum.org

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Trade and Poverty Forum

Overview

William Antholis, The German Marshall Fund of the United States/ The Brookings Institution
Kareem Saleh, The German Marshall Fund of the United States

The year 2005 can be a critical one in advancing the fight against global poverty. The good news is that leading governments have recognized it as a priority in global diplomacy, on a par with some of the critical security and political challenges of the day. The bad news is that this diplomacy may produce fine-sounding communiqués but may not be backed by political will, the essential ingredient needed to move leading democracies from words to action in both the industrial and the developing world.

In the first section, this report gives a brief overview of the challenges of fighting global poverty and presents *A Call to Action*, the set of recommendations issued by the members of the Trade and Poverty Forum. The second section assesses the political challenges involved in achieving this goal, with papers on six leading democracies that, with over 2 billion people, account for nearly three-quarters of the world economy and are widely considered to be the critical players in several international fora. Since the world's neediest nations are not included in this group, the report concludes by proposing a new area for TPF policy research and advocacy beyond 2005: a special global trading initiative for the most disadvantaged nations.

The *Call to Action* recommendations were agreed to in March 2004 by forty-four individuals representing most but not all of the membership of the TPF. The other sections of this report are the work of the individual authors, to help inform the TPF discussions and a broader audience of readers. The authors alone are responsible for their content.

The Challenge: One Billion People in Abject Poverty

According to the World Bank, 1.2 billion people live on $1 a day or less. People in such poverty have life expectancies ten years lower than the world average. In industrial countries, fewer than one in one hundred children die before age five. In developing countries, that number is one in twelve. The level of human suffering reflected by this bare statistic is morally unacceptable. Further, it undermines the capacity of poorer countries to develop and grow.

Wealthy nations too have a critical interest in fighting global poverty. Poverty and hopelessness can breed dangers that affect everyone in an interconnected world, leading to violent crime, disease, environmental damage, displacement of populations and political instability. It engenders the political discontent on which civil violence and terrorism feed. By contrast, economic expansion in poor countries provides fast-growing markets for industrial country goods and services. Polling data from both rich and poor nations indicates that significant majorities are willing to support efforts to address global poverty. It is up to political leaders to mobilize this potential support by making a clear and compelling case that tackling the conditions of poverty and despair in distant countries is in everyone's self-interest and must, in all reasonableness, be given a high priority for action.

Trade and investment under the right conditions can be a powerful weapon in the fight against poverty. International trade has helped provide a long-term spark for sustained growth. In the last two decades alone, diverse developing economies such as Korea, Mexico, Poland, Singapore, Taiwan and Thailand have used trade to help grow to near- industrial-country status. They have benefited by exporting a wide range of industrial and agricultural products as well as by lowering tariffs, and allowing domestic consumers access to a wider range of goods. Economic growth has been uneven in some of these countries, however, and investment remains sharply tilted against the developing world. Consistently, about 75% of foreign direct investment goes to Europe, the US, Japan and a few other wealthy economies. Divisions amongst developing countries themselves are also sharp – both by region and between least-developed economies and emerging middle-income states.

Democratic governments have a critical role to play in achieving a global economy that raises living standards worldwide. But both poorer and wealthier democracies have found it increasingly difficult to sustain broad-based domestic coalitions in favor of global trade and targeted development assistance. Gaining this support requires that the benefits of trade be widely shared and felt.

Diplomacy 2005: Where's the Will?

This year, three separate high-level meetings will be devoted to the challenge of fighting global poverty, each bringing together either heads of states or ministers not normally accustomed to addressing development topics.

1. In July, the annual meeting of the world's leading market democracies – the G8 – will focus almost exclusively on the topic, including a likely discussion with their counterparts in some of the critical emerging market economies.

2. In September, the United Nations will celebrate the fifth anniversary of the Millennium Development Goals – the far reaching recommendations adopted by the entire UN in 2000 to try, over a period of fifteen years, to cut in half the number of people living in abject poverty. A major part of the effort to meet those goals was a commitment by governments to increase their development assistance, and the September 2005 UN meeting will be an important moment for determining if those governments will meet those pledges.

3. In December, trade ministers will assemble in Hong Kong for the fourth Ministerial Meeting of the World Trade Organization (WTO). They will try to push forward the round of trade negotiations launched in Doha, Qatar, in November 2001. These negotiations have been dubbed "the Development Round," since they hold out the prospect of opening new markets for developing nations to lift themselves out of poverty.

Our hope in producing this report is to provide a guide for this critical year that will be useful for policy-makers, legislators, the media, and concerned citizens in the leading democracies. In addition to this communal effort, individual members of the Trade and Poverty Forum will personally target these three key international gatherings to continue to press for concrete efforts to address the needs of the poor.

The Role of the Trade and Poverty Forum

The Trade and Poverty Forum (TPF) was formed in 2002, shortly after the launch of the Doha Round, with a three-year mandate to consider concrete ways to harness the global economy to address development challenges. TPF brings together thoughtful, high-impact individuals with a range of views, drawn from six leading democracies, industrial and developing: Brazil, Europe, India, Japan, South Africa and the United States.

Since that time, TPF has met in full three times: in Venice, Italy (2003), Brussels, Belgium (2004), and Nagoya, Japan (2005). There also have been a number of smaller planning and discussion sessions and some field trips, including in New York City, in Cape Town, South Africa, and in Delhi, India. Over the course of these three years, TPF issued a *Call to Action*: a set of far-reaching recommendations focusing on three inter-related areas of policy: trade reform, development assistance and political reform. This report marks the end of this three-year cycle, laying out the *Call to Action* recommendations, describing the political challenges that leading democracies face in trying to address them, and suggesting new areas for research and political action after 2005. It is divided into three sections:

1. **Concrete Recommendations.** First, the report presents TPF's concrete and detailed recommendations for actions by leading nations in the fight against global poverty. These are embodied in the *Call to Action* and are explained in detail in an extensive background discussion for each of the substantive recommendations.

2. **Political Prospects for Reform in Key Democracies.** A political assessment of the prospects for immediate reform in the leading industrial and developing market democracies. Six essays provide a

political assessment of the feasibility of advancing the *Call to Action* in Brazil, Europe, India, Japan, South Africa and the United States. Each essay describes the political opportunities and obstacles to advancing trade reform, strengthening development assistance, and improving governance.

3. **New Research Areas.** This section suggests some innovative ways to address longer-term challenges in the global economy. The report concludes with a final chapter which assesses the possibility of establishing a new, single set of special and differential preferences for developing countries within the WTO.

1. Concrete Recommendations:

The *Call to Action* recommendations fall into three categories: 1) reforming the global trading system; 2) strengthening development assistance, both across and within borders; and 3) advancing efforts towards political reform and good governance.

Trade Reform.

Reform of the global trading system has slowly worked its way up the agenda of international negotiations. Over the course of the 1990s, many developing countries began to see trade reform as one of the best avenues to economic growth and reform. Three of the essays in this report describe efforts in Brazil, India, and South Africa to undertake dramatic market openings. These countries slashed their average tariffs and other protections from rates as high as 80% to nearly one-third that amount.

In all three countries, trade reforms were seen as one of several key instruments of economic reform – right alongside responsible fiscal policy, appropriate deregulation, and the right kinds of social investment. Making their economies more open to foreign competition was critical for jump-starting increased efficiencies, adopting better technology, and improving quality.

Compared to some other policy tools, trade reform in the developing world carries a lot of baggage. Lowering barriers sends a signal to foreign investors that these countries are "Open for Business," good places not only to sell and buy goods but also to invest capital. While foreign investors may see a country as "open for business," the same set of measures may be perceived within developing countries as undermining local businesses. Foreign Competition in sectors that had benefited from protections would mean not only losses for the owners of these businesses, but also for their employees. Jobs lost in these import-sensitive sectors are not always directly matched by either the incremental gains in national quality of life that come from less expensive imports or the new jobs created in other sectors that might benefit from less expensive components or newly opened foreign markets.

So as developing countries launched these reforms, their imperative was to get greater access to markets of industrial countries' markets in return. Industrial nations are by and large more open to foreign trade, but they continued to maintain protections in basic industries where developing countries could be competitive, such as textiles and agriculture.

To this end, at the end of the last round of trade talks – the Uruguay Round, which ended in 1993 – developing countries secured the phase-out of textile protections by January 2005.
And they also gained an agreement that agricultural goods would be addressed in the next round of trade talks. This round was launched in Doha, Qatar, in November 2001. The Doha meeting came weeks after the September 11 attacks in the United States and succeeded thanks to a shared sense that cooperation was needed at a time of intensified vulnerability. Industrial countries committed themselves to addressing agriculture liberalization, among other sensitive items, and to a detailed set of deadlines. Developing countries agreed to consider addressing a range of new items, but only after agricultural topics were adequately addressed.

After several starts and stops – including a number of missed deadlines in 2002 and early 2003, leading up to a failed ministerial in Cancun in September 2003 – negotiators managed to keep the Doha Round alive by agreeing, in Geneva in July 2004, to a framework for the reform of agricultural trade. Since that time, however, very little real forward progress has been achieved. Rich and poor nations have yet to find accommodation on trade reform in a few key areas, including trade-distorting supports, tariff reduction and market access, especially as these relate to agriculture. As a result, negotiators have given up hope that the Doha Round will be completed in Hong Kong in December 2005 – already one year past the three-year goal set for the Round.

- *Agriculture:* At the top of the negotiators' agenda is agriculture. In no other sector of the global economy does the industrialized world engage in such blatant protectionism, to such devastating effect, as in agriculture. Addressing the problems in this area is critical both to solving poverty and to building long-term support for the global trading system. Three quarters of the world's poor live in rural areas in developing countries. Agriculture is their livelihood. But agricultural markets are highly distorted in favor of industrial-country farmers by support and protection measures such as subsidies and tariffs. Establishing a level playing field in agricultural trade, therefore, holds huge potential for poverty reduction. And developing countries also have highly protected markets; many of the benefits of global reform would come from increased South-South trade.

- *Export Subsidies.* Industrial countries are by far the worst abusers of export subsidies and subsidy elements in other export-enhancement programs, the most trade-distorting forms of support. Additionally, much domestic support, while not specifically targeted at exports, nevertheless helps industrial-country farmers sell at lower prices or gives them incentives to produce more. For example, the United States provides some $3-4 billion in government subsidies to about 25,000 large cotton farms; as a result the US accounts for about 30-40% of total world cotton exports in spite of production costs roughly double those of millions of West African, Chinese, Indian and Brazilian competitors.

- *Tariffs & Market Access.* Tariffs continue to be a major hurdle to agricultural trade -- they are much higher here than in other sectors. The potential benefits of lower tariffs are significant for more competitive producers and for consumers. If reductions are pursued aggressively by both developed and developing countries, the resulting increase in trade flows would raise global aggregate GDP, and also raise the GDP of each participating country. Many experts believe that the greatest benefits for development would come from focusing on tariffs and market access.

- Many developing countries, however, have asked for more time to implement tariff reduction commitments – what is called special and differential treatment, or SDT. The smallest and poorest countries are particularly vulnerable, as they have fewer resources to help their poor and vulnerable small-scale farmers adjust to new market conditions. The biggest developing countries like China, Brazil and India also have many poorer, vulnerable small farmers, but industrial countries have resisted granting SDT to these nations, since other aspects of their agricultural production are fairly competitive by global standards.

Beyond agriculture, recent reports from the World Bank, OECD and WTO all argue that improved market access for industrial products and services can contribute significantly to the growth of developing countries' economies. Nearly 80% of these countries' exports consist of industrial goods, but they cannot fully realize their potential in this sector. Although industrial country tariff rates are generally low (4% on average), market access is often hindered by tariff *peaks* (i.e., tariffs of 15% or more on some goods) and tariff *escalation* (i.e., tariff rates that increase according to the degree of processing). Tariff peaks and tariff escalation often apply to products of particular concern to developing countries and often impact least developed countries most adversely. Tariff escalation, in particular, discourages the expansion of processing industries – such as turning coffee beans into instant coffee or raw cotton into yarn – and thus hampers the ability to develop skills and capital, and to diversify exports.

Developing countries also use tariff peaks and tariff escalation. Their tariffs are on average much higher than in the industrial world. For instance, the bound-tariff rate of developing countries for industrial goods amounts to 20%, and to 24% for textiles and clothing. Therefore, developing countries would in theory benefit greatly if they granted one another greater market access for industrial goods. OECD studies even suggest that the developing countries that stand to gain most from reducing their tariffs are those with the *highest* initial tariff rates. And as a matter of trade politics, it is highly unlikely that industrial countries will open their markets if developing countries do not demonstrate a willingness to reciprocate.

- *Services.* Services are the fastest growing component of the global economy, accounting for more than two thirds of economic activity in the industrial world. Even in developing countries, exports grew more rapidly in services than industrial goods in the 1990s. WTO Members have made specific commitments for market access and national treatment of services and service providers under the GATS (General Agreement on Trade in Services). However, there is much room for improvement. Developing countries would potentially gain in labor-intensive areas such as construction services and data processing, or in services that require physical proximity between service providers and consumers, such as health services. Moreover, it is estimated that liberalization of key infrastructure services like telecommunications, transport and financial services would be very beneficial to developing countries. Most studies indicate that the countries with the *highest* initial barriers to trade in services stand to gain most from services liberalization, especially developing countries. This is particularly so if the removal of barriers to trade is coupled with domestic reforms conducive to competition that provide for stable regulatory frameworks.

Many developing nations doubt that wealthy nations will deliver on their Doha pledges. With global economic conditions still uncertain, failure to address key development concerns in the coming year could lead many to conclude that strains among industrial nations have undermined their capacity to address economic challenges.

Moreover, few would argue that trade policy alone is sufficient. Trade only can aid development when combined with the right set of public and private investments, with policies that promote broad-based growth, and with a strengthening of the democratic accountability that provides the best long-term protection for the rights of working men and women. The Doha Agenda recognized this and called for policy integration in efforts to alleviate poverty. Technical assistance is particularly important, as are other "aid for trade" measures that help developing countries to make key reforms. However, that part of the agenda has failed to receive as much attention. It will require considerable work by governments, international institutions, industry and non-governmental organizations.

Development Assistance

In September 2005, in New York, the UN will look back at five years of work on its most recent effort to fight global poverty. Chances are, the assembled nations will not like what they see.

Five years ago this fall, with great fanfare, the world's nations all pledged to cut persistent extreme poverty by half in the first fifteen years of the new millennium. They spelled out in some detail a UN Millennium Declaration that committed their countries to achieving marked progress across a whole range of development goals, including poverty reduction, education, health, gender equality and environmental sustainability. The Millennium Development Goals (MDGs) embraced the power of markets and trade reforms but implicitly acknowledged that markets alone are not always able to deal adequately with the human and social aspects of development. Besides making trade work for the poor, countries must try to reduce the grave inequities that markets are not well equipped to address.

To that end, eighteen specific, measurable targets were drawn up, and progress towards them is being monitored. But in spite of overall improvement, progress is not being made at a rate that will meet the MDGs by 2015. Furthermore, some regions and countries, especially in Africa, have fallen far behind. Donor governments and multilateral agencies have repeatedly pledged to increase financing for development and make it more effective. It is to be hoped that they will follow through on these pledges, as the $57 billion that industrial-country governments currently allocate to aid, while a moderate increase over past years, is only half of what is required to achieve the MDGs.

Since the funding levels needed to achieve the MDGs are not being met, it is all the more urgent that development aid be spent effectively. To that end, industrial-country development agencies and multilateral institutions have pledged to harmonize their procedures and policies and to simplify the conditions and reporting requirements they impose on beneficiary countries. And they have also promised to work within national development priorities and systems – for example, through nationally-owned Poverty Reduction Strategies – rather than try to impose their own. Aid also can link to trade reform – the right kind of assistance can be a powerful tool in helping nations make up for lost revenue from reduced tariffs or for training officials to make the most of the global trading system.

Pledges for increased aid are welcome and now need to be backed up by action. Furthermore, the transparency, accountability and efficiency of international institutions and bilateral agencies must also be improved.

Other development-assistance strategies that should be pursued include: the strengthening of micro-credit programs that help developing nations grow competitive industries by deepening financial and technical support from multilateral and regional development agencies; increasing the overall amount of development assistance to more than $100 billion; and focusing on the provision of global public goods such as access to clean water.

Political Reform

Trade policies are less likely to be implemented, let alone succeed in helping address persistent poverty, without real political reform. Here the onus is largely on developing countries that have weak institutional oversight and public accountability. Getting rid of corruption – bribery, embezzlement and money-laundering – is critical for restoring domestic trust, attracting outside investment and giving donors confidence that development aid will be put to the right use. Many developing nations have made great strides in improving democratic governance. In a number of developing countries, however, corruption is systemic. Widespread "surcharges" required in many countries for such routine documents as drivers' licenses or building permits are as harmful to the system as the plundering of state coffers by government ministers.

There is no single recipe for political reform. In some nations, strong independent watchdogs or ombudsmen, with the power to investigate and prosecute abuses, can be set up (and supported) and laws can be passed (and implemented) to protect whistleblowers. Offenders, including high-level recipients and givers of bribes, must be prosecuted to the full extent of the law – which itself often needs to be strengthened.

Political reform and economic reform can and should happen simultaneously. In opening up their economies, many governments have worked hard to provide a flexible labor environment for globally mobile industries. In doing so, governments should not abandon respect for internationally recognized labor standards but rather should make sure that workers are not exploited and that their rights are not infringed. Core labor standards are an essential element of political reform, and over the long term, they contribute to better educated, healthier and more adaptable workforces. Moreover, failure to respect the rights of workers violates internationally-recognized agreements. The enforcement of labor standards should not be an excuse for protectionism, however; such provisions should not abused by higher-wage countries seeking to restrict imports from more competitive countries.

Finally, industrial countries have a role to play in assisting developing-country efforts to consolidate democratic practices and improve governance. They can provide political support, financial aid and technical assistance. But these efforts work best if developing countries take primary responsibility, and recent attempts to use regional organizations to set benchmarks and monitor progress have been critically successful.

2. Political Prospects for Reform in Key Democracies

Since the end of World War Two, leading market democracies have led the way in opening their markets to one another. Of course, pursuit of economic growth was the main reason. Yet the common economy was also part of a broader effort to forge a common security front in fighting the Cold War. As most of the world's leading nations have now embraced market democracy, the context has changed. The questions now are threefold. First, nations have struggled to find common strategies to deepen their market integration in a way that addresses the needs of the most disadvantaged, both at home and abroad, particularly in the developing world. Second, democracies have recognized the need for vigorous international institutions in this area – particularly the World Trade Organization – while still wanting to maintain political autonomy over key realms of domestic legislation. Lastly, all nations, industrial and developing, are struggling to make appropriate investments in public education, health and infrastructure while still maintaining fiscally responsible budget policies.

The country papers included in this volume detail the challenges to implementing the TPF agenda in each of the Forum's participating member states. While each country faces its own unique set of obstacles to pro-development trade and public investment policies, there are some broad measures that must be taken by developed and developing countries if the Forum's recommendations are to be realized and implemented.

Developing Countries: Brazil, India, South Africa

There is little doubt that the most significant development in the Doha Round of trade talks has been the emergence of Brazil, India and South Africa as major players. While the needs of all developing countries are clearly the object of these talks, the greatest accomplishment to date has been the self-confident role these three countries have assumed. This became pronounced in the run-up to the 2003 Cancun Ministerial, when they joined with China to lead a new group of twenty nations to develop a common proposal for resolving the most difficult issues in the talks.[1]

Like most developing countries, these three nations are well aware that the most critical policies for addressing poverty go far beyond trade talks. Each of the papers in this volume, though drafted independently, recognizes that the greatest weapons in fighting poverty will come from the adoption of sound budget policies, the streamlining of domestic regulations, the enforcement of anti-corruption laws, and the provision of basic services that address the needs of the poor, such as investments in education, health, and critical infrastructures like roads and ports.

Multilateral trade reforms – particularly within the WTO – certainly can contribute to developing country economies in considerable ways. Greater access to rich-country agricultural markets would help immediately in addressing – both symbolically and in real terms – the needs of the poorest regions in developing nations. But in agriculture and other sectors, greater South-South trade through the multilateral system could also provide real benefits. As noted above, in addition to the tangible benefits, some of these gains would be symbolic. Beyond that, developing countries have begun to recognize that bilateral, regional, and even unilateral reforms can contribute to their growth. Since the domestic politics of trade reform are always difficult, particularly for democracies, many of these countries will still point to inequities between industrial and developing countries and will look for movement in the Doha talks before making the needed domestic adjustments.

Brazil. Though he came to power riding a wave of broad popular support, Brazilian President Lula da Silva has encountered several domestic obstacles to delivering on his campaign promises for reform, poverty-alleviation and growth. The traditional left-wing parties that have long supported Lula had high hopes for his presidency, but they have grown critical of him for courting international investors with fiscal policies that largely resemble those of his predecessor. Nevertheless, Brazil's farm exports have taken off dramatically in recent years, and it now stands poised to become one of the world's leading agricultural producers. It is in this context that Lula's government has used the Doha Round as a way to demonstrate to domestic opponents that he is willing to fight one of the greatest obstacles to poverty-alleviation: the intransigence of industrial countries to open their markets to developing country farm goods. Combined with his domestic anti-hunger programs, he has crafted a trade policy that appears both outward-looking and pro-development. The challenge will be to continue his aggressive trade diplomacy while not ignoring the demands of his own core constituents.

India. In the last three years, India has been a case study of why using the global trading system to address poverty poses enormous political challenges. Under the BJP government, India continued with fiscal and trade reform policies launched in the early 1990s. It joined Brazil and South Africa in forming the G20 prior to Cancun, calling on industrial countries to cut farm subsidies and tariffs before doing so themselves. Meanwhile, the BJP government was pursuing liberalization at home. This seemed to have contributed to extraordinary economic growth – nearly 8% in 2004 – and the government widely took credit for "Shining India" in its 2004 reelection bid. Yet persistent poverty, both rural and urban, contributed in part to the BJP's electoral setback, ushering in a left-of-center coalition led by the Congress-party. The new prime minister, Manmohan Singh, himself the author of the first wave of Indian trade liberalization, is likely to move forward cautiously with further trade reforms. In the context of the WTO talks, the current government understands that without concessions from industrial countries on agriculture, further trade liberalization by India will be both substantively and politically challenging.

[1] The Trade and Poverty Forum had independently identified these three nations as the critical developing country players in late 2001, almost two years before the emergence of the G20.

Substantively, any efforts for India to cut tariffs might put key agricultural producers at a disadvantage if industrial country subsidies continue unabated. Politically, a failure to exact real concessions from the industrial world runs the risk of appearing to repeat BJP policies.

South Africa. South Africa has enjoyed good macro-economic stability in recent years, but 57% of South Africans remain poor. Since the end of apartheid, the nation has been a leader in regional trade liberalization, and has played a bridging role between emerging markets like Brazil and the poorer and smaller nations that have not been able to fully take advantage of global markets. Many of these nations face some of the most difficult development challenges – from poor health conditions (including a dramatic increase in AIDS, malaria and TB infections) to inadequate education to insufficient infrastructure to poor governance. Through its engagement in New Partnership for Africa's Development (NEPAD), South Africa has tried to help promote governance and infrastructure reform throughout Africa while at the same time seeking greater market access in industrial countries. These efforts could be rewarded and deepened if developed countries agreed to grant South Africa greater market access for its agricultural and industrial goods. The challenge, however, is to convince industrial countries that reforms in neighboring nations are real and that development assistance will be spent effectively.

Industrial Countries: European Union, Japan, United States

Industrial countries have led the way in building a global trading system, but they have not been as forward-leaning as they might be in showing the political will to fully address the challenge of global poverty. As the papers on the US, Europe and Japan indicate, the key advanced nations in the trading system currently have discriminatory trade policies in place. In each of these countries there are disparate pressure groups working to reform trade policy, but they have yet to unite in a coherent way to support and give political cover to legislators and governments trying to take bold action against entrenched interests. This is especially true in the area of agriculture, where historically powerful developed country farm interests have aggressively organized to maintain protectionist trade barriers of all sorts.

European Union. The European Union has attempted to undertake some modest trade reforms, especially of its Common Agricultural Policy. So far, however, proposals to reform the CAP have been too modest to be of real benefit to developing countries, and the EU continues to protect the most sensitive parts of its agricultural economy. The modesty of the proposed EU reforms deters developing countries from making meaningful reciprocal reforms in areas like governance. European policy-makers face consistent and organized pressure from Europe's farm interests, so there are few political incentives to make sweeping changes to trade policy. Furthermore, it is hard for European politicians to make the case publicly for removing their farm protections without tying such concessions to reciprocal behind-the-border governance reforms in developing countries.

The most important bright spot in European diplomacy on this issue seems to be from the UK. Prime Minister Tony Blair and his Chancellor of the Exchequer, Gordon Brown, seem to be outbidding one another over who can advance a more pro-development set of trade and assistance ideas. In particular, both are using the run-up to this summer's G8 Summit to highlight the need for increased assistance.

Japan. In recent years – at least at the rhetorical level – Japan has gone from being one of the most difficult nations in trade talks to being one of the most vocal advocates for the need of trade reform, especially in agriculture. While Japanese Prime Minister Koizumi's government had showed considerable intransigence about removing protections on special products – particularly rice – in the last year his government has begun to send signals that it wants to move the multilateral trade negotiations forward. In addition, Japan has concluded several regional agreements in recent months with key Association of Southeast Asian Nations (ASEAN) trading partners that have included some concessions in the area of agriculture. Moreover, this year, Japan's basic law on agriculture is expected to be dramatically overhauled. The results on the regional level could be huge. By relaxing discriminatory barriers in agriculture, Japanese companies are seeking to reinvigorate regional economic activity. Further reform, however, is being held up by members of Koizumi's own Liberal Democratic Party. Koizumi's popularity, once very high, was waned in recent years. If his popularity continues to slide, Koizumi may have to compromise on the most controversial aspects of his reform plans.

United States of America. President George W. Bush's first term in office had a mixed record in promoting trade and development reform. On the trade front, the then-US Trade Representative Robert Zoellick helped launch the Doha Round talks, arguing himself that they should be thought of as a "development round." He also secured fast-track negotiating authority in the summer of 2002 – a goal that the pro-trade Clinton Administration had failed to achieve five years earlier. And President Bush personally committed the United States to increase development assistance by 50%. This included more than $1 billion per year in spending on global HIV-AIDS and the launching of the $5 billion Millennium Challenge Account, which would target additional resources to countries that made strides in political reforms. Nevertheless, setbacks outweighed accomplishments in Bush's first term. In the spring of 2002, the administration called for safeguard measures on steel, which was followed by a $14 billion increase in agricultural subsidies. The failed WTO ministerial in Cancun demonstrated that the administration had little clout with its congressional skeptics. And the administration has yet to fully fund its HIV and development aid pledges.

Most observers remain skeptical that development policy will be an administration priority in the second term. Though the current budget includes some funds for development assistance, and a substantial decrease in farm subsidies, the President has not yet focused on creating an alliance of business and civic leaders to support his proposals. The US public remains deeply divided across a number of political and social fault lines, making it hard to build a broad constituency in support of a pro-development trade reform agenda. Nobody wants to be seen as a politician who supports job relocation outside of the Untied States, and the sugar and cotton lobbies in particular have worked hard to stall any reform measures. The US requires new coalitions of NGOS, business and legislators to rally behind the President's suggested agriculture reforms if any progress is going to be made in this area in the coming years.

3. Innovative Research Areas

One of the most contentious issues of the Doha negotiations is the extent to which developing countries should be granted "special and differential treatment" (SDT) -- that is, have different rights and obligations than developed countries within the multilateral trading system. Historically, SDT has encompassed preferential market access programs, allowance of more time and/or flexibility in implementing certain WTO obligations, and promises of technical assistance for developing countries. There is increasing agreement now that SDT instruments need reform, and that truly development-friendly SDT does not imply the lowest possible level of commitments. WTO negotiators, however, have missed all deadlines to tackle the main question: what kinds of exemptions from WTO rules should be granted to which developing countries?

This paper concluding the report argues that it is in the economic interest of all countries, developed and developing, to comply with WTO rules on trade instruments (like tariffs, quotas and export subsidies). Further, least developed countries should be granted improved market-access opportunities immediately. In designing a "new," development-friendly SDT regime, other issues are critical. First, trade liberalization must be complemented by domestic-policy instruments like taxes and subsidies. Though WTO rules usually do not constrain such policies, negotiations on SDT should aim to eliminate uncertainties in cases where domestic instruments may be "too" sector-specific or trade-distorting. Second, it must be recognized that WTO rules on regulatory policies (like standards and intellectual property rights) have different benefits and implementation costs for different countries. Moreover, "regulatory creativity" is often a desirable goal. Therefore, SDT in regulatory areas must be considered carefully, ideally based on robust cost-benefit analysis. Taking implementation costs into account also can help keep the scope of WTO agreements in step with politically deliverable commitments.

Section 1
Concrete Recommendations

For a Global Coalition Against Poverty

A Call to Action by the Trade and Poverty Forum

Today's globalizing world has the potential to bring great benefit to many, yet vast numbers of the world's poor find themselves left out and left behind. This is unacceptable.

We cannot defer the fight against poverty to another day. In a global era where rage, despair and alienation cross borders as easily as people, ideas and capital, poverty threatens human security, and the security of all nations. It makes nations vulnerable to extremism, conflict, terrorism and potential failure. It fuels destabilizing ills such as crime, disease and environmental degradation. It can fuel the violent rejection of market-based economies and open political institutions, undermining effective government and sustained economic development.

We must take action – as a matter both of moral responsibility and enlightened self-interest – to ensure that the benefits of the global economy are spread far and wide. And time is not on our side.

The Trade and Poverty Forum – which brings together concerned citizens from Brazil, Europe, India, Japan, South Africa, and the United States – has adopted a plan to promote a global agenda in three essential and mutually reinforcing areas: trade reform, with a specific focus on agriculture; multilateral and bilateral aid; and political reform.

Equitable economic development cannot be achieved without far-reaching trade reforms in all countries, using the multilateral system as the best way of arriving at equitable trade rules. History shows that the integration of markets is difficult; but it also shows that no economy has managed to grow in a sustained fashion without integration into the world economy. Governments must undertake significant trade reforms in all areas, particularly in agriculture, where most of the poor make their living. Nowhere else do the policies of the industrialized world have such devastating effect.

If we are to meet the UN's Millennium Development Goals, donor governments and developing countries must work more effectively together. To address the needs of the most vulnerable, we must pay immediate attention to fighting maternal and child mortality, disease, educating children, and protecting the environment. And we must mobilize sufficient investment to meet those needs.

Reforms will serve the poor – and will be supported by industrial-country governments and their citizens – only if there are transparent institutions in developing countries that are accountable to their citizens, combat corruption and demonstrate good governance. Such reforms will only work if they are based on genuine domestic consensus and are not perceived as being imposed by foreign institutions. To build such institutions and strengthen our democracies, leaders from all sectors – business, labor, foundations, religious organizations, community groups, and governments – must come forward and do their part.

Many political and business leaders understand this challenge, but few have shown the will or felt adequate pressure from their citizens to take the policy steps needed. No single country can undertake these reforms alone. Achieving these goals will require leadership in both developed and developing countries.

To help galvanize the political support required for reform, and to answer the UN's call for a global partnership for development, we are uniting to launch a Global Coalition Against Poverty. We will ask businesses, labor unions, NGOs, and political leaders to adopt this declaration and join our cause. In the coming year, we will initiate efforts to expand this coalition in each of our countries to educate our citizens about the urgent need to act and to call on our governments to take action.

What we advocate:

Undertake significant trade reform through the multilateral system, with a specific focus on agriculture.

- Pursue comprehensive and inter-related reform of agricultural trade. End agricultural export dumping by eliminating unfair practices such as agricultural export subsidies, the subsidy elements of export credits and of state trading enterprises, and abuses of food aid; significantly cut all trade-distorting domestic support to agriculture across all industrial countries. Cut agricultural tariffs sharply, both in industrial and middle-income countries, in particular tariffs on processed farm products.

- Keep the effort to address poverty central to all elements of the Doha Development Agenda. Make significant reduction of tariffs for industrial goods and improve market-access for services, in both industrial and developing countries. Provide real adjustment assistance for workers displaced by trade.

- Adopt a WTO initiative to provide least-developed countries and other vulnerable poor states with duty-free, quota-free access to others' markets in exchange for an appropriate cap on their maximum allowed tariff.

Strengthen the effectiveness and adequacy of development aid, with an emphasis on concrete and achievable efforts to address the needs of the most vulnerable.

- Industrial countries must live up to the commitments they made at the Monterrey Summit to increase total development assistance by $19 billion in 2006, and by an additional $30 billion before 2015. This would bring total development aid to $100 billion annually, the amount required for developing countries to achieve the Millennium Development Goals.

- Create the strongest possible incentives for vaccines by mobilizing the resources necessary to secure advance guarantee agreements for the development and distribution of a malaria vaccine by 2006, and through increased funding for the Global Fund to Fight AIDS, Tuberculosis and Malaria.

- Achieve universal primary education and eliminate gender disparity in both primary and secondary education through international donor support for nationally-owned programs, including those that give financial compensation to households for revenue lost when work-capable children are kept in school, and through full funding of the Education For All Fast-Track Initiative.

- Improve environmental quality and human health and safety by focusing on global public goods such as clean water. Sufficient clean water is essential both for agricultural and sanitation purposes. Industrialized and developing countries together should undertake a global water initiative that develops water infrastructures and clean water access in poor countries, and could be partly financed by reducing water waste in urban areas.

- Strengthen micro-credit programs that help developing nations grow competitive industries by deepening financial and technical support from multilateral and regional development agencies.

Promote political reforms.

- Governments should improve transparency and accountability by criminalizing bribery, prosecuting offenders, protecting whistleblowers, and expanding participation in the Financial Action Task Force to help track down illicit funds.

- Strengthen the International Labor Organization and enforce internationally-recognized core labor standards in all countries, including the right to collective bargaining, the elimination of all forms of forced labor, the effective abolition of forced child labor and an end to discrimination in the workplace.

- Industrial countries should assist developing-country efforts to consolidate democracy and improve governance with political support, financial aid and technical assistance. Developing countries should be primarily responsible for these efforts, using regional organizations to set benchmarks and monitor progress.

A Guidebook to the Call to Action

By William Antholis and Alexis Rawlinson

The following provides background information for the specific recommendations made in the TPF Call to Action.

Trade Reform

Undertake significant trade reform through the multilateral system, with a specific focus on agriculture.

In no sector of the global economy does the industrialized world engage in such blatant protectionism to such devastating effect as in agriculture. Addressing problems in this area is critical both to solving poverty and building long-term support for the global trading system. And the multilateral trading system provides the greatest prospects for success on this matter.

Agriculture employs only 3.4% of the labor force in Japan, the United States and European Union collectively, and contributes 1.3% of their combined GDP.[2] By contrast, farming accounts for about 60% of the labor force in low-income countries and 25% in middle-income countries.[3] Three quarters of the world's poor live in rural areas in developing countries.[4] But agricultural markets are highly distorted in favour of industrial country farmers due to support and protection measures such as subsidies and tariffs. Establishing a level playing field in agricultural trade therefore holds huge potential for poverty reduction. Developing countries too have highly protected markets, and many of the benefits of global reform would come from increased South-South trade.

Pursue comprehensive and inter-related reform of agricultural trade. End agricultural export dumping by eliminating unfair practices such as agricultural export subsidies, the subsidy elements of export credits and of state trading enterprises, and abuses of food aid; significantly cut all trade-distorting domestic support to agriculture across all industrial countries. Cut agricultural tariffs sharply, both in industrial and middle-income countries, in particular tariffs on processed farm products.

Industrial countries are by far the worst abusers of export subsidies and subsidy elements in other export-enhancement programs, the most trade-distorting forms of support. The European Union spends more than $2 billion a year on export subsidies, accounting for 90 percent of all WTO-notified export subsidies.[5] But export credits, used extensively by the United States, also often hide implicit subsidies, such as discounted repayment rates. Moreover, government-backed state trading enterprises often buy domestic production at inflated prices to sell at a loss on the world market, and food aid is regularly used as an excuse to dump excess production.

Much domestic support, while not specifically targeted at exports, nevertheless helps farmers sell at lower prices or gives them incentives to produce more. For example, for cotton the United States provides some $3-4 billion in government subsidies to about 25,000 large cotton farms: as a result it accounts for about 30-40% of total world exports in spite of having production costs roughly double those of millions of West African, Chinese, Indian and Brazilian rivals.[6] The EU is the world's second-largest exporter of sugar (behind Brazil) in spite of production costs nearly double those of the most efficient producers.[7] Each cow in the EU is supported, directly and indirectly, by more than $2 a day – half the world's people live on less than this amount.[8] Japan provides almost $2 billion per year in support to its rice farmers, accounting for about 80% of its rice farmers' income.[9] Overall, budget support from

[2] TPF calculations based on data from OECD [2003], *OECD in Figures 2003*, pp.12-13, 16-17.
[3] World Bank [2003], *Global Economic Prospects 2004*, p.103.
[4] World Bank [2003], as above.
[5] Office of the United States Trade Representative [2003], http://ustrade-wto.gov/fsfarm0910.html.
[6] World Bank [2003], "Cotton and Developing Countries: A Case Study in Policy Incoherence, Trade Note 10", and International Development Economics Associates (IDEAs) [2003], "Cotton and International Trade: Unfair Prices for the Developing World", based on data from the International Cotton Advisory Council and the United States Department of Agriculture.
[7] World Bank [2003], "Sugar Policies: Opportunity for Change".
[8] Oxfam [2002], "Milking the CAP: How Europe's Dairy Regime is Devastating Livelihoods in the Developing World".
[9] United States Department of Agriculture [2003], "Rice Sector Policies in Japan".

OECD governments to farmers currently equals about $86 billion, the vast majority of which is trade-distorting; total support to farmers, including indirect measures, totals $235 million.[10]

In ongoing WTO negotiations, G20 countries (major developing countries including Brazil, India and South Africa) want to ensure that every agricultural sector faces a cut in support, including – and in particular – the most heavily supported. Industrial country negotiators are seeking only aggregate limits to domestic support, which allows heavy subsidies to continue in the most politically sensitive sectors.

Some forms of domestic support are less trade-distorting than others. Support for research, food security stocks, and disaster payments are currently exempt from WTO disciplines and reduction commitments. Crucially, reduction-exempt subsidies – the so-called "green box" – also include direct payments to farmers if they are not linked to current production decisions ("decoupled payments"). The EU recently transferred much of its support to this category, and wants exemptions for practices that maintain rural communities and protect landscapes. Depending on how it is used, such support may not be wholly trade-neutral as it may implicitly encourage farmers to keep producing. In Cancun, the G20 wanted to draw up disciplines on such support, including a cap on total allowable support to limit abuses of the "green box".

Most industrial country support is primarily used to keep production levels high. The largest farm operations, which generally are also the most profitable and the wealthiest, receive most of the support. In the U.S., the largest 25% of farms receive 89% of all support (they also produce a similar share of agricultural output). In Europe, the largest 25% of farms receive 70% of support and produce 73% of farm output. In Japan, the largest 25% of farms receive 68% of support payments.[11]

In many industrial countries the average incomes of farmers are higher than the national average, reaching almost 250% of average income in the Netherlands, 175% in Denmark, 160% in France, and 110% in the United States and Japan. And rural communities are already in the process of successfully reinventing their occupations. US farmers, for example, already earn far more from other sources than from farming: $122.7 billion from off-farm activities, $14.7 billion from government payments and only $11.6 billion from farming.[12]

Tariffs continue to be a major hurdle to agricultural trade, as they are much higher than in other sectors. The potential benefits of lower tariffs are significant for more competitive producers and for consumers, and reductions should be pursued aggressively. Increased trade flows resulting from lower barriers raise global aggregate GDP, and also raise the GDP of each country participating in trade.

Most countries accept that agricultural tariffs should be cut. Some tariffs will be eliminated, other cuts will require the greatest effort from the countries with the highest tariffs (a so-called "Swiss formula"), and others will be cut by the same simple average for all parties. All countries accept that tariff reductions should be spread over a number of years, to allow for gradual adjustment to new market conditions. But countries disagree about how far to cut, what balance there should be between industrial and developing countries, and how long the phase-in periods should be.

Agricultural tariff structures are complex. Some tariffs are by percentage ("ad valorem"), others are fixed ("specific") and others set several rates according to quotas. This complexity adds transaction costs on top of direct costs. By actual import value, developing countries have higher average applied (i.e. actual) tariffs for farm products than industrial countries: India's average, at 37% in 2001, is among the highest, while the United States, at 4.7%, has one of the lowest. But lower averages for industrial countries hide high tariff peaks on sensitive products of particular interest to developing countries, such as a 491% megatariff on rice in the case of Japan. Moreover, industrial countries often impose higher rates for processed farm products than they do for raw goods. This so-called "tariff escalation" protects domestic value-added processing industries.[13]

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[10] TPF calculations based on data from OECD [2003], *Agricultural Policies in OECD Countries: Monitoring and Evaluation 2003*, p.211

[11] TPF calculations based on data from World Bank [2003], *Global Economic Prospects 2004*, p.108.

[12] World Bank [2003], *Global Economic Prospects 2004*, p.107.

[13] Data from World Trade Organization [2003], *World Trade Report 2003.*

Keep the effort to address poverty central to all elements of the Doha Development Agenda. Make significant reduction of tariffs for industrial goods and improve market-access for services, in both industrial and developing countries. Provide real adjustment assistance for workers displaced by trade.

In 2001, the Doha Declaration adopted a Development Agenda that for the first time placed the "needs and interests of poor countries at the center of the trade agenda." That agenda consists of a range of items on which to focus, and when selecting various items from this list, it is critical to keep central the impact for improving the lives of the poor.

Improved market access for industrial products and services can contribute significantly to the growth of developing countries' economies. This is clearly demonstrated by recent reports of international institutions such as the World Bank,[14] the OECD[15] and the WTO.[16]

Nearly 80% of developing countries' exports consist of industrial goods. However, developing countries cannot fully unfold their potential in this sector. Although industrial country tariff rates are relatively low (4% on average), market access is often hindered by tariff peaks (i.e. tariffs of 15% or more on some goods) and tariff escalation (i.e. tariff rates that increase according to the degree of processing). Tariff peaks and tariff escalation often apply to products of particular concern to developing countries, and often impact least developed countries most adversely. Tariff escalation, in particular, hampers the expansion of processing industries, and thus the means of developing skills and capital, and export diversification.

The problems posed by tariff peaks and tariff escalation are not confined to industrial countries but are present, too, within developing countries. Tariffs in developing countries are on average much higher than in the industrial world (the bound tariff rate of developing countries for industrial goods amounts to 20% and to 24% for textiles and clothing), so market access concessions for industrial goods by would also provide a stimulus for their economies, particularly in stimulating south-south trade. OECD studies even suggest that the developing countries which stand to gain most from reducing their tariffs are those with the highest initial tariff rates. And as a matter of trade politics, it is highly unlikely that industrial countries will open their markets if developing countries also do not demonstrate a willingness to reciprocate.

In addition, services are the fastest growing component of the global economy. Services account for more than two thirds of economic activity in the industrial world. Even in developing countries, services exports grew more rapidly than those in industrial goods in the 1990s. WTO Members have made specific commitments for market access and national treatment of services and service providers of other WTO Members under the GATS. However, there is much room for improvement. Developing countries would potentially gain in labour-intensive services such as construction services and data processing, or services that require physical proximity between services providers and consumers, such as health services.

Moreover, it is estimated that liberalization of key infrastructure services like telecommunications, transport and financial services would be very beneficial to developing countries. Most studies indicate that the countries with the highest initial barriers to trade in services stand to gain most from services liberalization, especially developing countries. This is particularly so if the removal of barriers to trade is coupled by domestic reforms conducive to competition and provide for stable regulatory frameworks.

Of course, the integration of markets can be extremely difficult, particularly for democratic governments. All proponents of trade reforms must recognize that market openings can be very disruptive to the lives of working families. Addressing those impacted by trade – and even those who fear trade-related job disruptions – is essential to building long-term constituencies essential to trade liberalization. Some of the most effective policies that governments can adopt in this regard involve effective safety-nets – such as affordable health care, effective and

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[14] Market Access for Developing Countries' Exports, 27 April 2001; http://www.worldbank.org/economics/marketaccess.pdf ; Global Economic Prospects 2004 – Realizing the Development Promise of the Doha Agenda, www.worldbank.org/prospects/gep2004 .

[15] Policy Brief, The Doha Development Agenda: Tariffs and Trade, August 2003; Policy Brief, Opening up Trade in Services, August 2003.

[16] World Trade Report 2003.

meaningful retraining for displaced workers, and other social insurances. These policies can be relatively inexpensive investments for industrial nations, though of course they can be difficult to put in place for developing countries with limited resources.

Adopt a WTO initiative to provide least-developed countries and other vulnerable poor states with duty-free, quota-free access to others' markets in exchange for an appropriate cap on their maximum allowed tariff.

Developing countries argue for more time to implement commitments ("special and differential treatment") because they have fewer resources to help their many poor, vulnerable small-scale farmers adjust to new market conditions. Without time to implement accompanying policies, poor farmers may not be in a position to respond to competition, nor to take advantage of new export opportunities.

In addition, developing countries ask for longer timeframes for "special products" of particular importance for food security, rural development or livelihood security needs. Special products could be determined through criteria such as how high a percentage they are of total agricultural production in the country, how much they are consumed at home, and how many people are employed in the product's cultivation. Finally, a "special safeguard" can be established (with well-defined limits), allowing countries to respond to any sudden import surge for a product by raising a temporary barrier.

Huge differences exist among developing countries. Dynamic economies such as Brazil, India and South Africa are able to participate fully in WTO processes. Others – the smaller, poorest countries – remain excluded from the global market and are marginalized from WTO negotiations. But they remain full WTO members who can derail negotiations if they withhold agreement. The Cancun Ministerial demonstrated the few incentives that currently exist for smaller, poorer countries, as their concerns were systematically sidelined. These countries were instrumental in the lack of progress in Cancun.

The current trading system offers a complex, imprecise and often counter-productive patchwork of preferences and concessions to poor countries. Among the better schemes, the EU's "Everything But Arms" initiative gives duty-free access to products from 49 countries on the United Nations' Least-Developed Countries list. But only the EU has this scheme (although other industrial countries do have competing programs). The LDC group also excludes many very needy countries which collectively have a very small share in world trade. Furthermore, programs such as Everything But Arms do not ask for any commitment to trade reform from the beneficiary countries, which is in their own interest as well that of the global trading system.

A better approach would be to establish common duty-free, quota-free access to all others' markets for the worst-off countries, as selected on the basis of clear criteria for smallness and poorness. To be eligible for the new system, a country would need both to be poor (i.e. low GDP per capita) and small (i.e. low total GDP).

Most small countries face a much more difficult trading environment than do large, resource-rich, diversified countries. Some are small islands, others are landlocked, others are net food importers, or are highly dependent on a small number of export products. Excluding the largest poor countries is also essential to making the arrangement acceptable to industrial and middle-income countries, in view of the largest poor countries' economic dynamism, export potential and negotiating capacity. By contrast, using one possible set of criteria for smallness and poorness, 74 WTO countries with a combined share of less than 2% of world GDP could be made eligible for the scheme.[17]

To benefit from the system, countries would have to commit to a reasonable maximum "bound" (WTO-permissible) tariff. This would help stimulate investment and entrepreneurship by reducing uncertainty generated by complex tariff structures and by the gap between actually applied tariffs and bound tariffs. This also can help set a level playing field among sectors within an economy, helping countries to diversify their economies rather than relying on one or two protected sectors.

[17] Messerlin [2003], "Making the Doha Development Round Work for the Poorest Developing Countries", in Griffiths ed., *Rethinking Fair Trade*, pp. 9-10.

Effective and Adequate Development Aid

Strengthen the effectiveness and adequacy of development aid, with an emphasis on concrete and achievable efforts to address the needs of the most vulnerable.

Markets alone are not always able adequately to deal with the human and social aspects of development. As well as making trade work for the poor, countries must try to reduce the grave inequities that markets are not well equipped to address.

Industrial countries must live up to the commitments they made at the Monterrey Summit to increase total development assistance by $19 billion in 2006, and by an additional $30 billion before 2015. This would bring total development aid to $100 billion annually, the amount required for developing countries to achieve the Millennium Development Goals.

In September 2000 the world's leaders adopted the UN Millennium Declaration. They committed their countries to achieving a safer, more prosperous and equitable world for all by 2015. Following the Declaration, eight Millennium Development Goals (MDGs) were established across a whole range of development issues, including poverty reduction, education, health, gender equality and environmental sustainability. Eighteen specific, measurable targets were drawn up, and progress towards them is being monitored. In spite of overall improvement, progress is slower than what is required to meet the MDGs by 2015. Furthermore, some regions and countries, especially in Africa, have fallen far behind. Donor governments and multilateral agencies have repeatedly pledged to increase financing for development and make it more effective. But the $57 billion that industrial-country governments currently allocate to aid, while a moderate rise compared to past years, is only half of what is required to achieve the MDGs.[18]

Two years ago, in March 2002, the UN held a funding for development summit in Monterrey, Mexico. At that meeting, the United States pledged to increase development assistance spending by $5 billion per year over current levels of about $13 billion, a 47% increase. Japan pledged to increase its $9.2 billion annual assistance budget by $1.7 billion, or 18%. Within the EU, France pledged to increase its current $5.5 billion assistance budget by $1.6 billion, or 29%; Germany will increase its current $5.3 billion by $1.7 billion, or 33%; the UK will increase its $4.9 billion by $1.9 billion, or 40%; Spain will increase its $1.7 billion by $612 million, or 36%; Italy will increase its $2.3 billion by $1.8 billion, or 80%.

Even if all these pledges are matched with funds, this will only add about $14.5 billion – or less than one third of what the UN and World Bank estimate is needed to meet the Millennium Development Goals. And there remains considerable doubt that these funding levels will be met.

Particularly since the needed funding levels will not be met, it is all the more urgent that development aid be spent effectively. Industrial-country development agencies and multilateral institutions have pledged to harmonize their procedures and policies and to simplify the conditions and reporting requirements they impose on beneficiary countries. And they have also promised to work within national development priorities and systems – for example through the use of nationally-owned Poverty Reduction Strategies – rather than try to impose their own. These pledges are welcome and now need to be backed up by action. Furthermore, the transparency, accountability and efficiency of international institutions and bilateral agencies must be improved.

Create the strongest possible incentives for vaccines by mobilizing the resources necessary to secure advance guarantee agreements for the development and distribution of a malaria vaccine by 2006, and through increased funding for the Global Fund to Fight AIDS, Tuberculosis and Malaria.

Each year 10 million children die from preventable illnesses, the vast majority of them in developing countries. Of the world's 42 million HIV/AIDS victims, 39 million live in developing countries. The World Health Organization

[18] Current aid allocations obtained from OECD Development Assistance Committee; additional required aid from UNDP [2003], *Human Development Report 2003*, p. 146.

calculates that about $35-40 per person per year is required to provide basic health services. But least-developed countries spend seven times less than that on average, and other developing countries spend three times less. Some developing-country governments simply do not spend enough. No industrial country spends less than 5% on GDP on public health services, while most developing countries spend only 2-3%.[19]

Still, filling the gap also requires increased external resources. Altogether, donors currently give about $6 billion a year to health. But the UN estimates that more than $10 billion is needed from all sources in 2005 just to fight the AIDS epidemic.[20] The Global Fund, established in 2002, is meant to constitute a major source of funding for health programs aimed at AIDS, tuberculosis and malaria, which together kill over 6 million people a year. But the Fund currently receives only about $1 billion a year, fifteen times less than the total required for all three diseases.[21]

The private sector, too, and in particular pharmaceutical companies, can play a part in helping to achieve the health development goals. In December 2003 some pharmaceutical companies agreed to issue voluntary licenses for the manufacture of generic antiretroviral drugs in South Africa. This is expected to lead to huge cost reductions for AIDS treatment in sub-Saharan Africa.[22]

However, market incentives for the development and distribution of vaccines against diseases primarily affecting developing countries are weak. Low health spending in developing countries makes it difficult for companies to justify major investments in research and development. Enhancing the predictability and value of the market for new developing-country vaccines can stimulate the research, development and production of such products. Under multi-year advance guarantee agreements, sponsors guarantee a price in advance, up to a maximum total value. Legally enforceable test guarantees for vaccines against malaria and rotavirus (a leading cause of diarrhea) have now been drawn up. These models should be put into use and they should also now be adapted to other desired vaccine products.

Achieve universal primary education and eliminate gender disparity in both primary and secondary education through international donor support for nationally-owned programs, including those that give financial compensation to households for revenue lost when work-capable children are kept in school, and through full funding of the Education For All Fast-Track Initiative.

Some 115 million children worldwide do not attend primary school; in Sub-Saharan Africa, the enrollment rate is only 57%.[23] Investment in basic education has payoffs in areas as diverse as poverty reduction, health and economic growth. The benefits are especially marked in the case of girls, who will later run their own household. But in many countries girls are discriminated against in schooling: worldwide, three out of five children of primary-school age who are not attending classes are female.

The poorest countries do not have enough resources to cover even the most basic costs, such as textbooks and teacher salaries. Donors currently contribute only a quarter of the $9 billion in aid that the UN estimates is required for universal primary education by 2015, and typically direct this funding towards buying school equipment and other capital costs (where more of the value is returned to the donor country) rather than towards meeting the most essential costs.[24]

Even where school is free, many children do not attend because they are out earning income for the household. Giving the female head of a household a cash transfer to send their children to school compensates for lost earnings and significantly improves school enrolment. Mothers – who are more likely than fathers to spend the money on improving the children's welfare – should only receive the payment if their children actually attend classes; and sending girls to school is compensated more generously, since girls' education is less likely otherwise and yet

[19] UNDP [2003], *Human Development Report 2003*, p.8.
[20] UNAIDS [2003], "Fact Sheet: Meeting the Need".
[21] Global Fund to Fight AIDS, Tuberculosis and Malaria, <http://www.theglobalfund.org>.
[22] Financial Times, "South Africa to get cheap Aids medicines", December 11th 2003.
[23] UNDP [2003], *Human Development Report 2003*, p.6.
[24] UNDP [2003], *Human Development Report 2003*, p.94.

provides a larger potential societal benefit. Such programs should be expanded where they already exist, and introduced elsewhere.[25]

Governments in TPF countries can help in this regard by putting muscle behind their commitments to the Education For All (EFA) initiative. EFA is a commitment taken on by a broad coalition of national governments and organizations such as the World Bank and civil society groups to achieve education for "every citizen in every society." The EFA partners believe that education is key to sustainable development and peace and stability within (and among) nations. Specifically, EFA partners are committed to ensuring that by 2015, all children have access to, and complete, free and compulsory education of good quality. In addition, it commits the partnership to eliminating gender disparities in primary and secondary education by 2005. These two goals form a key component of the United Nation's Development Programme's Millennium Development Goals (MDGs). Currently, the EFA partners, working through UNESCO, are focused on the creation of national education strategies to assist individual countries in conceiving and adopting education policy reforms.

Improve environmental quality and human health and safety by focusing on global public goods such as clean water. Sufficient clean water is essential both for agricultural and sanitation purposes. Industrialized and developing countries together should undertake a global water initiative that develops water infrastructures and clean water access in poor countries, and could be partly financed by reducing water waste in urban areas.

Global poverty firmly relates to the destruction of the environment. Destruction of the environment in critical areas such as water, air and soil quality directly make the lives of the poor more difficult, further challenging the health and livelihoods of the least disadvantaged. Poverty, in turn, can further contribute to destruction of the environment, as developing countries often seek quick economic growth at the expense of longer term, sustainable development options.

Perhaps the greatest hazard to both public health and the environment in developing countries comes from lack of sufficient clean water. One person in six does not have access to safe water, and two in five do not have access to adequate sanitation. Diarrhea remains a major killer of young children; half the world's hospital beds are occupied by patients with water-borne diseases.

Increasing the level of assistance to this sector is crucial. In order for global water needs to be met in the next 25 years, about $180 billion will be needed from all sources each year; currently investments total only about $75 billion a year. Creating a global water fund with innovative financing mechanisms could help respond to this challenge. For example, substantial savings can be achieved through efficiency measures on ageing water systems in urban areas in industrial countries. Indeed, the leakage rate in many cities is as high as 50%. A select number of private water-infrastructure companies have the capacity to reduce this leakage and deliver huge savings to water providers, a part of which could be channeled into the global water fund for use in developing countries.

Strengthen micro-credit programs that help developing nations grow competitive industries by deepening financial and technical support from multilateral and regional development agencies.

Micro-credit institutions offer a promising avenue for helping the poor use markets to better their circumstances. Micro-credit involves furnishing small-size loans for poorest families, especially the women of those families, for self-employment. As of December 31, 2002, 2,572 microcredit institutions had reached more than 67 million clients. Micro-Banking Bulletin (2003) reported that of the 124 microcredit institutions, which are investigated by it, 66 were financially self-sufficient. This seems to imply a possibility of accomplishing sustainable economic independence of poorest people through private sector's efforts.

Of course microcredit is not free from problems. Broader efforts can be undertaken to evaluate microcredit institutions, advocate the microcredit scheme and provide financial support for effective microcredit institutions.

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[25] Schulz, IFPRI [2000], "School Subsidies for the Poor: Evaluating a Mexican Strategy for Reducing Poverty".

Promote Political Reform

Sound development policies are less likely to be implemented, let alone succeed, without real political reform. Many developing countries have weak institutional oversight and public accountability. If sacrifices to reduce poverty made by powerful interests in industrial countries are to be successful, developing country governments must do their part by fostering a political environment that leads to good governance.

Governments should improve transparency and accountability by criminalizing bribery, prosecuting offenders, protecting whistleblowers, and expanding participation in the Financial Action Task Force to help track down illicit funds.

Getting rid of corruption – bribery, embezzlement and money-laundering – is critical for restoring domestic trust, attracting outside investment and giving donors confidence that development aid will be put to the right use. In a number of developing countries, corruption is systemic. Widespread "surcharges" required in many countries for such routine documents as drivers' licenses or building permits are as harmful as the plundering of state coffers by government ministers.

Strong independent watchdogs or ombudsmen, with the power to investigate and prosecute abuses, must be set up and supported, and laws must be passed and implemented to protect whistleblowers. Offenders, including high-level recipients and givers of bribes, must be prosecuted to the full extent of the law – which itself often needs to be strengthened.

The Financial Action Task Force (FATF) is an inter-governmental body that fights money laundering and terrorist financing. Working with its member governments, it develops and promotes policies, both at national and international levels, and monitors member governments' progress in implementing necessary measures. It also works to review money laundering and terrorist financing techniques, helping governments stay ahead of how criminals and terrorists use and hide illicit funds. In 1996, FATF issued forty recommendations that outline a basic framework for anti-money laundering efforts and they are designed to be of universal application. FATF recognized from the outset that countries have diverse legal and financial systems and so all cannot take identical measures. The forty recommendations are therefore actionable principles for countries to implement according to their particular circumstances and constitutional frameworks allowing countries a measure of flexibility rather than prescribing every detail. The FATF currently consists of 29 countries and two international organizations. Its membership includes the major financial center countries of Europe, North and South America, and Asia.

Strengthen the International Labor Organization and enforce internationally-recognized core labor standards in all countries, including the right to collective bargaining, the elimination of all forms of forced labor, the effective abolition of forced child labor and an end to discrimination in the workplace.

A vital goal of an open trading system is economic activity that raises living standards in industrial and developing countries. But the benefits of economic growth may not be sufficient in the short term to improve the condition of the poorest workers. In an integrated global economy, many governments individually have strong incentives to provide the cheapest, most flexible labor environment to internationally mobile industries. But all governments collectively have good reason to encourage the respect of internationally recognized labor standards, to ensure that workers are not exploited and that their rights are not infringed. A good example of this is in the textiles industry, where sudden liberalization after the end of the Multifibre Agreement in 2005 will lead to increased competition and downward pressure on wages and labor standards. Better enforcement of core labor standards can avoid a damaging race to the bottom among countries competing to benefit from the end of quotas and restrictions on trade in this sector.

All countries must uphold and enforce core labor standards. Trade preferences and other forms of market access can and should be conditioned on respect of these standards by exporters, since not to respect them both violates internationally-recognized agreements and is a form of unfair trade. On the other hand, enforcement of labor standards should not be an excuse for protectionism, so disciplines must be drawn up to ensure that such provisions are not abused by higher-wage countries to restrict imports from more competitive countries.

Industrial countries should assist developing-country efforts to consolidate democracy and improve governance with political support, financial aid and technical assistance. Developing countries should be primarily responsible for these efforts, using regional organizations to set benchmarks and monitor progress.

Establishing and consolidating legal codes and institutions that promote rules-based, democratic, accountable government has many diffuse benefits. For example, it encourages competing interests within countries to seek political ends through non-violent means. And it gives entrepreneurs, rich and poor, the security needed to plan for the future and make the investments required for sustained growth.

Support and assistance should be better targeted to those countries that are making real efforts to improve governance and establish or consolidate democratic institutions. For example, the principle underlying the allocation of aid in the United States' new Millennium Challenge Account is to focus on those countries making the greatest efforts but facing the greatest challenges. Such approaches are to be encouraged.[26]

Peer reviews – mutual, non-adversarial assessment of governments by neighbors facing similar challenges and opportunities – should be established in all regions. This should be done within regional organizations because it is more difficult to impose standards from outside a cultural context. If local constraints are not taken into account, rules and guidelines will not be accepted and enforced. Using regional organizations also helps keep the knowledge learned by conducting reviews within the region. Civil society organizations should be encouraged to conduct their own reviews: in India, periodic "report cards" on the performance of municipal authorities have helped raise performance standards. And scrutiny from an independent media is also essential.

[26] Brainard et al. [2003], *The Other War: Global Poverty and the Millennium Challenge Account.*

Section 2
Prospects for Reform in Key Democracies

Brazil

Ricardo Sennes and Alexandre de Freitas Barbosa, Prospectiva

Introduction

Brazil's efforts to link increasing economic global integration, poverty alleviation, and political reform have been at the top of the country's national political agenda. Under President Lula da Silva, Brazil helped forge the G20, the newest and most dynamic negotiating block in the WTO, which has argued effectively for greater market access for developing countries as a way to spur development. This has been consistent with Lula's domestic fight against poverty and has complemented Lula's efforts at political reform in Brazil and throughout the neighboring region. As attractive as these policy positions have been, however, the Lula approach has yet to demonstrate a clear impact in terms of the innovation and efficiency of its social policies, especially when set against the backdrop of Brazil's overwhelming unemployment.

Lula's approach attempts to go beyond that of his predecessor, Fernando Henrique Cardoso. During the mid-1990s, leading elites, economic analysts, journalists, and civil society groups were optimistic that Cardoso's adoption of more open, market-oriented and outward-looking economic policies would steadily lead Brazil toward to becoming a more democratic and inclusive society. Disparities between the Brazilian economy - characterized by its underdevelopment, high poverty levels, and low per capita income - and those of developed countries seemed to be narrowing. Cardoso's term of office, however, proved an economic roller coaster: dramatic policy reforms led to uneven economic growth when compared to other emerging market economies and the country's stock markets suffered a terrifying drop during a 1998 financial crisis, before leveling off some years later.

As a result of the 1998 Real crisis, Lula, upon becoming president, worked to forge a new Brazilian consensus in favor of stronger institutions and increased social welfare programs to compensate the harsh effects of macroeconomic instability. Nevertheless, these processes have not been enough to birth a wholly new Brazilian development model.

Trade Reform

Brazil's single most important contribution to the current WTO trade round may have been its leadership in helping create the Group of 20 developing countries, which effectively challenged industrial nations in the run-up to the 2003 Cancun Ministerial. Through the G20, Brazil helped reshape the WTO agenda and its substantive negotiations.

According to Celso Amorim, Brazil's Foreign Minister and lead trade negotiator, "The G20 derives legitimacy from its representation of the world's rural population and its capacity to translate the interests of its members credibly into coherent negotiating proposals. The platform of the group is totally aligned with the objectives of the Doha Round, because development is its most important component".[27] As important, membership included some of the larger and more important developing countries – such as India, China and South Africa – and as a result, G20 interests also involved countries with more diverse and economically vibrant cores.

In creating the G20, Brazil tempered its own strong emphasis on agriculture in order to forge a broader coalition with nations that are not net exporters of commodities. This allowed Brazil to assume a strong leadership position in the negotiations, while simultaneously connecting its agricultural interests to highly politicised issues on the development agenda. Brazil's leadership role paved the way for its participation in several restricted-consultation gatherings in which developed countries engage with a few hand-picked developing countries. In the recent Doha Round, Brazil was invited to participate in the Non-Group-of-Five negotiations, which included the United States, the European Union, Australia, and India.

Brazil's leadership position may be challenged however when the negotiations turn to the issues which it considers particularly important for its domestic economy, like services, investment and government procurement.

[27] Speech given during the G20 meeting on 12 June 2004. Document of Foreign Affairs Ministry, Brazil.

Interestingly, though Brazil's negotiating positions on these issues has been defensive thus far, the Lula government has undertaken some reform measures in these areas (like telecom and financial services) that go further than the country's obligations under the WTO.

Additionally, Brazil has also moved to enhance transparency in its trade regimes, as well as streamline its import procedures and regulations. The average tariff fell to 10.4% in 2004, continuing the process of liberalization started in 1988. Although Brazil maintains high tariffs on manufactured and agricultural goods, it has moved to cut most other tariffs dramatically: 12.7% of tariff lines are duty free, about one-third range from 1 to 10%, and 55% remain between 10% to 20%. Brazil has also restricted import licensing mechanisms, and even though it has become more active in using anti-dumping, countervailing-duty investigations and measures (as well as safeguards) since 1995, the WTO reports that these practices are not widespread[28] In short, Brazil has done its homework while moving to less restrictive import barriers.

Though Brazil has assumed a major role in shaping the new political economy of trade relations, its strategy has proved to be quite different in financial issues. For example, the Finance Minister's economic team has preferred to adopt a low-profile when it comes to discussions of external debt and short-term capital deregulated flows. In so doing, some argue, that Brazil's foreign economic policy may be characterized as ambiguous and even contradictory.

In order to understand this discrepancy better, one must examine the structural changes experienced by the Brazilian economic regime during the nineties. More than simply introducing a new currency, the "Real Plan" introduced a series of structural reforms characterized by deeper integration into the global economy. This included opening Brazil's markets to foreign capital and goods, alongside efforts to end state monopolies, modernize patent laws and renegotiate the terms of its external debt load with private banks. From 1994-1998, imports increased from 6.1% to 7.3% of GNP[29], whereas they represented only 4.4% in 1989. Foreign direct investment jumped from US$ 2.1 billion to US$ 28.9 billion, while foreign debt increased by more than 60%.[30] While in 1989 there was an outflow of US$ 400 million of portfolio investment, in the years following implementation of the Real Plan, post-stabilization euphoria resulted in an inflow of US$ 54 billion.[31]

However, the 1998 financial crisis derailed parts of the Real Plan. Growth rates of around 3 percent a year fell dramatically after 1998, and rates remained under 2% for years afterwards. The social costs of the 1998 crisis were also quite severe.

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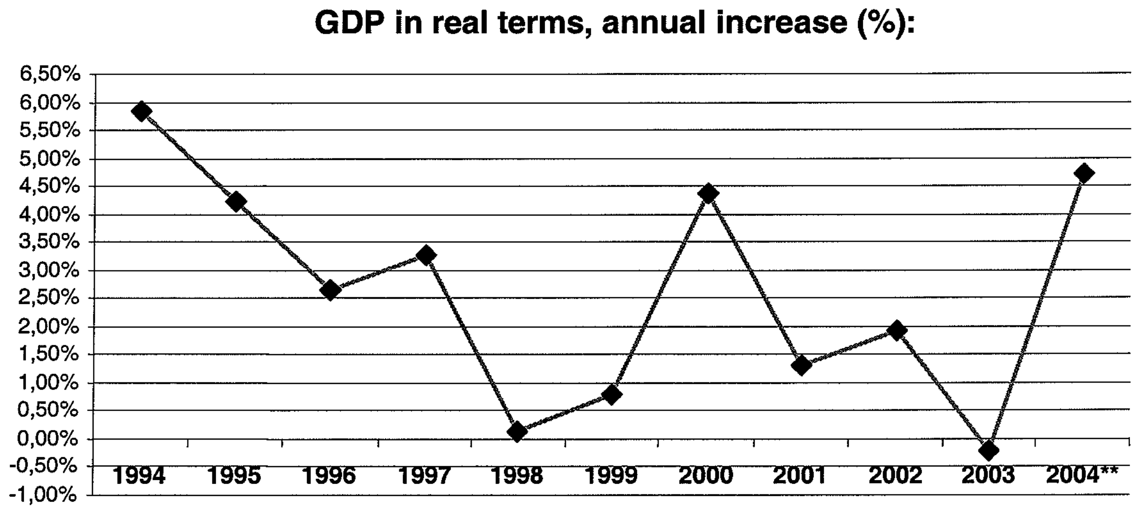
[28] Trade Policy Review, Report by Brazil, WTO, November 2004.

[29] In terms of the degree of opening, it goes back to the level of 1950, therefore, before the "conscious" period of imports substitution process. Moreira, Maurício Mesquita (2004), "Abertura e Crescimento: Passado e Futuro" (Opening and Growth, Past and Future), *Reformas no Brasil: Balanço e Agenda*, Rio de Janeiro: Nova Fronteira.

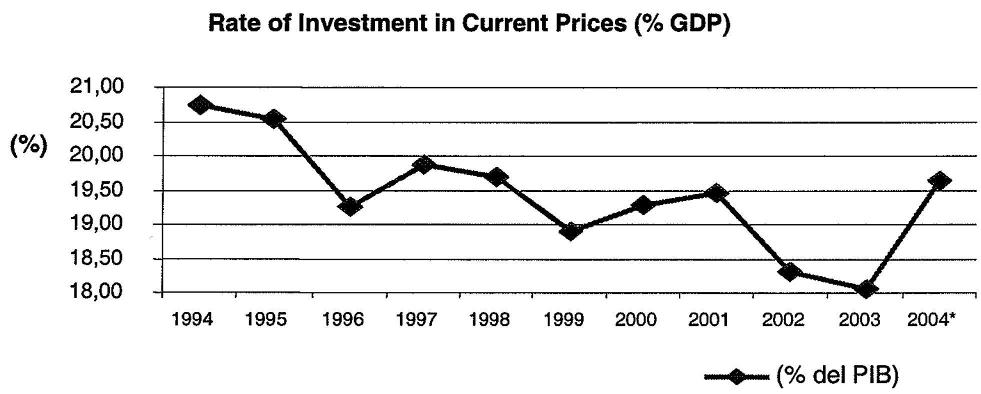
[30] Paulo Nogueira Batista Jr., op. cit.

[31] *Economic Reform in this Era of Globalisation – 16 Country Cases*, G20 Secretariat, 2003.



Source: IPEA. Elaboration: Prospectiva Consulting

Many Brazilians blamed the increasing vulnerability of the economy on such external shocks. The move to liberalize Brazilian trade was not coupled with a strong drive to increase exports, and increases in foreign direct investment usually took the form of asset transfers from public companies, not opening the room for sustainable greenfield investments. In this context, the financing of its current account deficit was troublesome, especially after the Asian and Russian crises. Compounding that, local investment remained volatile, following the ups and downs of interest rates. After the 1998 economic crisis, the Real declined by more than 40 percent, resulting in significantly increased foreign debt in real terms, coupled with a still high current account deficit and an almost immediate upsurge in the prices of fuel, food and consumer essentials.

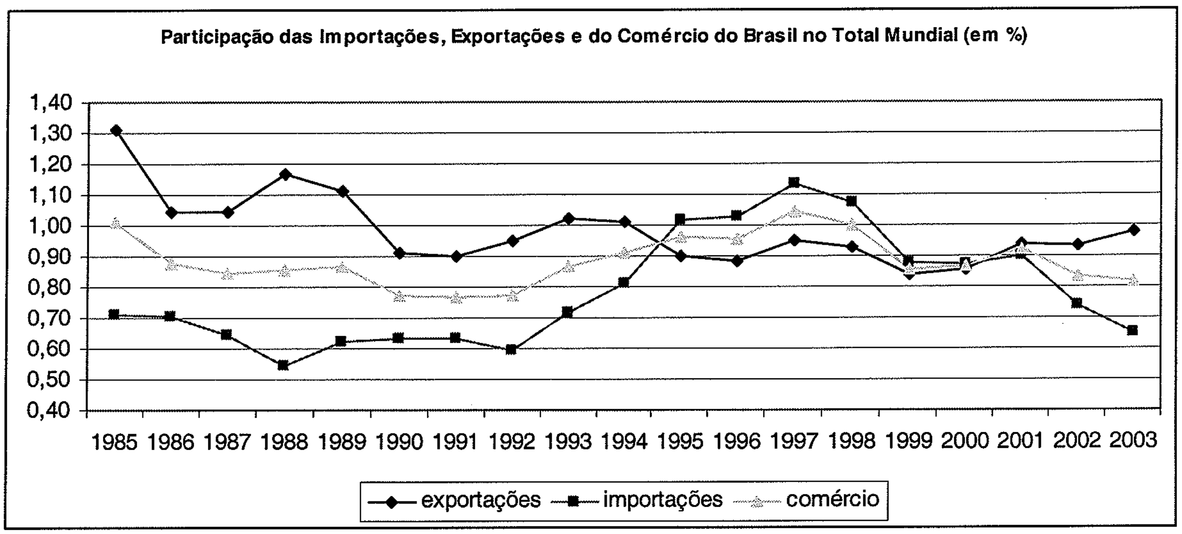


Source: IPEA. Elaboration: Prospectiva Consulting

Despite this setback – and the very real economic harm felt in the country, particularly by the poor – the Lula government has kept Brazil committed to integrating itself into the world economy. As a candidate, Lula – from a left wing political party - informally assured foreign lenders that upon his victory, he would maintain his predecessor's commitments and policies. And when it came to trade policy, he had some help.

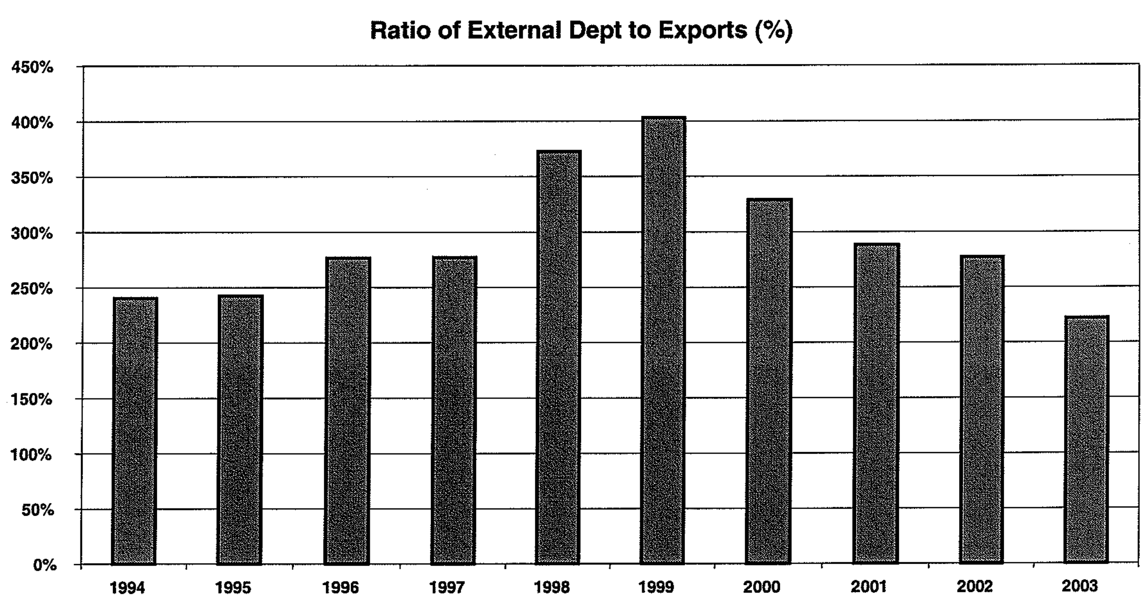
A depreciated Real helped to make Brazil's exports more attractive, leading to a significant trade surplus – US$ 13 billion in 2002, US$ 24.8 billion in 2003 and US$ 33.6 billion in 2004 (respectively 2.8%, 5% and 5.4% of the nominal GDP). Trade has grown somewhat since then, with the sum of Brazil's imports and exports currently amounting to 25.4% of GDP in 2004. It should be stressed also that - although Brazil has proved to be a dynamic competitor in many fields of international trade – most of its recent trade performance is due to its agricultural power, which is responsible for 75% of the country's trade surplus. This success story may be explained as a combination of a devalued exchange rate since 1999, cheap land and labor, and a heavy investment in applied farming technology.

During the past fifteen years, between 1990 and 2003, Brazil's share of world trade remained around 0.8%, breaking the 1% level only briefly in 1997 and remaining well below the 1.4% level attained in 1984. Brazilian trade, then, grew approximately at the same pace as global trade. That is to say: its trade opening was not compounded by a larger participation in the global trade levels.



Source: WTO

Although there has been a reduction in Brazil's ratio of external debt to exports, (cut from 403% in 1999 to 222% in 2003), its overall level of debt remains well above that of any of its emerging country counterparts. Brazil continues to maintain low level of capital reserves, and unless the country can find a way to increase exports, it is likely that Lula will need to renegotiate the terms of Brazil's IMF loans, scheduled to come due in 2005.



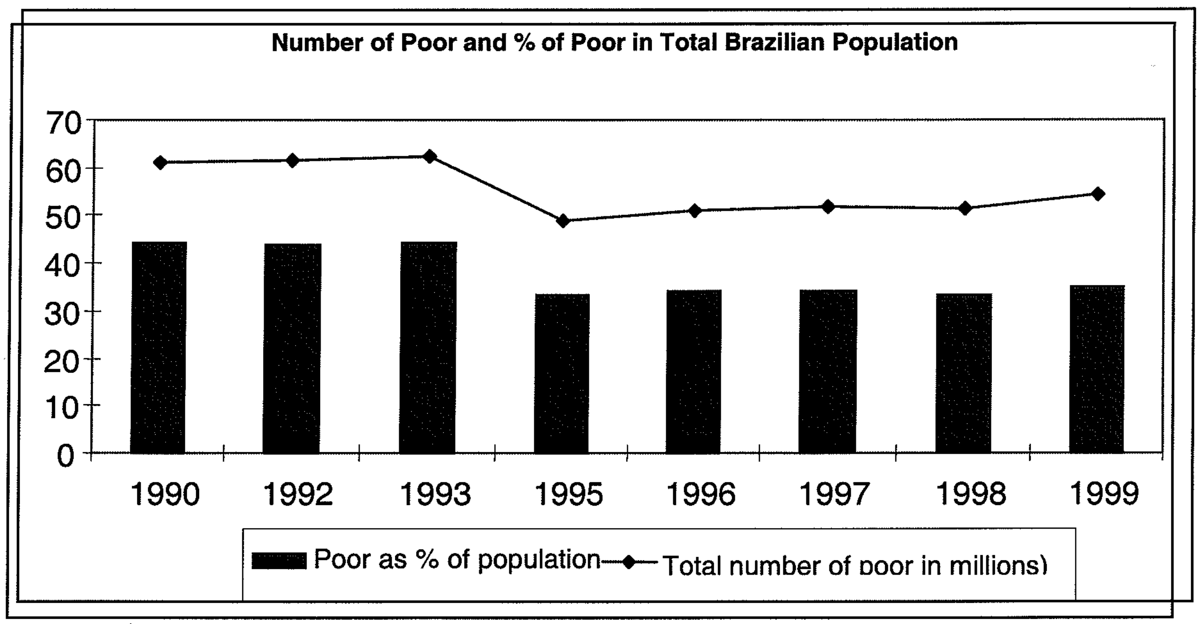
Source: Brazilian Central Bank

Effective and Adequate Development Assistance

Brazilian foreign policy reflects in great measure the great social and economic imbalances across the country. Brazil stands out for its regional and social disparities; it is noted for having one of the most unequal income distributions of any country in the world (it ranks169 of the 175 countries considered by UNDP). Aside from the imbalance, its poor are migrating from rural to metropolitan areas; the representation of rural areas in the total of Brazilian poverty has fallen from 29% to 22% from 1990 to 2000.

Lula's main proposal in his international interventions has been to establish a world fund against hunger – connected to his domestic anti-hunger campaign known as "Bolsa Familia" or "Family Assistance." Although Lula's intentions are beyond question, neither he nor his government has seriously endeavored to tie this proposal in with others related to international trade and finance reform. The proposal seems as much intended to reaffirm Brazil's role as a regional leader committed to seeking redress of many developing world problems as a political action that would set a new global agenda.

The biggest constraint on an effective Brazilian poverty-alleviation policy is the country's internal macro-economic instability. As the chart below demonstrates, poverty alleviation was most successful during the peak of Brazilian economic reforms in the mid-1990s until the devaluation crisis in 1999. Most notable is the impact of inflation-reduction on poverty levels between 1993 and 1995. During this period, 13.5 million people were lifted out of poverty, a decrease from 44.1% to 33.2% in the number of overall poor people. Admittedly, 33.2% is still a high poverty-rate compared to countries with the similar per-capita incomes as Brazil.



Source: Sônia Rocha, "Pobreza no Brasil: Afinal do Que se Trata", Editora FGV, 2004.

In the period after 1995, a time marked by the volatility of international micro-economic indicators and an intensification of international crises in the emerging countries, the poverty rate remained relatively unchanged before surging upwards again during the 1999 currency crisis. Between 1995 and 1999, the number of poor people in Brazil increased by more than 5 million. Today, more than one-third of Brazilians, approximately 14 million families, live below the poverty line.

Domestically, the Bolsa Familia effort involved income transfer policies from the federal government (with the support of existing state and municipal authorities and NGOs) to Brazil's poorest citizens. These policies, initiated under Cardoso's government, were expanded and made more coherent by the Lula administration.

The cash benefit amounts to 50.00 reais (US$ 17.8) for a family with a per capita income of less than 50.00, and an additional R$ 15.00 (US$ 5.4) for each child up to a maximum of 45.00 reais (US$ 16,0). For people with a per capita income that range from 50.00 to 100.00, cash transfers amount to 15.00 reais for each child up to a maximum of 45.00 reais.

Today 20 Brazilians indirectly benefit from this program (including heads of family and other members), which has a budget of around US$ 1.7 billion -- US$2.4 billion if we consider other cash transfers for poor people that were not integrated into the Bolsa Familia initiative. It represents a sum of around 0.4% of the Brazilian GDP, a percentage that goes up to 2.7%, if unemployment insurance, social security for rural workers and specific programs for the handicapped and elderly population living in poor families are taken into account. The government estimates that in 2006, Bolsa Familia will aid 40 million people (11 million families).

The difficulties of making an income transfer program of this size operational in a continental country like Brazil are not trivial. However, the initiative has a great possibility of success, and has helped Brazilians hone their expertise in the area of large-scale social policy implementation. On the other hand, there is a concern that these programs may be not enough in a context of a society of such inequalities, without universal access to education or health care, and where unemployment and informality are widespread.

Democracy and Political Reform

For the most part, Brazil enjoys domestic and regional strategic stability. Significant progress has been made in its domestic political reform efforts, but huge obstacles remain.

The Brazilian political system has gone through significant stress tests in recent years. These have included the impeachment of President Collor de Mello in the early nineties and the recent election of Lula da Silva amidst a severe economic crisis. During both periods there was no attempt to break the democratic order or any threat to political institutions -- a remarkable fact given the youth of Brazilian democratic institutions, and the region's authoritarian legacy.

Some of the most significant advances have been seen in the increasing efficiency and legitimacy of the country's electoral process. Brazil's unique system of electoral justice has managed to survive authoritarian rule. To maintain this trend, the government has invested in strong institution-building and, most recently, in using information technology in the electoral process. The new electronic voting system covers the whole of the Brazilian territory, has adequate security guarantees and has practically eliminated fraud and electoral manipulation.

Other efforts towards democratic improvement have shown some results. The Fiscal Responsibility Law imposes rigid discipline on the use and application of public resources. For federal, state and local levels, it defines indebtedness limits, minimum percentages to be applied in education and health care, and imposes mechanisms of democratic control such as public audiences and consultations. The law includes severe punishment, including imprisonment, for those who violate it. Following the same track, the Budgetary Law allows Brazilian Congressmen to debate and plan the use of public resources over the medium and long term.

The creation, in 1988, of what was called Public Ministry ("Ministério Público") also has been a general success. The Ministry is responsible for enforcing the Constitution and for inspecting civil servants' procedures. It holds significant investigative powers and has acts in areas where democratic controls are often unable to reach. The autonomy of the institution is so great that it has triggered a debate to discuss possible democratic controls over it.

In spite of those facts, huge challenges to the democratic consolidation remain – particularly related to high levels of revenue and social inequalities. This situation affects democratic consolidation and political institutions negatively in several ways. One is corruption among several governmental institutions, especially within the judicial branch, which, unlike other Brazilian institutions, does not have an effective inspection capability.

Another point of concern is the growth of organized crime connected to drug trafficking, money laundering, arms trading, smuggling and piracy. Some of these criminal groups reportedly have infiltrated public institutions, financing the elections of deputies, mayors and state governors and also corrupting various police and the Judiciary power organs.

Brazil's relative domestic tranquillity and democratic consolidation have helped it play a leadership role in South America – working both bilaterally, with key countries in the region, and through regional and global organizations. Many analysts believe that the current international context of "indefinite polarities" makes the global scene more complex than during the Cold War period, and that Brazil should seek an alignment corresponding to this complexity by breaking out of its traditional designation as a "developing" or "pariah" country. Instead, Brazil has sought to position itself as a Great Emerging Market[32] -- a nation that is open to the outside, politically stable, and balanced in its economic regulations.

This approach did not come naturally to Brazil. The national goal of political autonomy was weakened by deepened integration into global and regional regimes – especially economic ones. In return for accepting the lost sovereignty of such arrangements, Brazil has worked to craft an active and gradual policy of leadership in both global and regional fora.

After years of wariness towards international organizations, Brazil has started a process of "cleaning up its international agenda." Subjects that were once not discussed– such as human rights, environment, nuclear programs and computers – are now openly addressed by Brazilian officials. Correspondingly, Brazil has become a signatory to a number of international treaties in recent years – especially in the areas of human rights and environmental protection. In 1997, Brazil signed and ratified the Nuclear Non-Proliferation Treaty, in addition to concluding bilateral confidence-building agreements with Argentina and others.

Brazil has similarly looked to raise its profile in other international arenas. For example, it has launched an assertive campaign to obtain a seat in the UN Security Council and promote greater South American leadership. Some believe that Brazil's insistence on having a Security Council seat despite uncertainty over the future role of the UN overall, may indicate that the Lula government intends to propel the country to the fore of international debates in other fora.[33]

Brazil has made efforts to reinforce its leadership by taking advantage of the retraction of United States influence from certain parts of Latin America. For example, Brazil went beyond its 1986 accord with Argentina to constitute MERCOSUR, a southern-cone trade and customs alliance that also incorporates Uruguay and Paraguay, Chile and Bolivia -- and more recently Peru and Mexico as associate members. MERCOSUR has been widely praised by international analysts at aiding integration in South America. In addition, in 1992 Brazil proposed the Amazon Initiative, with the objective of increasing political and economic cooperation with countries of the Amazon region. In the year 2000 Brazil hosted the first meeting of those South American countries.

Part of Brazil's political capital in the South American region has been used to mediate peaceful solutions in several parts of the region. Brazil has demonstrated a strong desire for political stability in Latin America and has acted in a decisive way as mediator and promoter of political harmony in the region. In particular, Brazil has intervened to resolve conflicts between Peru and Ecuador and, more recently, between pro-government and anti-Chavez forces in Venezuela.

Brazil has also expressed an interest in helping to mediate the conflict in Colombia between the government and leftist rebels, offering to host a summit meeting in the Brazilian territory to speed progress towards an agreement.

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[32] The Great Emerging Markets are countries of large dimensions that, in the last few years, operated reforms in order to open and liberalize their economies. As defined by the *United States Trade Representative*, at present there are ten: India, Turkey, Brazil, Indonesia, Mexico, Argentina, Poland, South Korea, Russia and South Africa.

[33] Brazil's involvement in Haiti's political crisis should be seen in this light. In Haiti, Brazil is leading a UN peace force, authorized by the Security Council and acting along with the Chilean and the Argentinean armies. Again, this more likely reflects a strategy to obtain a permanent seat in UN Security Council than a pattern of its regional political action.

It should be noted however, that Brazil's interest in political stability can sometimes overshadow its pro-democracy policies. This happened when Brazil supported an attempt by Alberto Fujimori of Peru to amend his country's Constitution to allow him to serve a third presidential term. Brazil's support of Fujimori in this process was a clear contradiction of democratic principles. The result was a high political cost for Brazil, since shortly after this episode, Fujimori fled the country and exiled himself in Japan, and a series of corruption scandals erupted in his wake.

Brazil's Mug: Half Full or Half Empty?

During the 1990's Brazil implemented a new economic model, becoming more integrated into the international market and making progress towards democratic consolidation. Nevertheless, there are still serious weaknesses related to the capacity of the economy to produce both sustainable growth and social justice. The country still has an external vulnerability much higher than other economies of similar size, and it still features terribly low standards of poverty and social inequality.

Brazil's challenge for the next decade is to build up a sophisticated international strategy that will enable the country to reduce its external vulnerability and to address its social deficit definitively.

Lula's election was a sign that Cardoso's policies were politically insufficient and, thus, unsustainable. An aggressive social agenda and a clear strategy for reducing economy vulnerability are seen as preconditions to alleviate the social tensions, especially in the metropolitan areas.

Yet the task has so far proven to be too complicated. Moving from a political consensus to an effective government program is not easy. Lula's foreign activism, focused on the global fight against hunger and on tough trade diplomacy, is not enough to compensate for the urgent, unmet social needs. Even within the trade agenda, a strong argument could be made that Brazil's excessive concentration on trade in agriculture has ignored key issues such as services, investment, industrial competitiveness and finance – issues crucial to redefining Brazil's international strategy and to implement strong development policies.

It is true that Brazil's efforts to address economic global integration, poverty alleviation, and democratic consolidation have been at the top of the country's national public discussion. Nevertheless, flaws exist in the country's global integration model. Therefore, Brazil still lacks a consistent political coalition able to re-launch such an agenda. Some improvements can be observed, but there is still a long way to go.

India

Jayanta Roy, Confederation of Indian Industries

Introduction

India's economic performance has been outstanding since it launched its bold reform program in 1991. Annual per-capita economic growth increased from less than 1 percent per year over the 1960s and 1970s to around 3 percent per year in the 1990s, with the trend accelerating further in the last four years. This has been accompanied by a reduction in national poverty rates of 5 to 10 percent. Trade policy reform played a major role in the process. India has also stuck steadfastly to multilateralism as the preferred route to trade policy rule- making in the global arena. But much more needs to be done if India is to come close to achieving the Millennium Development Goal (MDG) of reducing poverty by one-half in 2015.

Trade Reform

In the last fifteen years, there has been a sea change in India's approach to GATT/WTO negotiations. As recently as the Uruguay Round negotiations in the early 1990s, India's stance was a defensive one aimed at safeguarding its national interests at all costs. Only a handful of Indian bureaucrats and scholars understood the intricacies of what was discussed in multilateral trade talks, and many of their countrymen perceived their agenda as slanted towards the interests of industrialized countries like the United States and Europe. But the launch of the Doha Development Round (DDR) changed things dramatically. India—along with several other developing countries—began to play a more pro-active role in the negotiations, working especially hard to ensure that the outcomes are truly development-focused. The issues being discussed at the WTO are now well understood by a wide range of people in India and, by and large, there is appreciation of the need to adhere to a multilateral framework. This, combined with a refreshing collaboration among the government, the private sector, and NGOs, allowed India to display great maturity as a leader in the Cancun negotiations, as well as in the successful negotiation of the July 2004 Geneva Framework Agreement on agriculture.

Most political players in India accept globalization as an irreversible process. It has survived several changes of government since 1991. As in other countries, it is well recognized in India that trade policy alone does not inevitably increase growth and help reduce poverty. Poverty-reduction in India will still require a stable macro-economic framework, a good investment climate to propel growth, and the empowerment of poor people to be able to participate in the growth process. Trade policy, however, is key to improving the investment climate, an essential ingredient for growth.

As in other market democracies, components of Indian trade and investment policy are often challenged by vested interest groups and, in particular, by labor-oriented political actors. Indian industry enjoys strong protection in the form of high tariffs, inefficient farmers oppose external competition, and left-leaning parties resist the idea of industrialized countries having a stake in the domestic economy. Hence there is some resistance to reducing India's tariff rate (high by global standards), as well as to allowing increased foreign direct investment and to having a flexible labor policy. The privatization efforts of the previous Bharatiya Janata Party (BJP) government were stalled at the insistence of communist-affiliated parties seeking to protect farmers, textile workers, and others who form a major group within the present ruling coalition. As a result, some analysts have worried that such groups could stymie current efforts towards further trade liberalization and governance reforms.

Since coming to power in June of 2004, the ruling coalition, United Progressive Alliance (UPA), has tried to maintain the negotiating posture of its BJP-led predecessor in the DDR talks. This posture has not always been easy to sustain, as the UPA is comprised of several somewhat disparate parties, including Congress, the left-wing parties, and various regional parties. As a result of this coalition, the survival of the UPA government depends on continued support from the left. Some analysts feared that this would constrain the pursuit of vigorous trade, development and governance reforms, as left-wing parties tried to appease their constituents and regional parties sought to protect the welfare of their own states rather than that of the Indian nation as a whole.

Remarkably, however, the UPA government has instead continued to push India's integration into the global economy – albeit with an added emphasis on employment and social welfare. This is reflected in the budget of 2004-05, the National Foreign Trade Policy announced in July, and India's role in the negotiation of the July Framework Agreement at the WTO in Geneva. Furthermore, the success of the Congress Party in the October 2004 Maharashtra state elections signaled that the pace of reform could potentially even be increased. The government recently raised the cap on foreign direct investment for aviation, in spite of initial resistance from the left-wing coalition parties, and has indicated that it would like to do the same in the insurance and telecommunications sectors as well. The Prime Minister, Manmohan Singh, has also been vocal about the need to ramp up flows of foreign direct investment in order to attain 8-10 percent economic growth and has suggested that the 2005-6 budget will include far-reaching tax reforms that would increase revenue, be more equitable, and widen the tax-base.

Still, much more can be done. Trade facilitation is an area where, given the political will, the government could take far-reaching action to reduce transaction costs sharply: cargo clearances in India, for example, still take days, whereas the norm in developed countries is a few hours. To address this problem, India has introduced an Electronic Data Interface (EDI) system at most customs points, though inefficencies still exist. A trader still requires a multiplicity of signatures to export a product, which drives transaction costs up dramatically. Such trade-facilitation barriers are thought to increase corruption, as they encourage private-sector actors to try to find ways to circumvent India's onerous export-authorization process. With bold government action, cargo clearance in India could be fully automated, a move likely to bolster economic and transactional efficiency.

Though India must undertake its own unilateral efforts to promote growth and good governance, developed countries too have an important role to play in global poverty reduction through trade. The developed countries need to reduce the large number of very high tariffs (tariff peaks) that restrict market access for developing countries; reduce trade-distorting policies in agriculture, which still persist in spite of the stated intent to reduce them in the July 2004 Framework Agreement; avoid non-tariff measures that restrict trade such as phytosanitary (food safety) standards that are more stringent than accepted international norms; and remove restrictions on the temporary movement of natural persons supplying services, an activity where developing countries such as India have a clear comparative advantage.

India, for its part, could also allow greater market access by lowering its tariffs and implementing much needed reforms in trade facilitation. Sweeping governance reforms are also necessary to boost investor confidence. The present government could continue lowering tariffs further in the forthcoming budget and make international cargo clearance speedier, in line with international norms. It could also promote a greater reliance on information technology and hold public officials accountable to a straightforward and transparent set of laws. In addition, as the largest democracy in South Asia, India could take the lead in the region to address the persistence of low intra-regional trade, thereby helping its poorer neighbors. To its credit, in February 2004 India took a positive step in this direction by granting special and differential treatment (SDT) through tariff reduction to Bhutan, Indonesia, Myanmar, Nepal, Sri Lanka, and Thailand. In a different context, India has shown its regional concerns and leadership in the way it is collaborating with Sri Lanka, Thailand, Indonesia, and the major international donors to help mitigate the effects of the December 26 tsunami tragedy.

In recent WTO discussions, India has demonstrated that it is committed to making the Doha Round a success. But with its G20 partners, India has signaled that it will offer major concessions in the negotiations only on the heels of sweeping developed-country agricultural liberalization. To date, movement towards this end has been marginal at best. Agriculture reform is at the top of the UPA government's agenda. The government has said it will spare no effort to make Indian agriculture globally competitive in a more distortion-free environment. It recognizes that a vibrant competitive agriculture sector is a requirement for sustaining a high growth of GDP. It has also emphasized that tapping the vast potential of agro-industries is necessary to accelerate industrial growth, exports, and employment. Should industrial countries significantly reduce export subsidies and domestic support to farmers, India and its G20 partners claim that in return they would be willing to provide greater market access in agriculture to these countries. Short of this, the downside risk of hardship to 650 to 700 million small and marginal farmers in India will prevent the government from taking immediate actions on liberalizing agriculture. India's main concerns in this regard are related to the timing and sequencing of reforms, as well as their associated social costs.

Effective and Adequate Development Assistance

Accelerating and sustaining high growth to reduce poverty and meet the MDGs will nevertheless present the UPA government with tremendous challenges. For example, great disparities exist between India's rich and poor states. About half of India's poor (133 million) live in Uttar Pradesh, Bihar, and Madhya Pradesh, none of which is under Congress party rule. Indeed, opposition parties govern most of India's poorer states. The World Bank Report *Attaining the Millennium Development Goals: Role of Public Policy and Service Delivery* (June 2004) noted that the gross disparities across Indian states make achievement of the MDG target for the country as a whole very difficult and uncertain.

The Bank's report selected five of the major human-development-related MDGs for consideration: child and infant mortality, child malnutrition, school enrollment and completion, gender disparities in schooling, and hunger and poverty. Of these, the most challenging for India will be achieving 100 percent net primary enrollment and 100 percent completion of primary education. The states of Rajasthan and Madhya Pradesh, which rank low in all five indicators, are ruled by the opposition BJP and are considered the to be two of India's most destitute regions. The UPA's ability to effect changes in these states is limited, as India's democratic system is a federal one in which the central government faces great difficulty in influencing state policies without the agreement and cooperation of the local ruling party.

On the other hand, the Indian Planning Commission has indicated that it is possible for India to meet the MDGs. In its tenth Five Year Plan, covering 2002-03 to 2006-07, it projects average GDP growth of 8 percent – a figure that would help reduce poverty and improve social indicators. The attainment of this target is critically dependent on the performance of the poorer states, the state of the global economy, and the political will of the government. Major efforts are still needed to address fiscal consolidation, tariff reduction, labor market changes, agricultural policy reform, and especially governance reform to reduce corruption and transaction costs.

Democracy and Political Reform: Fighting Poverty by Fighting Corruption

Corruption remains the biggest governance challenge in India. A recent Transparency International report notes that India has slipped to 90th position among 146 countries in its Corruption Perception Index (CPI), based on perceptions of corruption as seen by businessmen and country analysts. Countries that rely heavily on information technology and that have simple and transparent laws which require full accountability for civil servants, rank high on the CPI. India's large pool of software experts has begun the work of combating corruption through e-governance. In fact, there have been some notable examples of success. Andhra Pradesh, for example, has computerized its land records down to the registrar level, reducing corruption and transaction costs. The corporate giant ITC has launched a program called "e-choupal," which links farmers to electronic markets and supplies them with weather information to aid their crop growth and rotation. The MS Swaminathan Foundation in Pondicherry has established a similar scheme for fisherman, enabling them to access satellite information to track shoal movements. Such efforts should be extended and intensified across the Indian scene.

India's efforts to attain a high growth trajectory to meet the challenges of the MDGs and better governance could be expedited with focused financial support from external donors. Increased assistance from the World Bank, the Asian Development Bank, and other institutions would reward India's outstanding economic management and could be used to cover part of the cost of implementing some critical reforms. The Indian government, in return, could ensure that the assistance is utilized in an efficient and transparent manner. In this regard, the mismatch between India's needs and the actual level of official development assistance is striking. Eradicating poverty more expeditiously in India depends as much on increased support from the developed world as it does on Indian growth and reform.

Success in attaining the global MDGs will require concerted effort on the part of important developing countries like India and the developed world alike. The first priority must be ensuring that the DDR is successfully concluded close to the stipulated deadline. At a minimum, this will require a more flexible stance on agriculture from all WTO members. This is the place for the developed countries (and the United States and Europe in particular) to show some genuine leadership by stepping up and eliminating the billions of dollars in trade-distorting subsidies and domestic support they provide to their farmers each year; the developing countries should then follow suit by allowing greater market access in agriculture. At the same time, trade liberalization alone is not a panacea, and the developed world needs to honor its promises of development assistance. These should be matched by unilateral efforts on the part of developing countries like India to remain steadfast in their continued pursuit of economic reforms, full integration into the global economy, and governance reforms that make administrative procedures transparent and minimize political and bureaucratic controls and corrupt rent-seeking behavior. Such a concerted and ambitious effort would seem to offer the only way to meet the challenge of sharply reducing global poverty and spreading the benefits of increased trade and economic integration far and wide.

South Africa

Harald Pakendorf, Political Analyst

Introduction

South Africa is neither a typical African nation nor is it a developed Western one. Like a few other big emerging countries, South Africa is both First and Third World. Its population consists of a majority of black Africans, but it also has citizens of European and Asian descent, owing to its colonial past. The country has a rich and well-educated upper class as well as a growing middle class, yet 57% of its people live in abject poverty.

What then is a sensible approach the problem of poverty in South Africa?

Unlike many other developing countries currently shut out of industrial-country markets and in dire need of increased foreign assistance, South Africa already has in place elements of a sound development strategy. There is a national consensus on most development-related issues in South Africa – not only because the ruling ANC garnered 70% of the popular vote in last year's general election, but also because the vast majority of people agree on where the problems lie. The real challenge is moving forward on this plan.

Trade Reform

There is no disagreement that South Africa is adhering to a market-driven economic approach, that fiscal discipline has brought down budget deficits, interest rates, inflation and taxes, and that the country is in its longest ever period of economic growth – albeit it at too low a level to have a significant impact on the country's high unemployment figures. However, there are signs that economic growth is beginning to create new jobs. Nevertheless, many South Africans remain in dire straits.

Trade policy offers a good microcosm both of what is right and what needs to improve in South Africa. In the last decade, South Africa has moved from an inward-looking, import-substituting, closed economy to one that is open to the world and has grown as a result of global integration. This move, however, was accompanied by difficult social dislocations. Labor productivity in South Africa has increased, but at a tremendous human cost. This has been particularly true in the textile industry, where tens of thousands of jobs have been lost as a result of lowering tariffs. Clothing has become cheap, but so have jobs. The South African textile industry is a case where hasty and asymmetric tariff reductions proved to have a high cost -- textile products imported from China cost significantly less than their domestically produced rivals.

As a potential exporter of numerous value-added products, South Africa is exploring a range of bilateral and multilateral trade and cooperation agreements with, among others, MERCOSUR in South America, the European countries outside of the EU (with which it already has such an agreement), China, India, and Vietnam. South Africa is also keen to strengthen regional trade ties with its African neighbors. An agreement between the South African Customs Union (South Africa and the BLSN countries – Botswana, Lesotho, Swaziland and Namibia) and the United States, however, appears to be going nowhere, partly because of American insistence over protections for intellectual property rights (IPR) which prevent South Africa from lowering the prices of basic medicines for its citizens. South Africa is also at odds with the US over its black economic empowerment and government procurement policies.

AIDS is the leading cause of death in South Africa. 11.5% of the South African population is infected with the disease. Some 15 000 South Africans rely on low-cost anti-retroviral drugs through the public health system, and 45 000 more are assisted by the private sector donations and charity. Nevertheless, these drugs remain too expensive for the majority of South Africa's afflicted population – 500 000 remain without these medications. These figures help explain why the country is reluctant to bend to American demands on IPR.

South Africa is, however, pushing ahead with trade reform efforts. It has been among the most proactive members of NEPAD, the New Partnership for Africa's Development – an African initiative to lift the continent up by its own bootstraps.

Ross Herbert of the South African Institute of International Affairs has written that NEPAD "seeks to facilitate common African positions to secure greater trade access in developed markets; end the massive agricultural subsidies in the developed world that drive down global prices; seek greater debt relief; reform how aid is dispensed and push for greater financial commitment from and faster response by the United Nations to conflicts and potential conflicts on the continent."

NEPAD also seeks to prevent conflict in Africa, harmonize trade and customs procedures, and promote political and economic reform on the continent. NEPAD has been praised as an important initiative which has managed to begin to change Africa from a begging continent to one which looks to help itself through unity and far-reaching reform.

As with many emerging markets, South Africa would benefit significantly if the international agricultural playing field were made more even. As an example, South Africa is a low-cost sugar producer by global standards, but is shut out of global markets because of industrial country subsidies and protections. South Africa's tea industry has basically collapsed because of the lack of protection against cheaper imports and high input costs.

The South African wheat industry faces similar problems. Wheat is imported into South Africa at a cost that is lower than that of the domestically produced variety. This has sown economic turmoil in rural areas, since wheat has traditionally been a staple crop grown by many South African farmers. As a result, the government has agreed to hold emergency discussions on how to afford the wheat industry some measure of protection.

South Africa's dairy industry is also under siege from foreign competition. Cheese from Ireland imported into South Africa costs less than the same per-unit price of milk in Ireland!

But domestic problems also plague South Africa's agricultural sector. The agri-industry is almost completely dominated by white commercial farmers and companies, while most of South Africa's black peasant populations remain subsistence level producers. Farmers who enjoyed strong government support now receive no state subsidies or protections at all. Given this abrupt transition, the farming sector has held-up surprisingly well, though it must be noted that agriculture accounts for only 3.5% of overall economic activity in the country.

South Africa's communal farming simply is not geared towards competitiveness in open international markets. The government hopes to correct this by completing its land restitution program by the end of 2005. The program is on track, but is expected to become controversial as the process moves from consideration of urban claims to rural ones, where huge tracts of land may be involved.

The next stage of land reform aims to make 30% of agricultural land available to black commercial farmers, indicating a reversal of the government's traditionally hands-off approach to agriculture. Technical, marketing and financial assistance will be awarded to new farm land recipients. To some extent, this issue lies outside the problem created by rich-country agricultural subsidies, though these subsidies do cause imported agricultural products to be less expensive than comparable South African produced goods. It is also worth noting that agricultural overproduction and 'dumping' by developed country farmers compounds the difficulties faced by South African producers who attempt to export their products. EU farmers, for example, are guaranteed a certain price for their products, whereas the livelihood of South African farmers depends on market-set prices, which vary widely. In the face of these challenges, it is remarkable that the gross value of South African agricultural exports rose from R12 billion to R21 billion between 1994 and 2002.

In these ways, South Africa differs from other developing countries with huge peasant populations. Despite the emotions around land ownership, there is evidence from the first phase in land resettlement that South Africans would rather get cash than a small piece of land. The trend in South Africa is toward rapid urbanization, as people move away from the bleak rural areas to places with water, electricity, schools, clinics, roads. Trade and agricultural policy must therefore be seen in the context of the broader economic and demographic landscape.

Effective and Adequate Development Assistance

Today's South Africa has changed dramatically from an economy that grew maize and exported gold to one where manufacturing exports lead the way, the IT and aerospace industries have taken off, and tourism booms. South Africa is, therefore, an economy which no longer caters to people without skills -- it is an economy where computer competencies are relevant and pure muscle power is not. The imperative for the government is to enable South African society to continue to make this transition with relative ease.

When opening Parliament earlier this year, President Thabo Mbeki set a series of targets and timelines for the delivery of significant infrastructure investments, job training programs, and other black economic empowerment initiatives. What's more, Mbeki has promised to make sure these deadlines are kept.

This commitment to improvement has also been demonstrated by other government officials. Recently, Finance Minister Trevor Manuel declared: "In the Medium Term Budget Policy Statement, setting out the strategic framework for the 2005 Budget, we highlight the following priorities:

- Accelerating the pace of growth in the economy, and in particular the rate of investment in productive capacity;
- Promoting opportunities for participation of marginalized communities in economic activity, and improving the quality of livelihoods of the poor;
- Maintenance of a progressive social security net, alongside investment in community services and human development;
- Improving the capacity and effectiveness of the state, including combating crime and promoting service-oriented public administration; and
- Regional and international partnerships for growth and development."

Mr. Manuel has sought to make good on these pledges by announcing R165 billion ($27.5 billion) in new infrastructure-development projects and an acceleration of privatization efforts.

With these projects, Mr. Manuel intends to enable South Africa's 'first economy' (comprised of sectors based on skilled labor that are globally competitive) to grow to encompass its 'second economy' (characterized by unskilled laborers who are unemployable in the formal sector). Indeed, Mr. Manuel hopes to alleviate extreme poverty in the short term, but also focus on higher economic growth rates to draw more people into productive employment.

Education also tops the list of South Africa's policy goals. The educational system has simply not caught up with these new market demands. There are nowhere near enough pupils schooled in the basics of science and mathematics. The government has sought to address the problem through education reform, but not with any appreciable success so far.

Further complicating matters, the productive sector of the workforce is being decimated by AIDS. As one small example -- it has become clear that the country may have to import skilled labor to assist in getting the productive lift-off necessary to host the 2010 football world games. For sure, there is a lack of job opportunities in South Africa, but there is also a lack of South Africas to do the jobs that are available.

In general, however, South Africa's upward path has been set – population growth has dropped below 2% and annual GDP growth exceeds 3%. Nevertheless, in addition to addressing job losses that come from opening the economy and trying to reform agriculture, the greatest area for government intervention is service delivery by the state. Service delivery is poor. Great strides have been made at the national level, some provinces are also performing well, but at the local level problems are dire.

This is perhaps the area with the greatest political ramifications. In the last year, following on the April 2004 general election, there have been a number of eruptions, some violent, some through legal challenges to the state of services at municipal level. This is due to the fact that most able employees work in the national and provincial governments, leaving those local governments with insufficiently trained workers, poor collection services, and poor infrastructure. These problems are compounded by corruption, political bickering and a shortage of municipal funds.

While increasing investments in all these areas is critical, it must be done within reasonable fiscal constraints. The social security net for South Africans has been widened to such an extent that the Finance Minister himself has expressed concern at the ability of the state to continue this growth for any length of time.

Ordinary South Africans, most of whom are poor, are no longer willing to wait for the oft-repeated promises by government of "a better life for all" to come true. We have seen, in the most recent Indian election, the poorest elements of the society ousted the governing party even though the country's economy was booming. That probably won't happen in South Africa, but in this year's local government elections, smaller parties and independents can be expected to do better than they did last time around. South Africans understand that they can use their votes to strike a blow at the ruling party on the local level without threatening its national position, where the mystique of the ruling ANC still holds strongly.

Democracy and Political Reform

The big, institutional public-affairs questions have been settled in South Africa. There is no disagreement that the country is a functioning democracy and that the constitution is the prime expression of that democracy. The government – despite its huge majority - backs off when it is warned by the Constitutional Court, elections are held regularly in a transparent, free and fair manner, and the court system is relatively unfettered. South Africa also enjoys a strong and free press, active civil society groups and a government that is generally attentive to the needs of both businesses and workers.

South Africa does not require aid to strengthen these institutions. They are functioning and increasingly efficient, although the rapid application of affirmative action policies has arguably caused some hiccups. Despite some signs of corruption, bribery and crony capitalism, the government -- and the trade unions in particular -- guard vigilantly against malfeasance. For a young democracy with a turbulent history, there are strong transparency and accountability measures in place in South Africa.

European Union

Olivier Cattaneo, Yale University
Christian Pitschas, Freshfield Bruckhaus Deringer

Introduction

This paper provides a brief overview of the policy of the European Community (EC) and its Member States in relation to TPF's policy recommendations, adopted in Brussels on 27 March 2004. To this end, three policy areas are covered in the paper: (i) reform of the multilateral trading system; (ii) the effectiveness and adequacy of development aid; and (iii) the promotion of political reforms.

Trade Reform

The EC's foreign trade policy lies largely within the *exclusive* competence of the Community. That is to say, European Member States cede their negotiating power with respect to foreign commercial policy to the European Community and its Trade Commissioner. This allows European countries to speak with a single voice in their external trade relations as well as to obtain greater bargaining power in international trade negotiations. Member States do have some say in the EC's trade policies via the European Council, which: (i) establishes the scope of the Commission's mandate for negotiating trade agreements; (ii) must be consulted during such negotiations and can issue directives for such negotiations; and (iii) ratifies these agreements on behalf of the EC. Although a new Commission has just taken office, no *fundamental cha*nge in the EC's foreign trade policy is expected.[34]

After failing to reach an agreement at their ministerial meeting in Cancun last year, WTO members completed a new framework of agreement on *modalities* for further negotiations at the end of July 2004 (the so-called "Framework Agreement").[35] The EC has supported the Doha Development Agenda (DDA) and has taken credit for reviving the negotiations which led to the July Framework Agreement.

1. Agriculture

Confirmation of the Framework Agreement by the WTO General Council hinged primarily on concessions that were made by the EC in the area of *agriculture.*

The EC has offered to phase out its **export subsidies** completely over a yet-to-be determined period of time, provided that other WTO members also agree to eliminate *all* types of export subsidies. Although this offer is conditional, it is significant nonetheless, since the EC is, so far, the heaviest user of *direct* export subsidies. WTO members must now agree on: (i) the time period during which export subsidies are to be phased out; and (ii) disciplines and conditions for export credits, export credit guarantees, insurance programs, trade distorting practices of exporting state trading enterprises and food aid. The EC could show flexibility on these issues as a demonstration that its initial offer of export subsidy elimination is not purely a tactical maneuver.

In addition to export subsidies, reduction in **domestic support** is high on the agenda of many WTO members. The EC seems willing to reduce the overall level of its trade distorting domestic support substantially. This will likely happen as part of the ongoing reform of the "Common Agricultural Policy" (CAP). An important element of this reform is the so-called "de-coupling" of (some) subsidies from production and their transformation into a single farm payment. Rather than being tied to production levels, the current CAP reform plan would provide a single payment to farmers that meet mandatory environmental, animal welfare, food safety and quality standards. If the EC adopts these reform measures across the board, it is thought that the overall level of European agricultural production will decrease, leading to significantly reduced exports and increased imports of agricultural products from the developing world. For the time being, however, the reform plan is limited to a few farm products.

[34] In his answers to the questionnaire of the European Parliament, the Commissioner designate for trade *Mandelson* emphasized that "sustainable development must continue to be an important feature of our trade policy".
[35] The agreement has been confirmed by a formal decision of the WTO General Council on 1 August 2004 (WT/L/579 of 2 August 2004). The original deadline for negotiations, 1 January 2005, has been dropped. Instead, negotiations are to continue, at least, until the 6th WTO Ministerial Conference, to be held in Hong Kong, China, in December 2005.

In the July Framework Agreement, WTO members agreed to new modalities on the thorny issue of improving **market access** for developing-country agricultural products in industrial economies. The Framework Agreement sets forth broad guidelines for negotiations on market access; it foresees that WTO members such as the EU and US will continue tariff protections for certain products and goods they identify as 'sensitive.' In the end, WTO members may find it harder to agree on the market-access issues than on export competition, as the latter set of issues is more straightforward in technical terms.

The outgoing EC Agriculture Commissioner, Franz Fischler, told the European Parliament's Agriculture Committee on 21 September 2004 that the EC's main goal was "to keep adequate external protection for sensitive EU products." The EC is, therefore, keen to designate a certain number of agricultural products as sensitive, making market access for comparable developing country products more limited. From a development perspective, efforts by the EC to designate too many products as sensitive could undermine the negotiations.

2. Singapore Issues/Trade Facilitation

Three of the four "Singapore issues" (trade and competition; trade and investment; transparency in government procurement) have been dropped from the DDA. T*rade facilitation*,[36] however, remains on the negotiating agenda.[37] The EC was one of the main proponents of the Singapore issues. On trade facilitation, the EC has advocated a rules-based approach that would foster transparency, predictability and reduced costs for traders. The EC is of the view that trade facilitation is especially important to developing countries since it would: (i) make border controls and thus security more efficient; (ii) generate higher revenues from simpler and better applied customs procedures; and (iii) improve the investment climate, by increasing the inflow of foreign direct investment. The EC contends that negotiations should focus on: (i) increasing the transparency of trade regulations; (ii) simplifying, standardizing and modernizing import, export and customs procedures; and (iii) improving the conditions for transit.

As part of its development co-operation initiatives, the EC provides trade-related assistance (TRA) for trade facilitation. TRA needs are identified jointly by the EC and the recipient country and are allocated on the basis of terms laid down in national and regional indicative programs.[38]

3. Regional Trade Agreements

The EC has concluded regional trade agreements with many developing countries. Some of these agreements have a distinct *development* aspect. An outstanding example of this is the Cotonou Agreement, concluded between the EC and the African, Caribbean and Pacific (ACP) countries on 23 June 2000.[39] The Cotonou Agreement envisages that "Economic Partnership Agreements" (EPAs) will be negotiated between the EC, on the one hand, and regional groups of ACP countries, on the other. EPAs are intended to extend trade in goods and services, remove barriers to trade, and enhance co-operation in all areas relevant to commercial relations. EPAs are scheduled to enter into force by 1 January 2008, at the latest. Until then, non-reciprocal trade preferences, granted on the basis of the Lomé IV Convention, will continue to be applied.

It should be noted, however, that market-access concessions by developing countries in the DDA negotiations will have the effect of *eroding* trade-preferences granted under regional trade agreements to developing countries. This effect was highlighted by Commissioner Fischler in a speech delivered in Washington. He called for "stable and predictable preferences, because such dependability is a precondition for further investment and the development of the food and agriculture sector in developing countries. ... I believe that the proposals currently under debate in the WTO show very well that separate and differential treatment is a major topic and that there is scope for helping the

[36] Trade facilitation means the simplification, standardization and automation of trade procedures, especially the import, export and transit requirements and procedures applied by customs and other agencies.

[37] Modalities for negotiations on trade facilitation are to aim, first, at clarifying and improving the relevant WTO rules (in particular, Articles V, VIII and X of the GATT 1994), and, second, at enhancing technical assistance and support for capacity building in this area.

[38] For an overview on TRA by the EC and its Member States see the Communication from the EC to the WTO Council for Trade in Goods of 6 March 2003 (G/C/W/442/Rev. 1 of 10 March 2003).

[39] The Cotonou-Agreement succeeds the former Yaoundé (I and II) and Lomé-Conventions (I – IV) that governed the ACP-EC (trade) relations since the 1960ies.

developing countries in this way."[40]

4. Generalized System of Tariff Preferences (GSP)

The present GSP cycle will expire on 31 December 2005. It covers products from 178 GSP beneficiaries that may be imported into the EC either duty-free or at reduced tariff rates. Total imports from developing countries into the EC under the GSP amounted to € 52 billion in 2003, half of which enjoyed duty-free access. Currently, there are five GSP schemes. However, the Commission has proposed to modify the current GSP for the next ten-year cycle, from 2006 to 2015.[41] According to this proposal, the GSP will be reduced to three schemes: (i) a general scheme with somewhat increased product coverage (from 6,900 to 7,200 products); (ii) a special scheme for LDCs (the so-called "Everything but Arms" (EBA) initiative which already exists and which grants *all* products from LDCs – except arms and ammunition – duty-free access to the Community market); and (iii) a special scheme for vulnerable countries with special development needs (see section III below for more details). The EC could go further with its new GSP scheme by relaxing the so-called "rules of origin," which currently exclude about one half of total eligible developing-country products from tariff preferences.

Effective and Adequate Development Assistance

1. EU's Development Initiatives

The EU is responsible for more than 50% of worldwide Official Development Assistance (ODA). Based on current forecasts, a total of € 19 billion of additional EU ODA will be made available during 2003-2006 (up 35% from 2002). The annual ODA effort will progressively increase to € 38.5 billion or 0.42% of the total EU gross national income (GNI) 2006.

These projections show that the EU is firmly engaged in the achievement of the Millennium Development Goals (MDGs) and on track for meeting its Monterrey Summit commitment to increase the average ODA of EU Member States to 0.39% of GNI in 2006 (with a minimum of 0.33% for each Member State). In addition, at the European Council in Barcelona on 14 March 2002, the EU committed to:

- Improving aid effectiveness through closer coordination and harmonization;
- Increasing aid to Least Developed Countries (LDCs);
- Increasing its Trade Related Assistance (TRA);
- Tackling the issue of Global Public Goods (GPGs);
- Further exploring innovative sources of financing;
- Reforming the International Financing System;
- Restoring debt sustainability through the Heavily Indebted Poor Countries (HIPC) initiative.

A number of concrete measures have been taken to meet these commitments. Initiatives in most of these fields, however, are the work of individual Member States. For example, France and Sweden, in collaboration with the UN Development Program (UNDP), launched an International Task Force on Global Public Goods (GPGs) at the Johannesburg World Summit on Sustainable Development (WSSD) in September 2002. The Task Force aims to clarify and give a practical definition of the concept of GPGs and will analyze how successfully GPGs are currently being provided. Since its 2002 launch, the European Commission and several EU Member States have actively supported the Task Force. Individual or joint proposals of Member States on innovative sources of financing include: international levies, de-tax public/private partnership, and increased use of the International Financing Facility.

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[40] European Institute Luncheon discussion, Washington, DC, 19 February 2004.

[41] Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee, COM(2004) 461 final, 7 July 2004.

Joint initiatives of the EC and Member States launched at the WSSD include the "EU Energy Initiative for Poverty Eradication and Sustainable Development" (EUEI), the "EU Water for Life Initiative" (EUWI), and the "Action Plan for Forest Law Enforcement, Governance and Trade." In a recent speech to the European Parliament in Strasburg, UN Under-Secretary Louise Fréchette cited the EUEI as an illustration of an innovative contribution towards the achievement of the MDGs. The EU is also a major international donor to health interventions in developing countries, and it participates in the public/private partnership of the Global Fund to fight HIV/AIDS, Tuberculosis and Malaria. Since 1990, the EU has contributed around €42 billion to health-related interventions in more than 100 developing countries.

Over the last ten years, the EU has given increasing amounts of aid to middle-income neighboring countries in response to events in the Balkans and former Soviet Republics. The EU is, however, trying to balance its concern for security with its commitment to support achievement of the MDGs. To its credit, the EU has started to move in the right direction: 52% of aid went to low-income countries in 2002, up from 44% and 38% in the previous two years.

2. Need for Additional Efforts

a) Shortcomings

In 2001, the European Commission adopted a Program for Action on HIV/AIDS, Tuberculosis and Malaria within the context of poverty reduction worldwide. This entailed a series of actions to increase the impact of existing interventions, increase the affordability of key pharmaceuticals and encourage research into and development of specific actions to tackle these diseases at the national, regional and global level. To date, the EC has allocated more than €1 billion ($1.2 billion) to the Action Program. Nevertheless, a 2003 assessment of progress on the implementation of the Program concluded, that additional efforts are required to combat AIDS effectively and noted the absence of large-scale political action in this area. Indeed, little progress has been made since the pledging conference in Barcelona on achieving closer coordination and harmonization of aid policies and procedures. Individual Member States have been reluctant to compromise their individual external priorities, which reflect their own specific interests. Absent a single European voice or identity, and despite its position as the world's largest donor in financial terms, the EU has not exercised much leadership in the global aid process. Also, the EU could hardly define common sector policies and increase spending in the areas most relevant to the MDGs (e.g. basic education represents only 0.33% of EU's commitments). Closer coordination among EU member states could contribute to reinforcing the efficiency of EU aid programs (leveraging economies of scale through co-financing, dividing labor according to comparative advantages, lowering transaction costs, etc.) and make them more responsive to new initiatives such as the Global Fund to fight against HIV/AIDS, Tuberculosis and Malaria or the Education for All Initiative.[42]

b) Reform Proposals

Previous reforms, which included the establishment of EuropAid as a technical office in early 2001 and the abolition of the Development Council in 2002, created a rift between policy/programming and implementation and have been subject to criticism. In its most recent Communications, the European Commission proposed a drastic simplification of external actions' instruments, driven by the need to facilitate coherence and consistency in EU policy and achieve more with existing resources. Among these new instruments, the Development Cooperation and Economic Instrument (DECI) aims to tackle crises and instability in developing countries and will also address trans-border challenges including nuclear safety and non-proliferation, the fight against human trafficking, organised crime and terrorism.

In addition, the Commission expressed the need to concentrate on a limited number of development issues, selected on the basis of their contribution towards reducing poverty and the extent to which the EU action provides added value. Six specific areas have been singled out: the link between trade and development; support for regional

[42] See Communication from the Commission of 6 March 2002 on education and training in the context of poverty reduction in developing countries.

integration and cooperation; support for macro-economic policies; transport; food security and sustainable development; and institutional capacity-building, particularly in the area of good governance and the rule of law.

Further, EU development commissioner Louis Michel has promised to make the MDGs central to all of the EU policies and to review the EU development policy, as laid down in November 2000, in order to assess its relevance to the MDGs. The Draft Treaty establishing a Constitution for Europe also sets out that the EU and the Member States "*shall comply with the commitments and take account of the objectives they have approved in the context of the UN and other international organizations.*" This is interpreted by most member states as a reference to the MDGs. It also calls for more complementarity and coordination to improve overall effectiveness of aid policies.

Finally, while the accession of 10 new countries to the EU represents a chance for development, it also presents yet another challenge for coordination: these countries have started to make the transition to becoming donors and shouldering the part of the "*acquis communautaire*" relating to development policy, including the Barcelona Commitments. From €107 million in 2002, their contribution to ODA should rise to €389 million in 2006.

Democracy and political reform

The Common Foreign and Security Policy (CFSP) is the weakest pillar of the EU, due to its intergovernmental nature and the way it operates: decision-making requires consensus, whereas a majority vote suffices in traditional Community policies. In order to promote political reforms efficiently in developing countries, the EU will therefore use traditional methods borrowed from trade policies or development cooperation.

1. Cotonou Agreement

The Cotonou Agreement (see above I. 4.), which is funded through the EDF and links development, trade and political relationships, is one example of a traditional method. The agreement promotes, amongst other things, participatory methods of social dialogue and respect for basic social rights (Art. 25). Cross-cutting issues identified as areas of support by the agreement (Art. 33) also include gender issues, environment, and institutional development and capacity building. This latter area specifically refers to, amongst others, the promotion of democracy, transparent and accountable governance, and the fight against bribery and corruption. By 2008, the Cotonou Agreement could be replaced by European Partnership Agreements (EPAs, see above I. 4.). TRA and development efforts will be increased, and the whole process should prompt political reforms in ACP countries.

2. Trade and Tariff Preferences

The EU commonly uses trade and tariff-preferences as an incentive for developing countries to adopt political reforms. The EU's Generalized System of Tariff Preferences (GSP) is currently under review (see above I. 5.). In particular, a new special "GSP+" has been created for vulnerable countries with special development needs. "GSP+" covers around 7200 products that can enter the EU free of duty, under the condition that beneficiaries meet a number of criteria including the ratification and effective application of 27 key international conventions on sustainable development and good governance. Examples include: the International Covenants on Civil and Political Rights, and on Economic Social and Cultural Rights, the Conventions on the Elimination of All Forms of Discrimination Against Women, on the Rights of the Child, on the Abolition of Forced Labour, on the Freedom of Association and Protection of the Right to Organize, the Montreal, Cartagena and Kyoto Protocols, the Convention on Biological Diversity, CITES, the UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, and the Mexico UN Convention against Corruption.

Conclusion

The European Union contribution to development efforts is crucial. The EU is the largest global trading bloc and aid donor for developing countries. It is not, however, a single political entity, and the diffusion of powers makes it sometimes harder for the EU to play a leading role in the definition and implementation of development policies.

Trade is one of the very few common policies where the EU speaks with a single voice. It has therefore often been used to achieve other foreign policy objectives, like the promotion of political reforms in developing countries. The two pillars of trade policy 'as a development tool' are currently under review: a new GSP will enter into force in 2006, and the Cotonou Agreement should be replaced by EPAs by 2008. In both instances, however, the EU is under serious pressure. In a recent WTO dispute, the conditionality of the its GSP system was successfully challenged by India; although the WTO Appellate Body reversed some aspects of the panel decision, the EU is required to modify its current GSP system. Unfortunately, the increased conditionality of the future GSP system that has resulted is likely to raise new tensions. Rules of origin attached to the new GSP system will also come under close review. The negotiations on EPAs are another source of stress, and some ACP countries criticize both the passage from unilateral preferences to reciprocity and the division of developing countries' front in the regional phase of negotiations. Finally, in the WTO, the EU is facing a dilemma: while it entered into the Doha Round with a view to promoting a better regulatory framework for free trade, the negotiations on trade and environment, geographical indications, etc., have stagnated, and three out of four Singapore issues have been dropped of the agenda. The EU is thus left with hard concessions to make in agriculture and limited expectations for its own initial agenda. The July Framework Agreement was salutary, but the hardest nuts remain to be cracked, including the deadline for the phasing out of export subsidies and market-access issues in the agriculture sector. The question is whether the Member States will support the European Commission in concluding an agreement that is somewhat remote from its original mandate.

In the field of development, the main challenge for the EU is to coordinate and harmonize the policies of its Member States. Europeans have displayed 30 years of good intentions, but lack of coherence continues to dilute both their message and aid efficiency. Since development is not a common policy, the issue is whether a greater efficiency could be achieved through further integration of development with trade or foreign policies, or whether such a dilution would be a threat to the identity of development policies. Paradoxically, the EU has continuously increased its contribution to development efforts, but without gaining leadership -- the giant has no head. Internal reform of EU institutions and budget allocation is underway, but previous reforms have proven inefficient. Rivalries among Member States and European institutions (or even within each institution, like the Commission) still abound. With enlargement, the European Community will have an opportunity to become more influential, but will also face new challenges. The first of them is probably the ratification by all Member States of the European Constitution, which includes a new framework for development and aid policies.

Japan

Jun Kurihara, Harvard University

Introduction

This short essay tries to examine the prospective paths of Japan's politico-economic transformation in the coming years with a special focus on the Trade and Poverty Forum focus areas of trade policy, development aid, and political reform.

Trade Reform

The advent of the Internet and the proliferation of global trade and investment patterns have had an important effect on Japanese socio-economic systems and institutional configurations. The vibrancy of the Japanese economy is determined in part by a regional division of labor with its neighbors – raw materials imported from China, South Korea and Australia are the life's blood of the Japanese economy and, in turn, Japan exports the bulk of its finished products to these countries and the USA.

As a consequence, Japan feels it has much to gain by promoting a freer trading system in both the regional and multilateral realms. Slowly, it is trying to play a larger role in both WTO and ASEAN negotiations, with the aim of opening new markets and strengthening its commercial and political ties with developing countries.

On the regional level, Japan has taken a page from American and European playbooks and vigorously pursued the development of bilateral free trade agreements (FTAs), economic partnership agreements (EPAs), and regional trade areas (RTAs). These partnerships allow Japan to continue its drive for free trade and regional integration despite the standstill in multilateral trade talks at the WTO. Japan has demonstrated that such agreements can be comprehensive and flexible -- helping to achieve other strategic diplomatic and political goals. In the last three years, the country has completed FTA agreements with Singapore, Mexico and the Philippines. More recently, it has turned its eye to bolstering trade relations with other ASEAN countries, including Thailand, Malaysia, Indonesia, South Korea, Taiwan, and Chile. The pace of these negotiations has been accelerated in recent months despite the cyclical downturn of the global economy, and most analysts agree that Japan will invest considerable energy to complete these deals in the near future.

Japan's smaller ASEAN trading partners are trying to force the Japanese government to grant them some meaningful concessions, particularly in the area of agriculture, as part of any future bilateral or regional agreement. Notwithstanding considerable domestic hurdles, the Koizumi government has acknowledged both the necessity and the inevitability of agricultural reform, though the precise details of new reform policy measures (for example, how the reforms will be financed and the time-frame for their introduction) are not yet clear. Nevertheless, a recent University of Michigan study[43] shows that Japanese welfare gains from multilateral trade liberalization are considerably greater than the gains from preferential trading arrangements and more uniformly positive for all countries involved.

Still, some analysts believe that if Japan manages to disarm some of its barriers to agricultural trade as part of bilateral or regional agreements, it may smooth the way for Japanese leadership on these issues in the multilateral WTO Doha talks. In the meantime, the Basic Law on Food, Agriculture, and Rural Areas (the principal policy guideline for Japan's agricultural sector), is due to be revised in the coming fiscal year owing to the numerous challenges currently faced by that industry. These challenges include a shortage in the number of full-time, experienced farm workers as well as a lack of new qualified entrants seeking employment in the farm sector. Accordingly, most analysts expect a dramatic overhaul of the Basic Law. Signaling such a change, Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) announced at the end of 2004 that Japan's basic food policy should envisage overseas production in addition to the cultivation of farmland on Japanese soil. The MAFF gave six reasons for the new policy—(1) food security, (2) food safety, (3) promotion of Japan's agricultural exports, (4)

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[43] Multilateral, Regional, and Bilateral Trade -Policy Options for the United States and Japan - http://www.fordschool.umich.edu/rsie/workingpapers/Papers476-500/r490.pdf; France's think tank (CEPII) also identifies Japan's substantial welfare increase through multilateral trade liberalization ("Market Access Liberalization in the Doha Round: Scenarios and Assessment," CEPII Working Paper, No. 14, September, 2003)

establishment of a sound import climate for Japan's food processing industry, (5) development assistance toward Asian countries that export agricultural and food products, and (6) connecting Japan's agricultural policies with global environmental conservation issues.[44]

The immediate benefit of regional FTAs in East Asia to Japan is an improved investment climate for Japanese multinational enterprises and their local business partners. The World Bank's *World Development Report 2005* endorses this approach and states: "The investment climate is central to growth and poverty reduction."[45] The *Report* continues to state that the activity of these private firms is predominantly influenced by government policies, including regulations, taxation, infrastructure, financial and labor markets, protection of property rights, and governance structure. Accordingly, Japan, through consultation with its FTA partners, is trying to enact policies that invigorate regional economic activity.

Japan's electronics and automobile industries are likely to be the biggest beneficiaries of expanded regional and intra-industry transactions. They have been at the forefront of Japanese transnational trade, working with neighboring countries to set up a sophisticated regional division of manufacturing, assembly, and research labor. Japan's industrial sector is, therefore, one of the key constituencies pushing the Koizumi government to lay a firm foundation of rules-based trade agreements on both the regional and multilateral level.

Effective and Adequate Development Assistance

Japan's Official Development Assistance (ODA) program began fifty years ago with participation in the Colombo Plan for the Economic and Social Development – a kind of Marshall Plan for Asia. Today, Japan is the third largest donor country behind the Europe and the United States, with an annual foreign assistance budget of $9 billion dollars. Additionally, Japan has contributed to reconstruction efforts in Afghanistan and Iraq and is gradually starting to play a leading role in fostering new development projects including the initiative for Human Security and Consolidation for Peace, the Initiative for Development in East Asia (IDEA), and the Tokyo International Conference for African Development (TICAD).

Traditionally, three-quarters of Japan's bilateral ODA has been directed to the Asia/Pacific region for geo-strategic reasons. Nevertheless, Japan has recently changed its donation patterns and is now the largest donor to several African countries.

Despite the sheer size of its ODA budget, the overall amount of Japan's foreign assistance has contracted in the last three years. This reflects diminished support from both the public and the National Diet (Parliament) for ODA policies. Japanese analysts attribute this "aid fatigue" to the decade-long economic stagnation and lack of public awareness of how aid policies are beneficial to Japan.

Rebuilding public support for increased ODA will probably require a revitalized Japanese economy. Sound macro-economic policies and structural reforms that enhance Japan's growth rate could create a domestic political environment more hospitable to increased foreign assistance programs. In this way, the conclusion of FTA agreements and the Doha Round could bolster Japanese overseas development assistance efforts.

Japan could do more than simply increase the aggregate amount of development aid it makes available to other countries. The 2004 OECD *Peer Review of Japan* states: "There is a need for an explicit government-wide statement on policy coherence for development so that the public is made more aware of the issue."[46] To its credit, the Japanese government has launched a wide variety of initiatives including education programs on foreign aid activity and the promotion of aid-related non-government organizations (NGOs), in order to create a class of attentive and cooperative citizens who recognize the value of Japanese ODA. The number of Japanese development NGOs has increased as a result, but the majority of these civil society groups are still in their infancy and lack the skills to marshal resources from the public and private sectors successfully. This has stymied efforts to increase public

[44] Japan's Ministry of Agriculture, Forestry and Fisheries, "MAFF Update," No. 569, December 3, 2004.
[45] World Bank, 2004, *World Development Report 2005*, p. 1
[46] OECD, 2004, "The Peer View of Japan," p. 12.

awareness of trade and development issues and create new NGO networks both at home and abroad. The Japanese government, in cooperation with the Japan's biggest business confederation (the Nippon Keidanren) has stepped in to support NGOs who want to have a greater role in ODA policies and activities. Japan Platform, for example, is an organization resulting from a tripartite collaboration among Japanese NGOs, the Ministry of Foreign Affairs (MOFA), and Nippon Keidanren to provide emergency relief in natural disasters and refugee situations more effectively and quickly.

Last year, Japan began a strategic overhaul of its entire ODA charter. The new Charter, which will serve as the foundation for Japan's aid policy for the coming decade, identifies the policy objective as "peace and development of the international community" and "Japan's own security and prosperity." Given its special regional emphasis on Asia, Japan identifies the goals of its aid policy as: (1) economic and social infrastructure development, (2) human resource development, and (3) institutional building.[47] At the same time, the Charter addresses "a multiplicity of (aid) problems such as the gap between the rich and the poor; the ethnic and religious conflicts; armed conflicts; terrorism; suppression of freedom, human rights and democracy; environmental problems; infectious diseases; and gender issues." In implementing the new Charter, Japanese officials have said that they will draw up national assistance programs for their major recipients, in particular for the least developed countries, in an effort to identify their precise development needs. These national assistance programs will study and promote the implementation of critical grant aid projects and emphasize constructing schools, hospitals, and other essential infrastructure facilities. In addition, Japan intends to provide its recipient countries with technical assistance and capacity-building through targeted deployments of its "Overseas Cooperation Volunteers (JOCV)" a core of 8,000 specialists and skilled workers who provide all manner of training programs for recipient countries. These specialists help support recipient country efforts at legal enforcement, policy formulation, women's empowerment and access to essential drugs and medicines.

With respect to the Millennium Development Goals (MDGs), Japan has said that it regards the MDGs as one of the most important pillars in its economic cooperation. Indeed, the new Japanese ODA charter cites the top MDG of poverty reduction as one of its four priority issues. As a result, Japan has been implementing various kinds of assistance to meet the MDGs through grants, loans and technical aid. Informed by its transition from being an aid recipient to an aid donor, Japanese ODA philosophy stresses economic growth and self-reliance efforts of recipient countries as indispensable to poverty reduction. The World Bank's *World Development Report 2005* convincingly echoes Japan's approach as mentioned above. To build international support for its ODA methods, as well as increase its public diplomacy in this area, Japan is expected to swiftly disseminate its ODA report in English (the annual Japanese ODA report is regarded as the most comprehensive catalogue of Japanese foreign assistance efforts available).

As part of its public diplomacy efforts, Japan will also attempt to produce more analytical work on how best to promote development-policy coherence among industrialized countries. To date, institutional organization of the Japanese government has limited such kinds of research. The operations of the Japanese Ministry of Foreign Affairs (MOFA), the agency primarily responsible for the distribution of Japanese ODA, are divided by function rather than by country. Therefore, assessing the economic and social impact of Japanese ODA policy in the past has required a complex inter-agency process. The Japanese government is working to implement institutional reforms that would move MOFA towards a country-based organizational structure in an attempt to enhance the efficiency of evaluation and analytical processes. MOFA is also working to establish greater links with Japan's Basic Social Services (BSS) agencies (universities, research institutions, water delivery companies systems, hospitals, etc.) that can be called upon to consult on ODA policies and initiatives.

Democracy and Political Reform

Under Prime Minister Junichiro Koizumi, Japan has sought to undertake numerous reforms in the political arena including the institutional reorganization of the century-honored politico-economic system established during the Meiji restoration. In late September 2004, Koizumi shook up his cabinet and appointed trusted allies to key posts to

[47] Japan's Ministry of Foreign Affairs, "Revision of Japan's Official Development Assistance Charter," August, 2003, unofficial translation, p. 2.

speed the implementation of his reform agenda, which aims to reduce subsidies from the central government to local authorities.

In reorganizing his cabinet, Koizumi's first priority is the privatization of the postal system's savings and insurance operations. The Prime Minister views this as essential to solving the serious debt problems of the country's public corporations. Japan has successfully privatized government-run industries in the past: Japanese Railways, the Japan Tobacco and Salt Corporation and Nippon Telegraph and Telecommunications, were all once government-owned. Nevertheless, Koizumi's success in drawing up a privatization bill and getting it passed by the Diet this year hinges upon his ability to win over many members of his own Liberal Democratic Party, some of whom are persistently opposed to postal privatization.

Koizumi is also likely to face resistance in implementing other reforms. The Prime Minister believes that he must cling strongly to a non-expansionary fiscal policy as part of his comprehensive program to prevent further deflation of the Japanese economy and kick-start growth. As a result, the private sector and local governments have had to find ways to manage bloated debt loads that don't include bailouts from the central government. As a result, Japan's ailing banks have slowly begun to adopt some restructuring measures and reduced substantially their non-performing loans (NPLs). Local governments too have been forced to revitalize their local economies as a way of raising tax collections. These efforts have been met with mixed success -- some local governments led by bold political entrepreneurs have jump-started their economies, while other prefectures and municipalities continue to lag behind.

Prime Minister Koizumi has not achieved as much as he has promised during his election campaign and has struggled to implement his reform agenda since taking office in 2001. His core base of support has never been from veteran parliamentarians, as is usually the case for Japanese Prime Ministers, but rather from local party members and urban elites who elected him on a platform of change. Nevertheless, Koizumi's popularity has waned in the last year, and he is now desperate for support from all groups. Sensing his weakness, members of his own party as well as the opposition parties have begun to attack him fiercely. Unless he succeeds in resurrecting his public prestige, the pace and depth of Japanese reforms is likely to be limited. This precarious political situation may force Koizumi to compromise on some of the more controversial aspects of his reform plan, which could result in even more serious economic stagnation.

United States

John J. Audley, The German Marshall Fund of the United States

Introduction

The re-election of President Bush, the continuing bitter partisan divide, and a fragile economic recovery all combine to create a US political landscape that presents both tough challenges and genuine opportunities for linking further trade liberalization to true development among the world's poorest people. While a second Bush term, backed by increased Republican majorities in Congress, means the continuation of a generally pro-trade administration, attention is likely to be focused on other issues. Mr. Bush's ambitious second-term agenda — domestic tax and Social Security reform, fighting terrorism, and resolving the tensions in Iraq and Afghanistan —will capture most of his and Congress' political energy. Similarly, the increased turnout in rural areas by religious voters who backed the president and the arrival of more hard-line Republicans in Congress has mixed implications for a development agenda. Religious conservatives may have a morally-based desire to fight poverty world-wide, but they appear more likely to focus on their domestic concerns such as restricting or eliminating abortion and passing legislation in favor of traditional marriage.

Even given this context, however, it is still possible to promote greater coherence between US trade and development policy. First, broader political coalitions – particularly between business and civic leaders – will be required to persuade Administration officials and members of Congress to endorse a pro-trade, pro-development agenda, even with their competing policy priorities. Faith-based organizations will have a particularly important role to play in such efforts, given the respect they enjoy both among administration officials and in developing countries. Additionally, to cut through the confusion and inaccuracies surrounding trade and development, political, business, and civic leaders must be guided by well-reasoned analysis and a clearer sense of the public understanding of these critical policy areas.

Trade Reform

In spite of President Bush's convincing victory, the United States remains deeply divided across a number of social and political fault-lines. Such a fractured polity is not especially conducive to the consensus-building necessary for forward movement on trade and poverty issues—which, in any case, have an ambiguous place in domestic debate. While Americans strongly support fighting global poverty, efforts to strengthen the linkages between trade and development face obstacles rooted in public fears and widespread misunderstanding.

Economically, the halting recovery from recession has left many Americans much more guarded on trade issues than they were during the boom years of the 1990s. Despite some signs of a stronger US economy (a rebounding stock market, modest jobs growth, continuing corporate profits, and small increases in real GDP), consumer confidence remains low, and middle-class Americans are concerned about job security. Related to this, the overall tenor of public debate on trade issues has come to be dominated by increasingly overheated rhetoric and a one-sided and one-dimensional approach, as could be seen in the "outsourcing" controversy. Not surprisingly, there is great resistance among Americans to policies that appear to promote job relocation outside the United States. Likewise, research shows that there is substantial sympathy for American farmers and a commitment to providing support to US agriculture, despite the devastating impact current agricultural policies have on poor countries. Over half of Americans agree that it is not the responsibility of elected officials to take care of farmers in other countries.

Beyond such public ambivalence about further trade liberalization, powerful agricultural commodity interests – notably the sugar and cotton lobbies – are actively working to block the reforms to US agricultural and trade policies that are central to progress in the current Round of WTO negotiations. In bilateral negotiations, sugar interests convinced the administration to eliminate tariff reduction requirements on sugar imports in the US-Australia Free Trade Agreement, sparking wide-spread opposition to the agreement among the business sector.

Nevertheless, the growing number of trade negotiating forums presents definite windows of opportunity for change. Proponents of trade and development alike would like to see WTO members achieve the goals of the Doha Development Round, especially to ensure better market access for products from developing countries. Efforts to keep negotiations on track towards more pro-development policies have been aided by WTO dispute-panel reports that spotlight rich-country abuse of the trading system; for example, on US support for its cotton industry and the European Union's support of sugar farming. The stagnation of key areas of multilateral trade negotiations is partly responsible for a shift in US trade strategy toward numerous US bilateral and regional trade negotiations. Moreover, the outgoing US Trade Representative, Robert Zoellick, has repeatedly tried to capitalize on President Bush's interest in promoting democracy by linking the US trade liberalization agenda to political reform and more stable governments. Key among these efforts is an initiative to expand trade in the Middle East.[48]

Ironically, protectionist deals that favor key US interests, such as the "carve-out" for sugar in the US-Australia FTA, have created fissures in the otherwise solid business-community support for trade agreements. Anchored by the efforts of key pro-trade companies like Proctor and Gamble, there is a real possibility for new alliances around farm-policy reform involving groups with a direct stake in expanded and more open markets in agricultural products on the one hand, and others who want agriculture "out of the way" in order to move forward on the broader trade liberalization agenda.

A final force for change is the advent of skyrocketing budget deficits in the United States that could play a "forcing" role in the domestic politics of trade-distorting subsidies. Even the most conservative estimates show a deteriorating fiscal environment in which the projected federal deficit for the coming decade is $4.4 trillion; analysis by Goldman Sachs suggests it could be as high as $6 trillion, but this still includes a surplus in the Social Security Trust Fund (without which the numbers reach $7 or $8 trillion).[49] In this context, the fact that US agricultural programs are currently structured in such a way that (for example) tiny fluctuations of a cent or two in world commodity prices can have billion-dollar implications for the US Treasury means that, for the first time, the general fiscal crunch is helping to push reform of subsidies up the political agenda. In this context, the administration has opened the bidding with a proposal, included as part of its FY2006 budget package, that payments to farmers be limited to a maximum of $250,000 and that the overall level of farm subsidies be reduced by five percent. (It should be said that, as of this writing, it is unclear how committed the White House actually is to pushing for these proposals, and whether in any case they would be able to drum up the necessary support in Congress, among either Republicans or Democrats, to get them enacted).

Effective and Adequate Development Assistance

The Bush Administration has shown important signs of being willing to increase development assistance. For example, during its first term the administration proposed the reduction or elimination of the foreign debt of many of the world's poorest countries. While it is widely believed that this policy was motivated by the administration's desire to eliminate the foreign debt owed by Iraq, the proposal creates a political opportunity to broaden public support for debt relief. Second, late in its first term the administration began taking the first steps toward providing development assistance under the auspices of the Millennium Challenge Corporation (MCC), which is designed to provide increased development assistance to a select group of countries "that rule justly, invest in their people, and encourage economic freedom."[50] Nongovernmental organizations have praised this approach in principle for promoting both transparent and increased US aid allocations and incentives for good governance and policies in recipient countries; however, they have also raised concerns that the MCC's actual eligibility and proposal guidelines lack clarity, and funding is far below initial promises. The administration's FY2006 budget request for MCC is $3 billion, short of the stated goal of $5 billion but up from the $2.5 billion requested (and $1.5 billion actually allocated) in the previous budget.

Obstacles remain. Most Americans wildly overestimate the level of US foreign aid, believing that the United States spends up to one quarter of the federal budget on development assistance. The actual figure is less than one

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[48] See more on the USTR Middle East Free Trade Area Initiative at:
http://www.ustr.gov/Trade_Agreements/Regional/MEFTA/Section_Index.html

[49] Richard Kogan and David Kamin, "New Congressional Budget Office Estimates Show Continued High Deficits And Further Fiscal Deterioration," Center on Budget and Policy Priorities, 1 October 1 2004, http://www.cbpp.org/9-7-04bud.htm

[50] See the web site of the Millennium Challenge Corporation at http://www.mca.gov. For analysis, see research by the Center for Global Development at http://www.cgdev.org; and Lael Brainard, Carol Graham, Nigel Purvis, Steven Radelet, and Gayle Smith, *The Other War: Global Poverty and the Millennium Challenge Account,* Center for Global Development and Brookings Institution Press, 2003

percent. This misunderstanding, plus broad public distrust in the effectiveness of international development efforts, leads 1 in 4 Americans to oppose aid to developing countries. The war in Iraq has further deepened the political divide that characterizes current US politics, and a common reaction to the approximately $150 billion (as of 2004) spent on the military and reconstruction efforts in Afghanistan and Iraq is that the money would be better spent at home.[51]

Nevertheless, it remains possible that there could be real movement on these issues. With regard to public attitudes more generally, when presented with accurate information regarding US foreign assistance, Americans demonstrate a strong desire to increase aid. When US farm support is explained fully, an overwhelming number of Americans want to see an end to federal support for large agribusinesses. And ever since the attacks of 9/11 made the world a much smaller place for Americans, they have increasingly come to acknowledge the interconnectedness of the global economy, poverty, and political tensions. The bulk of this research suggests that a sustained public education campaign could move the public toward support for an agenda linking trade, development, and governance reforms abroad.

Bringing Together the Trade and the Development Assistance Agendas

Over the course of the next two years, supporters of pro-development trade reform will have a number of important opportunities to orchestrate new political coalitions in support of more coherent trade and development policy, including the reauthorization of US trade promotion authority in 2005 and 2007, the G8 summit in the summer of 2005, the WTO Hong Kong Ministerial in December 2005, and the reauthorzation of the US Farm Bill (which Congress may begin discussing in 2005, two years before the current legislation expires).

The growing influence of religious conservatives with the administration also could work in favor of an agenda linking trade and poverty. Although though not natural "globalizers" in the same manner as the business wing of the GOP, the faith-based community's genuine interest in fighting global poverty—expressed in the activities of churches and religious charitable organizations—and a natural suspicion of the anti-trade rhetoric of many NGOs could position religious conservatives as a critical force in efforts to build public support for pro-development US trade and foreign assistance policies.

In effect, what is needed is a merger of the political coalitions in favor of trade with those in favor of development and foreign aid. This will not be easy. Natural supporters of trade in the business community rarely work together with pro-development activists, whose focus has largely been on lobbying for greater development spending. There are real political obstacles to bringing together even those groups within the United States that are explicitly committed to linking trade and development, reflecting a certain amount of distrust and cultural distance between business-backed trade groups and the NGO community. Most activist-oriented non-governmental organizations oppose the current approach to trade liberalization, arguing that it has failed to deliver on the promise to improve the lives of the world's poor. While a growing number of business people are sympathetic to this view, it is hard (if not impossible) for business leaders to form political alliances with groups actively fighting trade agreements.

More specifically, three discrete efforts to bridge the traditionally separate movements for trade liberalization and for international development are particularly relevant to this discussion, but their success depends upon their ability to work effectively together.

The Initiative for Global Development: Originally called the Seattle Initiative, the Initiative for Global Development ("the Initiative") represents the efforts of a group of business leaders in the Pacific Northwest to make global poverty alleviation a national priority. The Initiative was founded by Bill Gates Sr, timber executive Bill Clapp, former EPA administrator and businessman William Ruckelshaus, and former Washington-state governor and senator Dan Evans. On the strength of their reputations, the Initiative invites high-profile international figures to speak to other business leaders and urge them to join the effort. Recent speakers include philanthropist George

[51] According to a Congressional Budget Office estimate released in June 2004, through the end of 2004 the US Department of Defense will have obligated approximately $94 billion for military operations in Iraq and $31 billion for military operations in Afghanistan. The amounts appropriated for reconstruction activities in Iraq and Afghanistan so far have totaled about $24 billion. "Estimated Costs of Continuing Operations in Iraq and Other Operations of the Global War on Terrorism," US Congressional Budget Office, 25 June 2004.

Soros, former Administrator of the United Nations Development Program (and now Chief of Staff to UN Secretary General Kofi Annan) Mark Malloch-Brown, Millennium Challenge Corporation CEO Paul V. Applegarth, and Merck CEO Raymond Gilmartin, a delegate to the Trade and Poverty Forum. Over the next year, the Initiative plans to expand its activities to include ten additional cities in the United States. Additional information can be found at www.seattleinitiative.org.

The ONE Campaign: ONE is considered the primary vehicle for advocacy on trade, development, AIDS, and debt relief among civil society organizations. Its goal is to secure an additional one percent of the US federal budget to devote to fighting global poverty and disease. ONE's efforts target faith-based and antipoverty groups, and include celebrity spokespeople like Bono of the rock band U2. ONE was founded in May 2004 by DATA (Debt, AIDS, Trade, Africa), Bread for the World, the United Nations Development Programme/United Nations Foundation, and the Better Safer World Campaign (BSW) – itself a coalition that includes CARE, Oxfam, and Save the Children. As is evidenced by its membership, ONE relies primarily on grassroots efforts to build momentum in support of its efforts to affect US foreign and economic policies. ONE is currently awaiting a $3 million grant from the Bill and Melinda Gates Foundation. More information can be found at http://www.theonecampaign.org/.

The Trade and Poverty Forum: Initiated by the German Marshall Fund, the Trade and Poverty Forum (TPF) is an independent forum composed of highly regarded citizens from six key democracies: Brazil, India, South Africa, Japan, the European Union, and the United States. In March 2004, TPF delegates released the *Call to Action Against Poverty,* designed to promote a global poverty-alleviation agenda in three mutually reinforcing policy areas: reform of the world trading system; increases in development aid to countries ready, willing and able to use it effectively; and political reform to pave the way for development. The US delegation initially solicited formal endorsements of the TPF statement from key business and NGO opinion leaders, as well as from government officials.[52] Many civil society organizations, however, felt that the *Call to Action* failed to criticize the costs of free trade and was not sufficiently specific. Other leaders, especially elected officials, expressed cautious support for TPF's message but were reluctant to formally endorse the statement, indicating considerable caution on an issue that remains very sensitive for local officials.

Analysis

In many respects, the Initiative and the ONE Campaign are complimentary. Both are well-funded, well-organized efforts, designed to strengthen policy coherence between trade liberalization and poverty alleviation. Both emphasize positive public education messages targeted at a well-defined audience. The ONE Campaign relies on focus-group tested messages aimed at community leaders and religious groups, while the Initiative uses presentations by like-minded corporate leaders. Both share relationships with the Gates family and foundation, as well as with the UNDP

The German Marshall Fund also has taken important steps to strengthen the TPF effort to galvanize public and elite opinion around a pro-development trade agenda. In May 2004 GMF sponsored a survey of US, British, German, and French public opinion that showed that citizens in these countries support fighting poverty and, moreover, prefer trade over aid as the primary instrument to help poor countries. Additionally, GMF commissioned a public education "blueprint" outlining a multi-staged effort to build public support for development-oriented trade policies by promoting both specific legislative goals and a common set of facts on aid, trade, and farm subsidies.[53] Lastly, GMF has commissioned the Meridian Institute to conduct a "mapping" of key individuals in the transatlantic trade, agriculture and development communities to understand their views and relationships better. These responses will help identify common ground and coalition opportunities.

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[52] Founding TPF delegate support includes Robert Rubin, Lew Kaden, Senator Chuck Hagel, Merck CEO Raymond Gilmartin, Children's Defense Fund president Marion Wright-Edelman, and Gates Foundation President Patty Stonesifer. Additional endorsements were secured from David Beckman, President, Bread for the World, Tony Kireopolous, Vice President, National Council for Christian Churches, Oxfam America President Ray Offenheiser, Ambassador Carla Hills, National Endowment for Democracy president Vin Weber, Congressmen Cal Dooley, Adam Smith, and Jim Kolbe. Founding TPF delegate John Sweeney, President of AFL-CIO did not endorse the Call to Action. For more information, see http://www.tradepovertyforum.org.

[53] The blueprint was developed by some of the top American media and public affairs professionals, including Ed Reilly, Carter Eskew, Mark McKinnon, Bill McInturff, and David Dreyer.

Presented to policy makers, a unified position on trade and development that was supported by both grassroots and business leaders would represent a strong force for change. Yet bringing these constituencies together remains a challenge. The advocacy nature underlying the ONE Campaign makes it difficult for business CEOs affiliated with the Initiative to agree to a direct relationship, and vice versa. This wariness has persisted despite the best efforts of the UNDP to link the two initiatives. For these two key constituencies to be able to function effectively together, more targeted intermediary work will have to be done to provide both bridges and (when appropriate) buffers between them, enabling both initiatives to interact through participation in appropriate public and private forums. TPF may play an important role in this respect, especially given the convergence of interests across all three efforts.

Conclusion

If there is to be progress toward pro-development trade liberalization, proponents must find a way to overcome the obstacles and entrenched interests arrayed against reform and make their voices heard amid the cacophony of competing agendas. To meet the challenges and capitalize on the opportunities presented by the current US context, the development of new coalitions uniting business, religious, and NGO constituencies in favor of linking trade and poverty alleviation will be critical. Genuine tensions exist between the business groups and nongovernmental organizations involved in the various efforts, and new leadership is needed to bridge the gaps and allow them to work together around their common interests and shared goals. In all this, high-quality, balanced analysis will be essential to enable political, business and civic leaders in the United States to move beyond the rhetoric and confusion that reigns in the trade debate and forge a coherent approach that links good governance and pro-poor development to the enormous potential benefits of growing trade in an increasingly integrated global economy.

Section 3
New Research Areas

Special and Differential Treatment: What to grant and to whom?

Patrick A. Messerlin [54], Sciences-Po

Why such a debate?

One of the most contentious issues of the Doha Round is the extent to which developing countries should be granted "special and differential treatment" (SDT) -- that is, have different rights and obligations from developed countries within the multilateral trading system.

Since the 1970s, SDT has relied on three pillars. First, developing countries have enjoyed access to the markets of developed countries without granting reciprocal concessions through various "Generalized System of Preferences" (GSP) schemes. Second, they have been granted longer periods of time for implementing certain WTO commitments or their own tariff concessions, subjected to less strict disciplines (for instance, not pressed to bind their tariffs at the lower applied level) and even benefited from special exemptions (for instance, they are allowed to protect their economy in case of balance-of-payments problems).[55] Third, developed countries promised, particularly in the Uruguay Round, some assistance to facilitate the "increased participation" of developing countries in the WTO.

During the last decade, these pillars have been undermined. Following the Uruguay Round, developed (and developing) countries have reduced their market access barriers with respect to their WTO partners, hence eroding the advantages offered by existing SDT-based preferences and hurting the developing countries relying heavily upon them. Bilateral or regional "preferential" trade agreements between developed and developing countries have amplified this evolution; being based on reciprocity, they have *de facto* undermined the scope for non-reciprocal SDT. Add to these evolutions the inclusion of services and intellectual property rights in the WTO regime with often no legally enforceable SDT provisions in these areas, and it is easy to understand the current turmoil about SDT in the WTO forum.

In the Doha Round, no less than a hundred negotiating papers on SDT have been tabled by developing countries. However, though there is an increasingly wide agreement that generating a development-friendly SDT would not be a complete waiver of trade rules, WTO negotiators have missed all the deadlines for tackling the main question at stake: what kind of exemptions from existing WTO rules should be granted to which developing countries?

WTO disciplines on trade instruments

Economic analysis shows that exempting any country from WTO disciplines on trade instruments -- such as tariffs, quantitative restrictions or export subsidies -- is unlikely to be a good idea. High barriers on imports deprive domestic firms of the accurate information on world prices they need for assessing their competitive situation and for deciding how to improve their products and their way of doing business. Similar conclusions can be reached for export subsidies. The argument is independent of development level, and it is even stronger in the current world characterized by increasingly traded services, larger international investment flows and more countries taking freer trade initiatives.

Experience largely confirms the analysis. Due in part to product exclusions and onerous conditions imposed by developed countries, the expected gains from the "*old*" SDT-based preferences designed in the 1970s and 1980s did not materialize, except in the case of a few developing countries and mostly in highly distorted markets (sugar, bananas, clothing). Experience also shows that closed or isolated economies never outperform countries that are integrated into the world economy. Indeed, many developing countries have learnt the lesson and have begun to dismantle their trade barriers, either unilaterally or in the WTO context.

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[54] The note relies on the work done for the UN Millennium Project Task Force on Trade & Development.

[55] A bound tariff cannot be raised by a country without it compensating the affected trading partners. There is no such constraint on an applied tariff.

However, these lessons are compatible with the frequently made proposal that the "least-developed countries" (LDCs, the current WTO term for the poorest countries) should be granted better trade opportunities—that is, more effective market access preferences. As developed countries have the primary responsibility for delivering on market access for a development-friendly Doha Round, it is they who must launch a strong initiative—removing their egregious support and trade barriers in agriculture and their high tariffs in textiles and in a few other non-agricultural products. They must do so as fully and rapidly as possible with respect to LDC exports, ideally by granting them a "global" preference scheme that would supersede all the existing schemes (in order to avoid the costly trade barriers such as rules of origin associated with fragmented preferences).

LDCs should be allowed to reciprocate later. But they would greatly amplify their benefits from the trade opportunities granted of such an initiative by the developed countries if they simultaneously decided to reduce their peak tariffs and the gap between their bound and applied tariffs—by far the two largest sources of the LDCs' welfare losses.

"Policy space" and WTO Rules on Domestic Instruments

Focusing on exemptions from WTO disciplines on *trade* instruments does not help much for designing a "*new*" SDT that will be development-friendly. It ignores the role that can be played by a host of *domestic* instruments, such as production and consumption subsidies or taxes. These are much better alternatives for implementing national development policies. They can target the domestic objectives judged desirable, hence imposing on the governments the discipline of providing a more precise and operational definition of the objectives at stake than merely invoking broad terms like "production diversification," "innovation enhancement," "poverty alleviation" or "sustainable resources." And they have fewer undesirable effects than trade instruments, especially if one takes into account the difficulty of predicting the products in which domestic producers will develop comparative advantages in the future.

In sum, trade liberalization and domestic instruments should be seen as complementary. Without freer trade, domestic instruments can easily be useless or harmful. For instance, heavy subsidies granted to new products would hardly be a counterweight for the impact of high tariffs granted to traditional sectors. By contrast, a uniform and moderate tariff (that is, the same tariff rate on all imported goods) will put domestic firms in traditional sectors and those in new activities on a level playing field (all firms will face the same level of protection), and it will provide the financial public resources necessary for implementing (if needed) appropriate domestic instruments. Conversely, without domestic instruments, benefits of trade liberalization can be negligible (for instance, dismantling trade barriers will have a limited impact if domestic firms are not well entrenched within their domestic market).

In general, there is no need for a SDT waiver to utilize domestic instruments -- because WTO rules do not constrain them. Subsidizing or taxing the consumption or production of goods, services and factors (food subsidies, health or education programs, tax for energy conservation, wage subsidies, etc.) is generally not vulnerable to WTO action.

However, there are cases where this immunity to WTO action becomes uncertain—when domestic instruments are "too" sector-specific, when they distort trade flows "too much," etc. Negotiations on SDT should therefore aim to eliminate such uncertainties. And there are cases where WTO rules on domestic instruments are so lax for rich countries that they have generated a "reverse" SDT that actually favors them, such as in the Uruguay Round Agreement on Agriculture. In this context, developing countries should trade reductions of their farm tariffs against reductions of the *global* level of protection of OECD agriculture—that is, the level of protection granted by the combination of tariffs, export subsidies and domestic support (as measured by the OECD "producer support equivalent"). All these points are of particular importance for the emerging developing countries, all the more because they are fast incorporating such domestic instruments into their development strategies.

WTO disciplines on regulatory policies

The Uruguay Round has tremendously expanded the scope of the WTO, with the emergence of disciplines on domestic regulatory policies such as those in the Agreements on services, standards or trade-related intellectual property rights (TRIPS). Regulatory policies differ from trade instruments in two key respects: they may bring very different benefits from country to country, and they may impose significant and differentiated costs of implementation. They thus raise new issues concerning SDT.

Before analyzing these, it is important to get the facts straight. WTO disciplines on regulatory policies should not be exaggerated. The Agreement on services is probably the most flexible of all WTO agreements. The core of the WTO Agreements on standards is to protect developed and developing countries alike against an abusive use of standards. The TRIPS Agreement is the one that goes the farthest in terms of "harmonization," but it only sets minimum standards and it includes "escape" clauses (indeed, some developing countries have used TRIPS to escape from pre-existing, much more constraining, bilateral agreements on intellectual property rights).

In the context of domestic regulatory policies, invoking SDT should pass two tests. First, can a particular regulatory policy have the effect of restricting market access? If the answer is yes, then an SDT-based exemption from the WTO rule is no wiser than in case of trade instruments. For instance, national regulations on standards can have a strong capacity to impede trade—raising serious doubts about the value for developing countries of a waiver on the WTO agreements on technical barriers to trade and sanitary and phytosanitary measures. But what then about granting more time to the developing countries for adjusting to the standards? The problem is that the economic value of such a SDT is difficult to predict: -- for instance, with highly risk-averse consumers in the importing country, developing countries would not be able to export. If buying time is impossible, then the costs of implementing WTO disciplines becomes an issue (see below).

The second test is: does a particular WTO discipline serve domestic development priorities? If the answer is no, the discipline diverts scarce administrative resources from areas with higher development payoffs. But this test is less about how to manage difficulties in implementing the WTO discipline by invoking SDT than it is about whether the discipline belongs within the WTO trade regime. For instance, competition policy is not necessarily related to international market access, and it is not a development priority in the short term for the small developing economies protected only by low or moderate tariffs (but it can be so for the large, more advanced, developing economies, and it is probably a long term priority for every country, developing and developed).

There is thus potential room for SDT whenever there is not a clear-cut yes to the first question (does the policy restrict market access) and there is a clear-cut no to the second question (does the discipline serve domestic development priorities). As a result, SDT in regulatory disciplines cannot be considered in a monolithic fashion, even amongst developing countries—all the more because "regulatory creativity" (designing and implementing tailor-made, cost-saving regulatory policies) is a desirable goal for developing countries. For instance, pharmaceutical patent protection, a component of the TRIPS Agreement, is not a priority (to say the least) for many developing countries, but geographical indications, another aspect of TRIPS, is seen as such by some of them. In this context, the distinction between the LDCs and the other developing countries becomes insufficient. There is a need for a more refined approach for the countries in the latter group, all the more because they have already often reached a level of development supportive of regulatory reforms.

Implementation costs of regulatory policies

The costs of implementing WTO disciplines on regulatory policies are becoming a key aspect of the current SDT debate. They reveal new structural handicaps among developing countries in global trade—hence raising the question whether assistance from developed countries should not be subject to legal obligations. Taking into account these costs is a good thing for the world trade regime to the extent that they are a natural brake on too fast an expansion of the WTO regime, hence keeping the scope of WTO agreements more in step with the politically deliverable commitments of developed and developing WTO members.

Assessing what SDT to grant and to whom with respect to a given WTO regulatory discipline should ideally rely on 1) a cost-benefit analysis of the relationships between this rule and its effects on market access, 2) its role in national development priorities, and 3) its implementation costs. The weaker its market access link, the less satisfactorily its development priorities are served, and the higher its implementation costs, the stronger the case can be for an SDT exemption. Ideally, such an assessment should lead to defining dates for implementing the given WTO rule, assistance commitments from developed countries, and technical reviews for monitoring the commitments of both sides. Once such an ideal deal on all these aspects is reached, non-negotiability should be respected—the key contribution of the WTO to world welfare remains predictability.

If developed on a country-by-country basis, such an approach would lead to overly complex negotiations and an arcane multilateral trade regime. There is thus a need to define broad sets of SDT issues of interest for wide groups of developing countries. Of course, this raises the political difficulty of defining the relevant sets of countries eligible for certain SDT provisions and the conditions for "graduation" (a process whereby a beneficiary of SDT will no longer be eligible once it reaches a certain level of development).

All these issues will be topical if the Doha Round addresses trade facilitation (the only issue rescued from the Singapore list) in an innovative way. Trade facilitation can be narrowly confined to customs-related issues, as it is the case today. But it may also become a support of a "Great Bargain" between developing countries eager to decrease their trading costs, and to improve their infrastructure by the same token, and developed countries eager to supply the services that such a development agenda requires (harbor and airport facilities, logistics services of all kinds, etc.).

Concluding remarks

Introducing an economically sound and politically acceptable *"new"* SDT into the current trading regime will be no easy task. What matters most is the recognition of two broad principles.

First, as increasingly recognized by developing countries themselves, development is unlikely to be best served by the lowest possible level of commitments (that is, the highest level of SDT) in the multilateral trading system, all the more because emerging developing countries are now far too important as markets for each other, including for the LDCs. No obligations means no ability to use the WTO system to promote domestic reforms and increase national welfare—definitely a huge loss for most, if not all, developing (and developed) countries.

Second, the discussions on SDT-based exemptions should rely, as much as possible, on robust analysis, not on political bargaining. Dealing with these issues in the context of negotiations should not lead countries to perceive policy reforms as "costly concessions" to foreign interests, but to recognize that appropriate reforms are in the interest of domestic development and involve desirable policy commitments from a national point of view.

The Uruguay Round adopted the *"one size fits all"* approach with the "Single Undertaking" (the fact that all WTO Members had to sign almost all the Agreements negotiated). Sliding to another extreme—*"one size doesn't fit any"*— would also be a mistake. By making the WTO regime void, it would boost the incentives to negotiate "preferential" agreements, which almost inevitably promote "reverse SDT"— SDT in favor of the richer trading partners, developed or emerging – an effect best illustrated by the many bilateral agreements with no provisions on farm liberalization, or by those with stronger TRIPS provisions than found in the WTO. The WTO remains the best available instrument for the least powerful countries.

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