The Least Developed Countries and World Trade

BY STEFAN DE VYLDER, GUNNEL AXELSSON NYCANDER AND MARIANNE LAANATZA

Nearly fifty different countries all over the world have been designated as Least Developed Countries (LDCs) by the United Nations. This study examines the role that trade can play in the development of these countries. The importance of the various agreements concluded within the WTO is discussed. What is the bottom line as far as tariff agreements with EU are concerned? How do other bilateral or regional agreements function? How do trade barriers operate? What is necessary for a country to be able to operate successful trade activities?

The authors interlink the internal and external factors which affect LDCs' opportunities of participating in trade and growth in a global scenario and examine trade as a part of the wider development complex.

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The Least Developed Countries and World Trade

AV STEFAN DE VYLDER, GUNNEL AXELSSON NYCANDER
OCH MARIANNE LAANATZA

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Foreword

In its work toward the alleviation of poverty, Sida has increasingly become aware of the importance of trade for the economic development of co-operating countries and as one of the bases of good social development.

World trade is global in the literal meaning of the word, however the starting position of the Least Developed Countries is a long way back on the track. They often lack the necessary capacity to manage their role within international institutions such as WTO and UNCTAD, their production capacity is often low and uneven and they can find themselves tied to contradictory and handicapping trade agreements with the rest of the world.

Sida intends to illuminate these problems in its work with trade issues and, through its activities at both global level and in several cooperating countries, it attempts to facilitate the access of the Least Developed Countries to the world market on reasonable conditions. Strengthening negotiating capacity, securing quality in export production, decreasing transaction costs, improving financing and increasing production capacity are some of the activities that Sida regards as urgent and achievable.

This study approaches the problem from the situation experienced by Least Developed Countries and provides a multi-facetted analysis of world trade and development opportunities. We therefore believe – in spite of the fact that the authors occasionally direct their comments and recommendations to Sweden and Sida – that this study will also be useful to a wide circle of international organisations and partners in development cooperation.

We would like to invite Sweden, EU and other international actors to participate in a continued debate and dialogue on the opportunities and constraints of trade and what can be done to participate more actively in the expansion of developing countries' capacity for global trade. The authors present a description of the situation of the Least Developed Countries within this process of change. The opinions stated in this study belong to its authors – the problem belongs to us all.

Nils Olof Malmer
Head of Sida's Private
Sector Development Division

Elisabeth Löfvander
Senior Adviser
Trade Issues

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Executive Summary

The LDCs: poor and marginalised

Of the 49 countries classified by the UN as LDCs (Least Developed Countries) the majority, or 34 of them, are found in sub-Saharan Africa.

Over 600 million people live in LDCs, around ten percent of the entire world population. Their share of world GDP, however, amounts to less than one percent.

The LDCs have been successively marginalised in the global economy. Their share of world trade has shrunk from over 1% twenty years ago to one third of one percent today. A mere 0.2% of the world's foreign direct investments goes to LDC s.

The debt situation has worsened. In most LDCs foreign debt – in both absolute terms and in relation to exports and GDP – is substantially greater than ten or twenty years ago. At the same time, ODA to LDCs has fallen sharply.

To a certain extent, economic stagnation in LDCs can be traced to external factors, such as falling terms of trade, shrinking ODA and trade barriers on export markets. However, the dominant reasons are of an internal nature and are related to the extreme poverty and prevailing political climate in these countries: lack of education, inadequate physical infrastructure, political instability and civil strife, poorly developed democratic traditions and institutions, in many cases also corruption and abuses of power.

The HIV/AIDS disaster has also exacerbated poverty. In most African LDCs, HIV/AIDS has already dramatically reduced average life expectancy and the human, social and economic costs will be vast in the coming decades.

Dynamic benefits of foreign trade

Foreign trade is a necessity for all countries, rich or poor. Isolation is not an option, and the benefits of foreign trade are potentially huge, not least for the least developed countries.

The dynamic benefits of foreign trade include

- trade enables *economies of scale.* This is of critical importance for the very poorest developing nations where local markets are too small to provide an adequate platform for the development of domestic production.

- trade can create *increased competition*. Companies are forced to become competitive on export markets, and external competition is often needed on protected domestic markets to increase productivity and force down monopoly prices.

- trade can play a key role in facilitating the *transfer and spread of new technology*. We use the term technology in the broadest meaning to include also new management principles, marketing know-how, new ideas and impulses, etc.

However, greater integration with the world market does not automatically lead to prosperity. The benefits of trade can be very unevenly distributed, and there are also risks attached – of unemployment, increased vulnerability, lower levels of food security, exhaustion of natural resources etc. – which the very poorest nations must be especially aware of.

The LDCs, WTO and trade policies

The LDCs play a very marginal role in the new world trade organisation, the WTO, and in the global regulatory framework that is currently developing. Just over one third of all LDCs are not members of the WTO, and most of those who are members are only very sporadically involved in WTO trade policy negotiations.

One reason why the LDCs are not more actively involved in WTO is a lack of resources, mainly in the form of trade policy expertise. The industrialised countries have an enormous advantage in this respect.

Another reason is that most LDCs have joined various bilateral preferential trade arrangements – for instance with the EU – that tend to be of greater importance for market access than WTO. Part of this study covers the various preferential arrangements with OECD countries and we also discuss the advantages and disadvantages of the current tendency to regionalisation, i.e. the formation of regional free trade areas, customs unions and other types of regional economic cooperation. We also throw light on the positive trends of South-South cooperation in the area of trade which are clearly discernible in various parts of the world.

The LDCs' lack of involvement with the WTO is also related to the fact that their development problems are due more to their supply constraints, that is to say, difficulties in producing something that is competitive on the world market, than issues concerning market access. Even so, the LDCs are also hampered by the trade barriers that still exist on other countries' markets.

The most serious of these trade barriers are the restrictions that remain in those few areas where the LDCs could be competitive today, i.e. agriculture and textiles. The promises made concerning successive deregulation and increased market access made by the industrialised countries during the Uruguay Round of negotiations, which marked the formation of WTO, have not been fulfilled to any meaningful degree. The domestic agricultural sectors of many LDCs are also hard hit by dumping of food surpluses by rich countries, not least the EU, that are the result of heavy subsidies to agricultural production and exports.

Poorer countries are also hard hit by so-called tariff escalation which still characterises much import to industrialised countries. Tariff escalation means that while raw materials are often imported duty-free, import tariffs rise with higher levels of processing. This tariff structure strikes at the root of any attempts by poorer countries to build up their own processing/refining industries based on their own raw materials.

The recent EU resolution to grant all LDCs duty-free access to the internal EU market for virtually all products is therefore satisfactory. The long transition periods for several products – rice, sugar and bananas – are, however, unfortunate. Another element which seriously dilutes the value of EU's promises of future freedom from tariffs for LDCs is the complicated requirements surrounding rules of origin. These make it impossible for LDCs to gain advantage from these trade concessions if their exports consist of processed goods based on raw materials produced by developing countries which are not LDCs. One example could be that clothes exported from an LDC lose their tariff free status if they use cotton cloth from China.

A large part of this study addresses WTO agreements; their content and consequences for LDCs. It is claimed that even though the LDCs have been granted a series of exceptions and special rules – primarily in the form of extended transition periods for implementing agreements – too little attention has been paid to the special circumstances and development needs in these countries.

Another central point is that many WTO agreements – such as TRIPS, that regulates issues concerning intellectual property rights, and TRIMS, that addresses investment issues – are ill suited to LDC needs. The TRIPS Agreement in particular brings few advantages and many disadvantages in the form of e.g. more expensive pharmaceuticals, for LDCs. We therefore consider that it is vital to allow the poorest countries, if they wish, to opt out of several new WTO agreements including TRIPS and TRIMS.

As concerns the new agreement on trade in services (GATS) negotiations are still at a very preliminary stage and it is too early to draw any conclusions as far as implications for LDCs are concerned. It is worth emphasising, however, that GATS in principle aims at covering all the vital social services including education, health care, communications etc. Consequently this agreement could have far-reaching consequences for both LDCs and industrialised countries.

Implementation of the various trade policy agreements is a costly exercise for LDCs who lack much of the necessary expertise and infrastructure. The agreements are not only about reducing duties and other trade barriers, they also require far-reaching reforms – and sometimes the need to develop from scratch – of national legislation and trade-related institutions. The TRIPS agreement and the agreement on customs valuations are examples of such demanding and costly agreements. Many LDCs choose therefore – often justifiably so – to reserve their scarce resources for other, more pressing areas.

Recommendations

WTO and industrialised countries' trade policies

Based on the conclusions we have drawn about WTO and other trade agreements, we wish to recommend the following:

- duty-free imports into all OECD countries for all LDC products;

- the introduction of harmonised and more generous rules of origin within bilateral trade agreements;

- the successive removal of trade-distorting subsidies for agriculture in the industrialised world, and an establishment or extension of LDCs' possibilities to protect their domestic food markets – at least as long as industrialised countries continue to dump cheap agricultural products and depress world market prices;

- a more rapid implementation of the Textiles Agreement from the Uruguay Round by the industrialised countries;

- LDCs that so wish be granted greater flexibility in the right to be exempted from certain rules and regulations (e.g. TRIPS or TRIMS, or parts of the Agriculture Agreement);

- that direct costs to the LDCs of implementing the Uruguay Round agreements be reduced through increased financial and technical assistance;

- support for institutional reforms in the WTO that increase the influence of poor countries in the WTO negotiation process.

Swedish ODA

As the most serious problems for LDCs are related to supply restraints rather than market access, it is important that long-term development assistance is continued, not least in areas such as education, HIV/AIDS, infrastructure, institutional development, financial sector development, rural development, debt relief and conflict management.

At the same time the trade aspects of these activities should be made more visible. In ODA projects aimed at increased production, issues of market access must be considered to an increasing degree.

The generous ODA within the trade area promised to the LDCs to support the very costly process of implementing the Uruguay Round agreements, and subsequent trade policy agreements, has largely failed to materialise.

We feel it is extremely important that Sweden, alone or in partnership with other donors, provides increased support in these areas and activities, and for other trade-related activities. Swedish support can be directed towards initiatives such as:

- strengthening the trade policy capacity of LDCs. This could include research and training (preferably on a regional basis) plus support to "think tanks" such as the South Centre in Geneva. Other initiatives could be to provide technical and legal assistance to LDCs or the funding of an "LDC ombuds office" (e.g. UNCTAD, or an entirely new organisation) to monitor the trade policy interests of LDCs;

- improving trade-related infrastructure in LDCs, so they can meet the various quality, health, safety and standardisation demands required on export markets;

- special initiatives at the request of individual LDCs. It is important that these are demand driven, which is why we do not wish to specify what type of support should be prioritised. However, examples that come to mind include tariff management, certification, market analyses and export promotion measures, import management and support to South-South cooperation in research and development.

Introduction

In May this year, a UN conference was held in Brussels. The conference received only sporadic and scattered attention from the mass media, but the alert newspaper reader could, anyway, learn a new abbreviation – LDC.

This was the third international LDC Conference[1], and LDC stands for Least Developed Country.

The 49 LDCs arrived in Brussels with modest expectations. The interest shown by the richer countries in assisting LDCs to alleviate the crippling poverty they experience has been limited. This is illustrated by the fact that ODA to these countries has decreased substantially during the last ten years in spite of generous promises of increased support, debt relief and trade concessions made at the last LDC Conference in Paris in 1990. And with a threatening economic recession in USA and Europe, and a new American administration showing very little interest in LDC issues, there was not much hope that the world would be more generous in 2001.

However, even these very modest expectations proved to be overestimates. The promises of increased support were vague and non-committal. In spite of admirable efforts on the part of the Swedish Presidency, the Brussels Conference became yet another confirmation that the world's poorest countries do not occupy a very high position on the agenda of the rich world.

The aim of this study – The Least Developed Countries and world trade – is to discuss the situation of the LDCs in the current globalised world economy. The emphasis is on trade issues and on the implications for the poorest countries of the world of the new regulatory framework that is emerging under the umbrella of the World Trade Organisation (WTO).

In order to examine LDC participation in world trade and their op-

1. May 2001, Third United Nations' Conference on the Least developed Countries.

portunities of benefiting from globalisation, we also put the spotlight on internal development problems in LDCs as well as ODA, debt and financing issues which affect their trade situation.

This study was comissioned by Sida's Department for Infrastructure and Economic Cooperation, INEC. According to its Terms of Reference the main purpose of the report is to raise awareness and understanding of the trade situation of LDC countries, with special emphasis on problems as well as opportunities.

In addition, the study shall:

– analyse and describe the situation of the least developed countries; their domestic development constraints, the conditions they are confronted with on the world market and the implications for the LDCs of the international regulatory framework governing trade, with special emphasis on WTO rules and regulations;

– discuss the significance of trade for social and economic development in the poorest countries;

– present proposals for how and where efforts can be made to assist the LDCs and improve their integration into the world trade system.

Chapter 1 of the study provides a brief presentation of LDCs. Which countries are they? What does the LDC designation mean for a country? What are the advantages and disadvantages of LDC status?

The following chapter summarises modern international trade theory, with special emphasis on its relevance to the world's poorest countries. We also attempt to establish which parts of trade theory that most economists currently agree on and the remaining disputed areas. The benefits of trade are well known, but are there also disadvantages and risks connected to trade liberalisation?

In Chapter 3, general development trends in the current world economy and world trade are described. The most important actors and driving forces in the globalisation process are discussed, as is the growing marginalisation of the LDCs. The LDCs' trade policies are described in the following chapter including the extensive trade policy reforms which have taken place in most of these countries. (Chapter 4).

While the economic stagnation of the LDC is to a certain extent related to external factors such as stagnating markets for their main export products, falling terms of trade, declining ODA and harmful trade and agricultural policies in the industrialised countries, it must be acknowledged that the dominating causes are of an internal nature and related to the deep poverty in the countries and to domestic political factors. In spite of the obvious difficulties of presenting a general picture of the situation of 49 extremely different countries, we attempt in Chapter 5 to summarise some of these domestic development constraints.

A large proportion of the study deals with global trade policies, and the new "rules of the game" that are being established.

Chapter 6 is an introductory discussion of tariffs and other important trade barriers which confront the LDCs on their major export markets. The development of the new global trade organisation is described: from GATT (General Agreement on Trade and Tariffs) via the Uruguay Round to the present day WTO in which the framework of current LDC market access is decided (Chapter 7). The so-called Special and Differential Treatment in the form of exemptions and special regulations which apply to the developing world in general and to LDCs in particular are examined. We also look at the special dispute settlement mechanism which has been established within the WTO framework; for the first time global regulations within the trade area have been equipped with mandatory regulations for conflict management and sanctions.

The central, original GATT principles – equal treatment for all countries and the Most Favoured Nation principle – live on in WTO. In our discussion on the GATT Agreement in Chapter 8 we present these basic principles. A number of other agreements are also described which were part of the Uruguay Round and which affect trade in goods. These agreements also affect countries' opportunities to subsidise production, impose temporary tariff barriers and anti-dumping tariffs, set health requirements and make specified demands on foreign investors.

The two sectors in which LDCs, at least in the short term, would probably have most chances of developing competitive exports are agriculture and textiles/clothes. The latter is an important source of employment opportunities and, at least potentially, export revenues for many LDCs. In Chapter 9, these opportunities are discussed as well as the possible effects on LDCs of in the inclusion of textiles in WTO regulations rather than the previously protectionistic Multi-fibre Agreement.

Chapter 10 deals with the agricultural sector, both its central role in supporting the majority of the population in LDCs and the policy regulations governing its trade. Special emphasis is placed on the WTO Agreement on Agriculture and the destructive effects of industrialised countries' protectionist agricultural policies and strongly subsidised agricultural exports.

In contrast to the previous GATT agreement whose mandate was limited to industrial goods, WTO is empowered to include agriculture (see Chapter 10 mentioned above), plus trade in services and intellectual property i.e. issues covering patents and copyright. The implications for LDCs of the new GATS (General Agreement on Trade in Services), and TRIPS (Trade-related Intellectual Property Rights) are discussed separately in Chapters 11 and 12; one conclusion is that both these agreements, as with other specialised agreements, are not adapted to the interests and development needs of the least developed countries.

After these chapters primarily dealing with various WTO agreements, Chapter 13 covers various bilateral trade and preference agreements concluded by LDCs. The most important of these is the Cotonou Agreement with EU which covers most LDCs and provides trade concessions on EU's inner market. In this chapter we also note the lack of consistency, or coherence, which characterises EU's relationships with its former colonies in areas such as agriculture and fishing.

The major part of this study deals with issues concerning international trade policies and LDCs' access to the markets of the richer countries. However we also touch on increasingly important issues concerning the current powerful trend towards regionalisation i.e. the establishment of regional free trade areas, customs unions and other forms of cooperation, not least as concerns South-South cooperation in the trade policy area (Chapter 14).

We look to the future to discuss possible negotiations in WTO and the EU proposal concerning a new, broad round of negotiations which would include issues such as the environment, competition and investment legislation as well as employment conditions (Chapter 15). The issues which may be dealt with in a future WTO round of negotiations will affect all agreements, irrespective of if they are between EU and a developing country or are part of a South-South agreement. Does such a new, major round of negotiations lie in the interests of LDCs?

Swedish and international ODA to trade-related activities in poorer countries has traditionally been extremely limited. In Chapter 16 we examine the immense needs as concerns trade promotion activities in the poorest countries including the strengthening of the LDCs' current negotiations capacity.

In the final chapter we present a summary of some of the most important conclusions of the study, and recapitulate our central recommendations as concerns reform of international trade regulations as well as our proposals to direct more development assistance to trade and trade-related areas (Chapter 17).

We would like to emphasise that this report is not aimed at specialists in foreign trade. Our ambition has been to integrate trade issues into an overall development perspective, and to discuss the current and potential role that trade can play in the economic and social development of LDCs. It is also from a development perspective that we evaluate the rules and regulations governing the world trade system and examine both the internal and external constraints experienced by LDCs in their efforts to benefit from globalisation.

Presentation of LDCs

CHAPTER 1

1.1 Key data[2]

Of the 49 countries that are currently classified as least developed countries (LDCs), the majority, or 34 in total, are found in sub-Saharan Africa. Nine LDCs are in Asia, while the other six are in the Caribbean and Pacific Ocean areas (see Appendix 1 for a brief presentation of all the LDCs).

In terms of population, the largest LDC is Bangladesh, whose over 120 million inhabitants account for around one fifth of the entire LDC population and for approximately one quarter of the GDP of the group. Bangladesh also speaks for the LDCs on WTO issues.

Many of the LDCs are tiny. Over twenty have fewer than five million inhabitants, and several, mainly smaller islands in the Pacific Ocean, fewer than one million. Altogether over 600 million people, or ten percent of the earth's population, live in LDCs. In contrast, however, their share of the world's entire GDP amounts to less than one percent.

Exactly what proportion of the world's poor live in LDCs is difficult to estimate, but it possibly adds up to around one third. The fact that the LDC group includes the world's very poorest countries does not necessarily mean that a majority of poor people live in these countries.

All social and economic indicators reveal deep and widespread poverty in LDCs. The group's average per capita income is barely USD 300, compared with USD 1,260 per capita in developing nations as a whole. Forty five per cent of their population is estimated to be living in absolute poverty and 75% have an average income of less than two dollars a day. Life expectancy in these countries is 52 years, against 65 years in developing

2. Much of the information in this chapter is sourced from UNCTAD, The Least Developed Countries 2000 Report. Sandzelius (2000) and the World Bank World Development Report 2000/2001 have also been of great help.

nations in general, and infant mortality exceeds 100 per 1,000 live births.

Not the least worrying from a long-term development perspective is their low and stagnating investment in human development. The share of GDP allocated to education has fallen from 3.3% to 2.0% during the past twenty years. Healthcare expenditure is a modest USD 11 per head per year, compared with over USD 100 in other developing nations and USD 1,700 in OECD countries. In addition, many LDCs are amongst the worst hit by the HIV/AIDS epidemic.

1.2 Trends in the 1990s – growing marginalisation of LDCs in the world economy

The 1980s, marked by the debt crisis and falling commodity prices, were a "lost decade" for many countries in Africa and Latin America. Most LDCs were amongst the losers, and the average per capita income was substantially lower at the end of the decade than at the beginning.

The 1990s brought a certain degree of stability for the LDC group as a whole, but the differences in rates of development between countries were accentuated. The modest 0.9% average growth in per capita income for LDCs between 1990–98 as compared with a full 3.6% in the developing world as a whole, largely due to rapid growth in China, India and much of Asia, conceals extreme differences. If Bangladesh, which enjoyed strong growth throughout the decade were excluded, per capita growth in the LDCs dropped from 0.9% to 0.4%. Of the 15 countries that experienced growth of over two percent per year per capita, seven were in Asia, while almost half of all LDCs, mostly those in sub-Saharan Africa, recorded zero or negative growth.

Whichever economic indicator we choose, the picture of continuing marginalisation of LDCs in the world economy is confirmed, especially of those in Africa. The LDCs' share of world trade – which exceeded one percent in the 1970s – has successively fallen and is now barely 0.4 %. Their share of trade in services is even smaller at 0.1 %.

The flow of public and private capital into LDCs has stagnated. Foreign direct investment continues to be very low, as are other flows of private capital. China and other successful economies in Asia, plus a few of the middle-income countries in Latin America, have attracted most foreign investments during the past decade. The LDC group's share of the total flow of private capital to developing nations fell from 18% to 4% during the 1990s. The LDC group received just 1.4% of all direct foreign investment in developing nations in recent years.

ODA to LDCs has been cut back sharply. In real terms, assistance to the this group fell by 45% between 1990 and 1999, and is now back to the same low level as at the beginning of the 1970s.[3] Total assistance to LDCs now amounts to just over USD 12 billion per year, compared with total export earnings of over USD 20 billion. Or put another way, assistance finances around 40% of total imports to LDCs, against just a couple of percent in the developing nation group as a whole.

The debt situation has worsened. In the majority of LDCs, foreign debt – in both absolute terms and as a proportion of GDP and exports – is substantially greater today than 10 or 20 years ago.

The shrinking volume of ODA is in stark contrast to commitments made by the OECD countries at the second so-called LDC conference held in Paris in September 1990. According to the final resolution – "Programme of Action for the Least Developed Countries in the 1990s" – that was adopted after this conference, every effort should be made to reverse the tendency towards a worsening of the socio-economic conditions that prevailed in LDCs during the 1980s, and that assistance should be substantially increased. For instance, assistance from the industrialised nations was to be increased from 0.09% to at least 0.15% of the gross national income of richer countries, and preferably by a lot more. In actual fact, this figure fell to 0.05% of the GNI of the OECD countries. And in most other respects it is fair to say that very few of the promises made at the Paris conference have been realised.

Adding to the misfortunes of the LDCs, in addition to this shrinking flow of assistance and capital, has been the adverse price development of their export goods. The LDCs are net exporters of raw materials and commodity prices have continued to fall dramatically during the 1990s. To which can be added the fact that raw material producer prices appear to have fallen significantly faster than consumer prices in markets in the major industrial countries. According to a study[4], the difference between producer and consumer prices doubled between the mid 1970s and mid 1990s.

The exception to this tendency of falling commodity prices is the price of oil, which has shot up in the past two years. However, virtually every single LDC is a net importer of oil.

3. For additional data on private and government capital flows to LDCs, see UNCTAD, LDC Report 2000.

4. See Jacques Morisset in The World Bank Economic Review Vol. 12, No. 3, 1998. On the basis of comprehensive empirical material, Morisset draws the conclusion that "...the declines in world commodity prices were not transmitted or were transmitted imperfectly to domestic consumer prices. In contrast, upward movements in world prices were clearly passed on to domestic prices. As a result, the spread between world and domestic prices almost doubled in all major commodity markets during 1975–9." (p.503).

If then the LDCs can be said to have been hit by adverse international economic developments in terms of reduced ODA and worsening terms of trade in recent decades, it would nonetheless be misleading to place most of the blame for their unfavourable economic development on external factors. The catastrophic developments in African LDCs in particular – and also in other LDCs such as Afghanistan, Haiti and Myanmar – are due more to political instability and poor economic policies.

The HIV/AIDS disaster has also contributed to this stagnation. In the African LDCs, HIV/AIDS has already led to a dramatic reduction in average life expectancy, while the human, social and economic costs during the coming decades will be unimaginable.

There is a strong link between political unrest and economic stagnation. Many of the LDCs are dictatorships or quasi dictatorships with weak popular support. It is significant that all eleven LDCs that recorded a fall in per capita income of over three percent annually in the 1990s were also countries wracked by armed civil conflict and political instability.

It is also worth emphasising that the structural adjustment programs supported by the IMF and World Bank and implemented by the majority of the LDCs – over longer or shorter periods of time, and more or less wholeheartedly – did not bring the desired positive effects of growth and development, rather they have led to even greater poverty and inequality.

1.3 The concept of LDCs and the advantages and disadvantages of LDC status

The concept of LDCs arose from a UN initiative in 1971, and initially included 24 different nations with very low per capita income. The list of LDCs has since grown steadily and now embraces 49 countries. The latest country to be accorded LDC status was Senegal (in 2000). Only one country, Botswana, has "graduated" from the group.

A working group from the UN Economic and Social Council is responsible for the actual classification which has often been a delicate task. On the initiative of a number of low-income countries that have sought LDC status, certain other criteria have been added to the original income criterion i.e.

- economic vulnerability (e.g. small island states with very little economic diversity, countries that are regularly hit by natural disasters, countries with major climate risks and insecure food supply).

– quality of life (measured in terms such as life expectancy, calorie consumption per inhabitant and literacy).

A further criterion, or more properly a restriction, is that the country must have a population of less than 75 million (this criterion was not in force when Bangladesh, the only LDC country with a population of more than 75 million, gained LDC status in 1975).

The income criterion has been revised upwards several times, and now stands at USD 1,035 per inhabitant. The other criteria are more difficult to define and quantify; for a more detailed discussion see Sandzelius (2000).

Before a country can be added to the list of LDCs it must meet all the four criteria listed above: low income, population under 75 million, extreme vulnerability and low quality of life. Even if all these criteria are not met, countries can gain LDC status if special circumstances dictate. Similar principles apply for graduation from the LDC group – if certain cut-off points or limits are exceeded, the country should leave the LDC group.

In practice, however, the question of whether or not a country is classified as an LDC is a matter of negotiation. As a rule, the LDCs oppose graduation: recent examples are the Samoa Islands and Vanuatu which the UN recommended should leave the LDC group, but which managed to retain their LDC status after intense pressure.

The reason why many countries find it attractive to retain/seek membership of the LDC group is the potential economic advantages associated with LDC status. The benefits include increased levels or improved terms of assistance which are reserved for LDCs only. In connection with debt rescheduling, LDCs can sometimes expect more favourable treatment. Those LDCs that are members of the WTO enjoy, which will be discussed in more detail later in the book, a series of advantageous exemption clauses that are not open to other developing nations. There are also various proposals in the trade policy area that are directly aimed at affording LDCs special export privileges – for example the widely discussed EU initiative to allow virtually all goods from LDCs to be imported duty free.

For the industrialised nations, the LDC concept can be politically convenient in that the LDCs may be granted favourable treatment that does not cost much but which demonstrates that the rich countries are prepared to provide special support to the very poorest nations in the world.

There can also be disadvantages associated with belonging to the LDC group. One of these is the "image" the country acquires through membership which can result in less interest from foreign investors and trading partners. These drawbacks are, however, rather more vague and less clear cut than the benefits that membership in the LDC group can bring.

It ought to be clear from the brief summary above that the issue of LDC criteria is far from unproblematic. There are powerful incentives for belonging to the LDC group, and clear risks of conflicts both within the LDC group – which is very heterogeneous – and between the LDCs and other developing nations. Naturally other developing nations are not always thrilled by the fact that the LDCs are awarded special privileges when it comes to issues such as ODA and debt relief.

Conflicts can also arise in the area of trade policy over, for example, the right to exemption from import duties and the issue of rules of origin, when two neighbouring countries produce more or less the same products and are more or less equally poor, but one of the countries has LDC status and the other does not.

It should also be noted that the majority, if far from all LDCs, also have ACP status[5] in relation to the EU according to the Lomé Convention and its successor, the Cotonou Agreement. In the areas of ODA and trade policy, ACP membership will probably be a substantially more important factor than membership of the LDC group (see Chapter 13).

1.4 LDCs and WTO – a brief introduction

Later chapters deal in more detail with the World Trade Organisation and its influence on LDCs. However, it is worth emphasising several important aspects at this point.

To begin with, it can be established that the LDCs have generally shown little interest in issues concerning trade policy and WTO. For instance, 19 of the 49 LDCs are not members of WTO.

In GATT, and during the Uruguay Round, LDCs maintained a very low profile and as a rule, the interests of developing nations were propagated by middle income countries such as Brazil and Mexico and by countries such as India, which maintain powerful representation in all international organisations. However the LDCs have shown slightly more interest in trade policy issues in recent years, as have developing countries generally, and several of them are increasing their level of participation in WTO.

The LDCs' special representative, Bangladesh, is one of the most active of the developing nations in WTO. Bangladesh is, however, not very

5. The 70 developing nations in Africa, West Indies and Pacific Ocean that are the signatories, with the EU to the Cotonou Agreement. South Africa is also associated with certain parts of the Cotonou Agreement.

representative of an LDC with its far more dynamic and diversified range of exports than others in the group, and with its much greater capacity for trade. On many issues the national interests of Bangladesh are far more in line with other developing nations than with other LDCs.

One important reason for the relative passivity of the LDC group in the area of trade is that fundamental development problems in the majority of these countries are less to do with market access and more to do with supply constraints i.e. difficulties in actually producing something that is possible to sell. The primary reason for low exports from LDCs is their lack of production capacity. In this respect, there is a substantial gap between the LDCs and the middle-income countries that dominate G77, whose behaviour within the WTO largely focuses on improved access to the markets of the rich nations.

It is also worth mentioning that those LDCs that have joined the WTO have been granted a number of exemptions from various trade policy demands, and extensions for implementing certain trade policy reforms. For the LDCs as a whole, the rules and regulations are therefore – at least for the moment – less binding than for other countries. Put somewhat simply, it can be said that the rich nations are not that bothered about what the LDCs, with just over a third of one percent of world trade, do or do not do. To date, no LDC country has been involved, whether as plaintiff or defendant, in any case that has been dealt with within the WTO mechanism for resolving disputes.

However, the opposition to the proposal to allow duty-free trade for LDC exports to the EU for more or less all goods – the much discussed "everything but arms" initiative (See Chapter 13)– that was generated within certain EU producer circles shows that the mere threat that the poorest nations on earth might increase their modest level of exports to the protected EU market is sufficient to mobilise strong protectionist reactions against such measures.

For the majority of LDCs there are more important issues than global trade policy rules and regulations (and even within trade policy, the EU's and USA's bilateral rules and regulations are often of greater importance than WTO's). Structural adjustment programs, ODA issues and debt relief come higher up the LDC agenda than trade policy. The EU and Brussels, and the IMF/World Bank and Washington, are more important than the WTO and Geneva. For many of the most indebted LDC nations, Paris, where the Paris Club convenes to consider issues surrounding debt relief, is more important than Geneva.

As a whole, LDCs are very poorly represented at the WTO. Some 20 LDCs do not have any permanent representation in Geneva to monitor WTO issues. Back in their capital cities, governments express little or no interest.

The rich nations have, de facto, an enormous advantage in trade policy issues. The OECD countries each average seven WTO officials stationed in Geneva. Back home, there is access to numerous experts on various trade policy issues. On average, around 50 trade policy meetings are held in Geneva every week – which in itself indicates that the LDCs have very little scope to monitor and influence proceedings.

It is also far from obvious that the LDC group always share common trade policy interests. One example is trade in agricultural products (see Chapter 10). One major developing nation demand has long been that the rich nations should open up their markets to poor countries, and stop dumping subsidised agricultural products on the world market. For many LDCs, this issue is more complicated. Most LDCs export agricultural products, generally cash crops such as coffee, sugar, bananas and peanuts, but at the same time are net importers of staples such as cereals. In the short term at least, certain LDCs gain from the agricultural policies of rich countries and their export of cheap foodstuffs and are concerned about the risk of rising world market food prices if the current system of subsidies were to be abolished in the richer countries.

Trade and development

CHAPTER 2

2.1 Foreign trade theory: a brief review

2.1.1 Ricardo and comparative advantages

Few economic theories have stood the test of time better than David Ricardo's almost two hundred year old theory of comparative advantage, or comparative costs. In contrast to the previous mercantilistic views – that exports are good, imports bad – Ricardo did not consider foreign trade to be a zero sum game but rather as something mutually advantageous. If two or more countries specialise in producing the goods they have comparative advantages in manufacturing, all parties gain by the exchange of trade.

Free trade, and specialisation according to each country's comparative advantage, benefits all countries.

One important refinement of Ricardo's basic model was the famous Heckscher/Ohlin theory, which can still be found in economics textbooks. According to Heckscher/Ohlin, the comparative advantages of different countries and the related patterns of trade that go with them can be explained by examining the differences in access to production factors in different countries. Or, put in simple terms: countries rich in natural resources export raw materials. Countries with plenty of labour but little capital tend to export labour-intensive goods and import capital-intensive products.

2.1.2 Static and dynamic effects

One problem with all models based on Ricardo is their static nature. The comparative advantages of countries are taken as given. Full utilisation of all factors of production is presupposed. The welfare benefits of foreign trade are a once and for all thing, and are illustrated by a comparison between two states of equilibrium, respectively with and without trade. However, nothing can be said about effects on long-term growth.

For poor countries, to whom growth and development are central issues, Ricardo's static model appears inadequate. With obvious exceptions (e.g. oil deposits) most comparative advantages are not bestowed by nature – for instance there is no genetic explanation as to why the Swiss are good at making clocks and watches – but are acquired, and a country's comparative advantages are constantly being upgraded and changing during the development process itself. The speed at which this can be carried out is illustrated by the most successful industrialised countries of East Asia. In the space of a generation or so, countries like Taiwan and South Korea have dramatically changed their comparative advantages and export structure from cheap labour and simple textiles and toys to advanced, knowledge-intensive products and services.

Dynamic effects play a much more important role in modern foreign trade theories than in the static models of Ricardo or Heckscher/Ohlin. The numerous positive dynamic effects usually mentioned include the following:

- Trade enables the utilisation of economies of scale. This is of central importance to the very poorest developing nations whose domestic markets are totally inadequate for establishing industrialisation based solely on local demand. The total domestic market for industrial goods in an average LDC is smaller than that of a small or medium-sized Swedish town. However, export-led growth can open the door to economies of scale within a few niche areas. A recent example of successful export-led industrialisation in a very small country is Mauritius.

- Increased competition through trade. Companies are forced to become competitive on export markets, and external competition is often required on protected home markets to raise productivity and exert pressure on monopoly prices.

- Foreign trade as the bearer of new technology. Direct foreign investment in the export sector can play an important role in this context.

Taking new technology in the broader sense, other aspects can also be included such as modern principles of business management, marketing, accounting, quality control, new international customer contacts etc.

In general, the awareness of the importance of "software" – institutions, ideas, networks, contacts, human resources etc – is growing in today's globalised economy (see Section 3.2 below). Consequently the role of foreign trade as the agent of new impulses is becoming increasingly decisive at the expense of access to "hardware" (natural resources, machinery, etc).

– Raising corporate finance can be facilitated. As a rule, companies in poor countries have very little access to capital and foreign trade can open the door to finance opportunities that would otherwise be closed to companies operating on the domestic market only.

Modern trade theories also place greater emphasis on the strategic importance of imports. The size and composition of imports can play a deciding role in growth and development opportunities for poor countries. Unfortunately, trade policy discussions often show a strong mercantilistic bias: exports are good and provide jobs and export revenues, consequently imports must be bad and eliminate jobs and worsen the balance of payments situation. This mercantilistic approach is also demonstrated in the political games played out at WTO. If a country grants foreign exporters the opportunity to compete on equal terms (which is excellent for consumers in the country!) this is a "concession" that by rights should be balanced out by other countries granting equivalent "concessions" concerning market access.

Our point of departure in this report is that it is the dynamic advantages of foreign trade that are ultimately decisive for LDCs, as these countries must focus on sustainable economic growth and human and social development.

2.1.3 Is free trade always good for everyone? Some critical views

During the 1950s and 60s a wave of criticism against the free trade doctrine swelled and broke. We do not claim to summarise the lively debate that occurred during that period, but a few glimpses at the prevailing ideas of the time may be in order to provide some historical colour to current discussions.

A great deal of criticism was directed at what was perceived to be an idealised view of the blessings foreign trade brought to developing nations.

Raúl Prébisch (the first and extremely influential General Secretary of UNCTAD), Ragnar Nurkse and various other famous economists claimed that the long-term export prospects for raw materials producers were extremely bleak. As a consequence of factors such as industrialised country protectionism, low income elasticity of the developing nations' most important export goods, falling raw material content in modern industrial goods and a successive transition from natural to synthetic materials, prices of raw materials as compared to finished goods would be inexorably weakened.

Other arguments that pointed in the same direction, i.e. warnings about continued dependence on the export of raw materials in an uncertain world market, were that commodity prices tend to fluctuate more than earnings from exports of industrial goods (Gunnar Myrdal and others), to the effect that the dynamic effects of raw material production are insignificant in terms of education and technical development (Nurkse, Myrdal and others), and that technical advances within raw material production tend to be transferred to consumers in rich countries in the form of lower consumer prices (Prébisch, Hans Singer and others) rather than in the form of higher margins for producers. Finally that the industrialised nations control raw material prices through the powerful bargaining position of their transnational companies.

Criticism has also been levelled at the static nature of concepts such as comparative advantage. Should poor countries really be satisfied with having comparative advantages in commodities such as peanuts and bananas, while rich countries are constantly improving their comparative advantages in modern industry and advanced services?

Criticism of the traditional foreign trade theory and the doctrine of free trade was linked, naturally enough, with recommendations for rapid industrialisation. The watchword was "import substitution". With the help of tariffs and other barriers to imports, domestic industries in developing nations were to be protected against competition from developed industrialised nations.

This message elicited considerable response from influential groups in developing countries. Import substitution strategies also became attractive to emerging political leaders in the third world: many problems could be blamed on external factors (colonialism and imperialism according to radical leaders, unfavourable trading conditions and deteriorating terms of trade amongst the less radical), while industrialisation policies and protectionism were politically rewarding tools to expand the role of the state in the domestic economies and boost the national identities of political leaders (and sometimes their power and sources of income too).

During the 1950s and 60s, more or less sophisticated import substitution strategies were applied in the overwhelming majority of all independent developing nations. In certain cases protectionism was a purely defensive move in an attempt to protect a precarious balance of payments situation; this was the case when import substitution policies were first introduced in Latin America during the great depression of the 1930s. However in other cases, industrialisation based on import substitution became the cornerstone of official development policies. The majority of ODA providers from the industrialised nations and international development banks also favoured these industrialisation policies and helped finance them.

During the last few decades we have witnessed what could be called the renaissance of Ricardo, at the expense of industrialisation based on import substitution and protected domestic markets. Criticism of the import substitution strategy has included such factors as the insignificant size of domestic markets in most developing nations, inefficiency and corruption in protected industries and discrimination against the agricultural sector which often resulted from industry's preferential treatment.

"Export promotion" gradually replaced "import substitution" as the received wisdom. The debt crisis of the 1980s further strengthened this tendency.

With structural adjustment programs and conditionality as powerful levers, a large majority of the world's poor countries have now adapted their economies along more liberal, free trade friendly lines. At the same time, international organisations such as GATT and later WTO have purposefully worked to successively lift tariffs and other types of trade barriers to world trade – although without success in important areas such as the agricultural policies of richer countries (see Chapter 10).

The 1980s and 90s witnessed mere pale echoes of the criticism of the free trade doctrine first heard several decades ago. Only a handful of economists adhere to protectionism today, and very few leading politicians advocate inward looking development strategies. Concepts such as "self reliance", very positive a few decades ago, are now dismissed as destructive or simply ridiculous.

However, despite the free trade friendly spirit prevalent today, not all criticism should be dismissed as ridiculous or based on ignorance. Not all claims made by the supporters of import substitution policies were wrong, and new questions have arisen. There is a clearly apparent swing of the pendulum in recent development theory debates. We will conclude this short discussion on trade theory with a brief account of the most important dividing lines today: what does everyone agree on, and what is under contention?

2.1.4 Where do we stand today? What issues remain?

> "Openness to international trade accelerates development of poor countries: this is one of the most widely held beliefs in the economics profession, one of the few things on which Nobel prize winners of both the left and the right agree." (David Dollar & Aart Kraay, 2000, p. 3)

It is easy to summarise what virtually every leading economist and politician is in agreement on today: international trade is both good and necessary. In today's globalised world economy every attempt at protectionism and "self reliance" is a cul-de-sac. Not least for the very poorest countries, increased trade is an absolute necessity for social and economic development.

But let us also highlight a few question marks and outstanding areas of disagreement. The above quote from economists Dollar and Kraay – fervent and well-known advocates of globalisation and free trade – should perhaps be modified slightly, so let us define some subtle differences.

Firstly, there is still a great deal of concern about the position of raw materials producers in the world economy, concerns which were first raised by many critics of the free trade doctrine several decades ago. After dramatic hikes in the 1970s, commodity prices fell to very low levels in the 1980s and 90s. In many areas this tendency has been reinforced by the somewhat desperate attempts by many poor countries to export their way out of the debt crisis by increasing their exports of raw materials. Individually, these countries have been too insignificant to influence world market prices, but when a number of countries have sought to export the very same products at the same time, commodities such as coffee, sugar, rice, cotton, natural rubber and cut flowers, this has resulted in further price falls.

New worries surrounding the environment and sustainable development can now be added to earlier concerns about declining terms of trade, dramatic price fluctuations and greater vulnerability. Many of the niche areas that poor countries have gained a foothold in – such as cut flowers, timber or prawns – have now been shown to be associated with serious environmental problems.

For these and other reasons, there is now a growing scepticism concerning one-sided raw materials extraction according to static theories of comparative advantage.

The unprecedented successes achieved by several Asian countries have also contributed to an intensive debate on the possibilities of pursuing a non-orthodox development policy. Countries like Taiwan, South Korea and Malaysia have not slavishly followed the economics textbooks when it comes to free trade; on the contrary, these "success stories" have largely relied on a recipe heavily dependent on government industrial policies, old fashioned import substitution (during the initial phases of industrialisation) and selective export subsidies. Many of the instruments that have been used – tariffs and quantitative controls, demands for "local content" in foreign direct investments, targeted credits, export subsidies, etc – have also been of a kind that are contrary to many of the rules and regulations within the GATT/WTO regulatory framework.

The numerous failures that have surrounded structural adjustment programs over the past twenty years have also provided ammunition for criticism of what has come to be known as the "Washington Consensus", i.e. the accord between the IMF and the World Bank (and the majority of bilateral ODA donors) around the liberalisation and privatisation policies integral to these programs. One of the most influential of these critics is the former Chief Economist of the World Bank, Joseph Stiglitz who, in a series of articles and speeches, has criticised the policies pursued. Stiglitz is especially critical in the area of trade policy where he claims that dogmatism rather than pragmatism has coloured many of the demands for rapid liberalisation of international trade and currency markets in poor countries.

Stiglitz, and many like him, prescribe a pragmatic and gradualist strategy instead. Although very favourable towards international trade, Stiglitz warns against the effects of dramatic liberalisation and indicates some of the risks. A couple of quotes that are of particular relevance to LDCs illustrate these:[6]

> On the risks of unemployment:
> "Standard economic analysis argues that trade liberalization – even unilateral opening of markets – benefits a country. In this view, job loss in one sector will be offset by job creation in another, and the new jobs will be higher-productivity than the old… This economic logic requires markets to be working well, however, and in many countries, underdevelopment is an inherent reflection of poorly functioning markets. Thus new jobs are not created, or not created automatically. Moving workers from a low-productivity sector to unemployment does not – let me repeat, does not – increase output."

> On income distribution:
> "Although the country as a whole may be better off under free trade,

6. The quote below is from Stiglitz (September 1999).

some special interest groups will actually be worse off. And although policy could in principle rectify this situation… the required compensations are seldom paid…

There are real losers who are seldom compensated and among these losers are some who are relatively poor… Given the lack of compensation, trade liberalization may actually lower social welfare, if due weight is given to the welfare of the poor."

On the risks of increased vulnerability and volatility:

"Complete openness can expose a country to greater risk from external shocks. Poor countries may find it particularly hard to buffer these shocks and to bear the costs they incur, and they typically have weak safety nets, or none at all, to protect the poor. In recent work… I have shown that small and more open developing countries suffer more volatility in their growth performance than do other countries."

On the subject of vulnerability it can also be noted that the question of food security in the event of total deregulation of domestic agriculture plays an important role in many developing nations. There is widespread concern that the WTO rules restrict opportunities of protecting and supporting their agricultural sectors and can impinge upon food security in poorer countries (see Chapter 10).

Dani Rodrik[7] is another influential economist who wishes to introduce more nuances into the debate. In common with the majority of other economists who have expressed scepticism about the most extreme of free trade proponents, Rodrik is basically in favour of integrating poor countries into the world economy, but argues that domestic policies play the most important role. Trade liberalisation is not a goal in itself, but should rather be seen as a means, a complement to other development policies. The extended quote below illustrates how Rodrik's approach differs from the "Washington Consensus" view that trade liberalisation is virtually a goal in itself:

"The claims made by the boosters of international economic integration are frequently inflated or downright false. Countries that have done well in the post-war period are those that have been able to formulate a domestic investment strategy to kick-start growth and those that have had the appropriate institutions to handle adverse external shocks, not those that have relied on reduced barriers to trade and capital flows. The evidence

7. Publications of interest in this context include Rodrik (1997), Rodrik (1998), Rodrik (1999 a) and b)) and Rodrik (2000).

from the experience of the last two decades is quite clear: the countries that have grown most rapidly since the mid-1970s are those that have invested a high share of GDP and maintained macroeconomic stability. The relationship between growth rates and indicators of openness – levels of tariff and non-tariff barriers or controls on capital flows – is weak at best. Policy-makers therefore have to focus on the fundamentals of economic growth – investment, macroeconomic stability, human resources, and good governance – and not let international economic integration dominate their thinking on development." (Rodrik 1999 a), p. 1).

2.2 International trade in relationship to certain specific development issues

In the discussion above, we have considered the theory of international trade in general, with emphasis on the special circumstances in LDCs. Let us now round off this discussion with a few brief comments on more specific issues.

2.2.1 International trade, income distribution and patterns of growth

As stressed earlier, autarchy is not a solution for any country, large or small. For small, poor countries with a limited home market and little opportunity to diversify production, international trade is absolutely essential.

However, this answer is not enough to assess the effects of trade on income distribution and poverty in a country. That trade is good for poor countries is not the same thing as saying that it is good for poor people. As previously noted there are most often losers too, just as there are large groups within the subsistence sector who are only marginally affected by what happens on the international trade front. The consequences of trade for the local population vary a great deal from country to country, depending on the type of trade concerned, and what type of growth – if any – is generated by this trade.

The static models of the effects of international trade on income distribution that dominate the literature indicate that these tend to be surprisingly small. As a rule, a reallocation of production in line with a country's static comparative advantages leads to, at most, a one or two percent rise in GDP and seldom to any major changes in income distribution. There are, however, always groups of "winners" and "losers". What are interesting are the dynamic effects.

A general, almost trivial, observation is that exports of industrial goods normally lead to higher growth in employment and poverty reduction than do raw materials exports. The fast growing countries in Asia have, without exception, based their growth on industrialisation with expansion on both their home market and the world market.

Even when it comes to raw materials exports, there are major differences in their effects on poverty. Mineral exports have often proved to be linked with disadvantages from an income and employment point of view, and have often created a distorted economic structure including neglect of agriculture and an extremely uneven distribution of income.

Countries where revenues are predominantly based on one single profitable export product e.g. diamonds, copper or oil have, to a larger extent than other countries, seen political conflicts that ultimately result in an internal power struggle between different groups for control of this resource. LDCs like Angola, Liberia or Sierra Leone illustrate this pattern.

Diamonds

According to the ITC (International Trade Centre) diamonds make up a significant proportion of exports of ten LDCs: Angola, Zambia, Gambia, Guinea, Lesotho, Liberia, Myanmar, Central Africa, Congo and Sierra Leone. However the statistics are very unreliable. According to UNCTAD statistics, almost 40% of sorted, uncut diamonds exported from sub-Saharan Africa were labelled “origin unknown”. In other words these anonymous diamonds account for 10% of total world diamond exports.

The Belgian group De Beers is involved in the extraction of the majority of the world’s diamonds and buys up an even greater proportion of all the diamonds that have been extracted. This dominating role gives De Beers tremendous powers to influence the world market price of uncut diamonds. There is also a very large difference between the price of uncut diamonds and polished stones – polishing makes them almost 7.5 times more valuable.

Antwerp is the principal trading centre for uncut diamonds. The trade is organised through the “Hoge Raad voor Diamant” (High Council of Diamond Dealers) that acts as a professional organisation and also controls the trade.

In a number of cases, the diamond trade in Africa has fuelled armed conflicts, financed arms buying and contributed to a totally criminalised war economy. For example, the UNITA guerrillas in Angola are believed to have funded much of their arms buying by illegal diamond trading.

In Sierra Leone the desire to control the rich diamond fields is stated as the direct cause of the chaotic civil war there in recent years, and also an important factor in earlier troubled periods in the country’s history.

In recent years, the contributing role of various companies in such conflicts has attracted the attention of organisations such as Amnesty International and Human Rights Watch. The UN has introduced sanctions against diamonds from Sierra Leone, unless they are guaranteed to be conflict free by the government of the country. Currently De Beers and diamond traders in Belgium, Israel and India claim that they are able to guarantee that the diamonds they sell do not come from conflict zones. However Amnesty argues that companies must develop transparent systems to check the supply chain and be able to identify conflict diamonds before such guarantees can be credible.

Ascertaining the source of diamonds is made more difficult by the fact that the records of imported diamonds only state the country from which they were last exported, which is not necessarily the country where they were extracted. Import statistics are also extremely inadequate, as illustrated by the following ridiculous figures: in 1998 Sierra Leone registered exports of 8,500 carats, while HRD recorded imports of 770,000 carats from Sierra Leone. Liberia has an extraction capacity of around 100,000–500,000 carats, but in the mid 1990s, HRD recorded annual imports of almost six million carats. The Ivory Coast, whose diamond mines where closed in the 1980s, exported 1.5 million carats to Belgium annually according to statistics.

Sources: Smillie, Ian, Lansana Gberie and Ralph Hazleton. The Heart of the Matter: Sierra Leone, Diamonds and Human Security. Partnership Africa Canada, January 2000. http://www.web.net/pac/pacnet-l/msg00009.html

Handbook of World Mineral Trade Statistics, 1992–1997, 3rd issue (UNCTAD/ITCD/COM/16), 1999. Table 2. 5. 3

Human Rights Watch World Report 2001: Angola http://www.hrw.org/wr2k1/africa/angola/.html

Almost 75% of the inhabitants of LDCs, and an even higher proportion of their people living in poverty, are employed in agriculture. If the beneficial effects of international trade are to reach the rural areas, small-scale rural activities must expand their production capacity, with a special emphasis on agriculture and ancillary industries such as trade, transport, small-scale processing etc.

Associated major investments in physical infrastructure are also needed in the poorest countries, along with agricultural extension services and new credit opportunities for rural populations. Or, put another way: integration into the world economy may be a good thing, but a greater degree of integration of the domestic economies of these countries is also vital. International trade initiatives should never be seen as a substitute for other development initiatives but rather as a complement to them.

Liberalisation of trade can open up tremendous job opportunities and enhance the development of impoverished rural areas. This is especially true if agricultural land and resources are distributed so that owners of small and medium sized farms, rather than large estates, are able to take advantage of this opening up of trade to export to profitable markets and gain access to imported investment goods. But a liberalisation of trade policy can also result in the country – or the capital city at least – being opened up for imports of subsidised food surpluses from the rich industrial nations at a time when rural communities are becoming increasingly marginalised.

2.2.2 Trade and the environment – with emphasis on LDCs' imports and exports

There are no simple links between trade and the environment. Trade has the potential to benefit the environment by contributing to a more efficient use of resources, including natural resources, and by leading to economic development that could be used to improve environmental protection. If this is to happen in practice, however, various measures including more effective environmental policies must be pursued at national and international level. Tough environmental legislation is rare in the industrialised countries however, and even more difficult to find in developing nations.

Trade and international investments indirectly affect the environment in several different ways. They change both the pace and composition of economic growth and the technology used to achieve it. International trade agreements can also affect which rules and other policy measures are applied within environmental policies. The environmental effects of these various changes may be both positive and negative in individual cases. Specialisation in export production that is harmful to the environment, such as prawn farming, will naturally have totally different environmental consequences than specialising in the export of clothes.

Trade in itself is rarely a cause of environmental problems, but it can magnify the effects of environmentally harmful processes. For instance, exposure to global demand for timber can amplify the effects of weaknesses in national forestry policies and legislation and result in forests being cleared destructively. One general conclusion is therefore that international trade intensifies the need for an effective environmental policy. At the same time, increased trade and investments can reduce a country's desire and ability to implement an effective policy of this kind. Many governments in both the North and South, believe that tougher environmental demands would "scare off" companies and investments.[8]

LDCs are very largely dependent on renewable natural resources, such as land, forests and water, and non-renewable resources such as minerals, for both exports and the livelihoods of their populations. Consequently environmental risks arising from trade are especially large, and depleting natural resources for trade purposes will almost certainly backlash on the economy. At the same time, laws to protect the environment are notoriously weak as are the authorities that should enforce them. Case studies have shown that structural adjustment programs in developing countries – which have included trade liberalisation – have hastened the exploit-

8. The fact that there is very little empirical evidence to prove that this is genuinely the case does not seem to have influenced policies in practice.

ation of natural resources, whilst environmental protection agencies have, if anything, been weakened (Reed 1996).

These shortcomings in environmental protection in LDCs mean that international companies active in these countries, whether industrial manufacturing, plantation farming or mining, have a special responsibility to operate with a high degree of environmental concern. Some companies establish corporate-wide standards that apply to all their operations in all countries, irrespective of whether local legal requirements are less strict. There are however countless examples of companies who take advantage of the weak negotiating position of certain countries and their inability to enforce environmental protection demands. Sometimes they simply exploit the natural resources in an extremely short-term manner and then relocate their operations to another place or another country.

Around one in three LDCs are dependent on ore or *mineral* exports. The exports of several African countries in particular are totally dominated by mining. Ten of these countries export diamonds while oil is the dominant export in others (Angola and Congo), copper (Zambia) aluminium (Guinea) plus less common minerals such as cobalt, graphite and vanadium. Heavy metals and other elements, depending on what is mined, lead to widespread pollution of waterways. This and other emissions such as airborne pollution from further processing can have a substantial impact on the surrounding landscape.

Several LDCs are currently major *timber* exporters: Cambodia, Equatorial Guinea, Laos, Burma and the Solomon Islands. The forests in these countries hold tremendous biological diversity and, as in the entire tropical region, they are rapidly shrinking due to increased farming, logging for export, hydropower developments and mining. In several LDCs, and in West Africa in particular, tropical rainforests have already been largely destroyed. In many countries logging and timber exports are riddled with corruption and illegal activities. According to investigations by the WWF and others, up to one third of all felling in South East Asia is illegal (Axelsson Nycander 1999).

The majority of LDCs export primarily *agricultural products*. The major export crops are coffee, cotton, cocoa, tobacco, sesame seeds and cashew nuts. To a certain extent these are cultivated on large-scale plantations, but are also grown by small farmers. Pesticides and other agents that can cause long-term damage to both the environment and humans are often used on large plantations. Cotton, in particular, is heavily sprayed. Industrial farming methods have not reached many smallholders, however. Here erosion and the adverse impact on biological diversity from clearance of new farmlands can cause problems. Generally speaking, African soils are poor in nutrients and sensitive to erosion.

However, the absence of modern farming techniques can also have positive environmental effects, and even create economic opportunities (see Section 4.5 on new niches).

Agricultural exports affect the environment in many ways. Apart from the direct environmental impact of growing crops for export, there are also the indirect effects on land use (Reed 2000). In many cases an expansion of export crops results in subsistence farming being forced onto marginal lands, leading to further deforestation and increased erosion. A one-sided dependence on a small number of crops also leads to vulnerability to climate change, diseases and insect attacks.

In principle, it could be questioned whether the hard drive towards specialisation that is necessary for trade is compatible with ecologically sustainable farming, as the latter is based on adaptation to local conditions, crop diversity and the circulation of organic materials and nutrients (Einarsson 2000).

For ten LDCs (island states, plus a few Asian and East African countries) *fish or shrimp* are one of the most important export products. Many of the fishing waters of these countries are threatened by overfishing, however it is seldom these countries' own fishing industries that pose the greatest threat. This is usually coastal and pursued on a small scale with relatively traditional methods. The real threat is from factory fishing vessels – from the EU and elsewhere. (See Chapter 13.4). There are also examples of small-scale fishing being carried out with environmentally harmful methods; for instance, some fishermen around Lake Victoria have used pesticides to catch fish. Shrimp farming, which has rapidly spread along many tropical coastal areas, causes major environmental damage by destroying mangrove swamps that act as "nurseries" for many sea fish. Ocean caught shrimps are also a source of concern as many endangered turtles are caught in the nets.[9]

Clothes, the only industrial product that LDCs export in any great volume are, with the exception of Tanzania and Lesotho, only exported by Asian LDCs. Clothes manufacturing causes major environmental damage, but this mainly occurs in the early stages of the production chain – cotton growing, and the processing and dyeing of cotton and cloth. The actual sewing causes very few environmental problems. This is actually a type of production which causes unusually little environmental pollution, especially when examined in regard to the number of people employed in the activity.

9. This issue was the subject for a dispute in the WTO between the USA and a number of larger shrimp exporting developing nations in Asia.

Imports can have adverse environmental impacts, particularly when they lead to an environmentally damaging lifestyle being adopted by the more affluent members of the population. The effects are often immediately apparent in cases where countries lack the capacity to manage waste in an environmentally acceptable way when the goods have been consumed. The most extreme example of negative environmental impact is the trade in hazardous waste that took place in the early 1990s. Most of this trade has now been banned, however, in accordance with the Basle Convention.[10] Naturally, imports can also make a positive environmental contribution, especially if modern, energy efficient and environmentally friendly technology is imported. However, once again, for this to occur, clear national policies are required.

2.2.3 Gender aspects of international trade

Although discrimination against women is a global phenomenon, available statistics suggest that women are especially vulnerable in the very poorest countries of the world. There are far more malnourished girls and women than there are malnourished boys and men. Only 38% of women in LDCs are literate, compared with 63% for developing nations in general, and the gap between the level of education for men and women is much higher in this group.[11] Countless studies also confirm that women have a much higher workload than men, and that women are substantially underrepresented in managerial positions in both the public and private sectors.

Trade can only be assumed to have a marginal affect on the deep divisions between the situation for men and women, at least in the short term. There is also a dearth of theoretical and empirical research on trade and gender issues. However, it is worth expressing a few words on the subject.

To begin with, agriculture is the most important source of employment for both men and women. With a few exceptions – such as Djibouti and some of the smaller island states – most people in LDCs are involved in farming. In the LDC group as a whole, agriculture accounts for 72% of employment opportunities and 33% of GDP.

The percentage of women involved in agriculture is even higher. In South Asia and sub-Saharan Africa over 75% of women work in agriculture.

Generally speaking women in LDCs are responsible for staple crops

10. The Basle Convention prohibits OECD countries from exporting hazardous waste to non-OECD countries.

11. See e.g. data on “gender gaps” in UNDP, Human Development Report 1999.

for their own families while men look after the production and, above all, the sale of cash crops. When it comes to livestock, the standard pattern, at least in sub-Saharan Africa, is for women to look after the smaller animals such as hens and goats, and men the cattle.

Trade liberalisation can be expected to increase demand and prices for cash crops, and reduce the relative profitability of staple crops. A consequence of this could be that the "terms of trade" between male and female production and payment will change, to the detriment of women.

In many LDCs, restrictions – imposed either by law or by custom – on the rights of women to own or inherit land, obtain loans, etc. are common. A liberalisation of foreign trade which would open up new business opportunities for female farmers – who make up over two thirds of all farmers in sub-Saharan Africa – must therefore be supported by improving women's rights in these and other respects in order to achieve the desired effects on female earnings, and on economic growth in general.

The same is true for female employment in micro enterprises, not least within the so-called informal sector where women predominate. Easier access for women to credit, imported consumer goods, tools and inputs for craft and small-scale enterprises, marketing opportunities and the like, are vital if this major sector is to reap the benefits of increased import and export opportunities.

For many micro enterprises within e.g. textiles, food processing etc. that are almost always run by women, trade liberalisation has often led to overwhelming import competition and major marketing difficulties.[12]

For the very few LDCs that have been able, like Bangladesh, to gain a niche foothold in the manufacturing industry – mainly in clothes and textiles, but also in toys, simple electronic components etc. – the pattern seems to be that female labour predominates in the export industry. This is also the experience of many other developing nations at an early stage in their industrialisation process.[13]

That this creates employment opportunities for women in LDCs is basically positive when it comes to female subsistence and equality. How-

12. Everyone who has visited a local market in an African LDC in recent years can see the inroads imported goods – usually manufactured in Asia – have made and how foreign clothes, shoes, household utensils and toys predominate.

13. See for example UNCTAD, Trade, Sustainable Development and Gender, 1999, whose observations include: "Many countries have seen dramatic increases both in export manufacturing capacity and in the number and share of women in the manufacturing labour force: the Dominican Republic, Indonesia, Republic of Korea, Mauritius, the Philippines, Taiwan Province of China, and Tunisia are examples. The stronger the concentration in exports of labour-intensive operations, such as production of clothing, semiconductors, shoes, sports goods, and toys, the higher the proportion of women workers tends to be." (p. 22–23).

ever it is important not to turn a blind eye to the hazardous working conditions that often characterise these industries, or "sweatshops", that are often found in so-called free zones where union rights, job security and a social welfare net are conspicuous by their absence.

In the somewhat longer term, there are major opportunities for women even in poor countries to gain greater benefits from trade and the so-called globalisation process. The fastest growing sectors in today's world economy are not mining or other traditional male professions calling for muscle power but rather services of various kinds, particularly within the information industry. The need for labour within the new service sector – where female labour is usually preferred by employers[14] – covers the entire spectrum from unskilled labour (such as cleaners at tourist hotels) to jobs requiring language and other skills (call centres for airlines etc) and highly qualified services within e.g. the IT sector or the financial sector.

2.2.4 International trade and child labour

The use of child labour has rightly offended many people. International campaigns against the sportswear company Nike, which has been accused of exploiting child labour, have been publicised the world over; as has the struggle of children in Pakistan against the virtually slave-like conditions in the local export-oriented carpet industry.

However, it is important to emphasise that only a very tiny proportion of child labour around the world occurs within the formal sector of the economy. An even smaller proportion – far less than five percent, according to experienced observers[15] – of child labour in developing countries is employed in the export-oriented sectors that have attracted the greatest international attention. The overwhelming majority of underage workers in poor countries are found in agriculture, household work (child minding, cleaning, fetching water and firewood, etc.).

Campaigns to condemn and prohibit child labour serve a valid purpose: to highlight the often inhuman conditions which children are exposed to during their commercial exploitation and degradation. It is an important task for consumer and human rights organisations, and for unions, to inform the public and to protest against violations of international agreements that prohibit child labour. The International Labour Organisation's (ILO) eight core conventions, one of which prohibits child labour, have a major role to play here.[16]

14. See e.g. the discussion in UNCTAD, Trade, Gender and Sustainable Development, 1999, p. 42.

15. See e.g. a summary account of available research in Boyden/Ling/Myers (1998).

16. In addition to the ILO convention on child labour, there is also the UN Convention of the Rights of the Child (CRC). The latter has been signed by all but two countries. Somalia is the only LDC that has not ratified the CRC (the other non-signatory is USA).

It is desirable that both the ILO conventions and the UN Convention on the Rights of the Child should be treated more seriously by their signatory countries, and that they were more extensively respected and observed than they are today. However, the only solution in the long-term for those children forced to work today, and for their families, is to offer an alternative: meaningful schooling for the children and alternative sources of income for the families.

If international trade could create a better foundation for sustainable economic and social development and an improvement in education systems, then the issue of child labour could be successively reduced. This is of little consolation to children forced to work rather than go to school today, but there are no quick and easy solutions and we do not think issues concerning child labour should be dealt with within the framework of WTO and international rules and regulations on trade.

2.2.5 Trade and foreign direct investment

Parts of the WTO regulatory framework – such as GATS, TRIPS and TRIMS – directly or indirectly address issues concerning Foreign Direct Investment (FDI). One example is that the principles that form the basis of both GATS and TRIMS severely restrict a host country's powers to impose terms and conditions on foreign investments with regard to issues such as the use of local labour and local content, demands that have historically been common in connection with FDI.

We will return to these issues at a later stage. The aim of this chapter is not to discuss WTO rules and regulations but rather to take a very brief look at the connection between FDI, trade and development.

Initially it can be clearly stated that the scepticism concerning the positive effects of FDI that used to surround the debate on foreign investment has now been superseded by almost universal agreement on the necessity of such investment in poor countries. There is not a single LDC today that does not claim to welcome foreign direct investment, especially within the export sector.

The most important motives stated for accepting foreign investment, and which also enjoy significant support in theoretical and empirical literature on FDI, are:

- the necessity of capital and foreign exchange for investment;
- positive effects on exports and employment; and
- technology transfer via FDI.

As previously mentioned, the LDCs' share of total direct investments is currently very small: around 0.2% of global direct investments, and barely

1.5% of all direct investment in developing nations. In addition, over two thirds of the flow of FDI into LDCs has, in recent years, gone to a small number of countries with oil or gas deposits.

The weak power of attraction to foreign investors exhibited by LDCs is clearly related to their poverty and associated problems. Regular research and questionnaires on why transnational companies choose a particular location for direct investments always highlight factors such as political stability and stability in the legal and economic "rules of the game", access to skilled workers, physical infrastructure, and rapid and reliable telecommunications. Wage levels in the country matter, as obviously do natural resources for manufacturing based on raw materials, but these are less critical than the factors mentioned above.

From this it follows that the hopes of many LDCs that a rapidly growing influx of FDI will solve their problems regarding access to capital and technology appear to be unfounded. As a rule, foreign direct investment only arrives when a country has reached a certain degree of political stability and economic development. Research into technology transfers and "spillover effects" of FDI[17] also reveals that the general level of education and competitiveness in the country (i.e. the presence of domestic industries within similar sectors) have a significant bearing on whether or not direct investment has a positive effect on technology transfer and productivity.

There are also obvious risks in being too dependent on FDI for investments and exports. Transnational companies have a wide choice of countries when considering the location of certain production, e.g. component manufacturing, in a low wage country and production can be relocated to another country at the slightest sign of political or economic instability. The creation of free zones, (often called "export processing zones"), which are reserved for exporters, can also give rise to what is sometimes called "social dumping", or "the race to the bottom". By wooing companies with tariff and tax breaks, restrictions on union rights and extremely low wages, various countries compete with each other to attract foreign investors.[18] The foreign companies that do establish operations in free zones tend, as a rule, to be poorly integrated with the rest of domestic commerce and industry.[19]

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17. For a review of research see, for example The World Bank Economic Review, vol. 14, no. 1, January 2000 (theme issue on trade and technology).

18. See e.g. Wingborg (2000).

19. According to an ILO (Labour and Social Issues relating to Export Processing Zones, Geneva 1998, press release): "The evidence so far points to pervasive absence of meaningful linkages between the EPZs and the domestic economies of most of the host countries."

As an overall summary, it can be said that future foreign direct investment can have a very important role to play in helping the LDCs integrate into the world economy. Particularly within new niches in the manufacturing industry and the trade in services, FDI can pave the way for increased exports and the transfer of new technology, including know-how related to business management, organisation and marketing. But ultimately it is up to the countries themselves to create a sufficiently attractive "environment" for investment – both domestic and international.

Growth, globalisation and world trade – general trends

CHAPTER 3

3.1 Patterns of growth

During the 1960s and early 1970s, production of goods and services within the OECD group grew by an average of 4.0 percent annually. During the 80s and 90s, annual growth fell to 2.9 and 2.3 percent respectively. Still respectable, but in the rich industrialised countries there seemed to be clear signs of a successive decrease in economic growth.

The average rate of growth of just over 2 percent per year in the OECD countries during the 90s concealed the major differences that existed between the three big blocs, illustrated by the fact that the extended boom in the USA from 1992 to 2000 coincided with a long, deep slump in Japan in the same period.

For the developing countries, the 1990s came to reinforce the tendency that was already clear in the 1980s, namely a rapid and unparalleled rise in per capita income in Asia, where the “Asian Crisis” of 1997/98 seemed to be merely a blip on the curve. Development in Latin America was marked by a certain degree of stabilisation and recovery, while sub-Saharan Africa continued to endure stagnation or further decline.

Table 3.1 below summarises growth of output in major regions from 1982–99.

With regard to developments in world trade (see Table 3.2 below), this follows the overall pattern illustrated by Table 3.1. However trade has increased considerably more rapidly than GDP in the world in general – during the 1990s by almost ten percent per year, in current prices (USD). The value of global trade has increased drastically in recent decades, and the proportion of the world’s combined GDP that is exported has jumped from 17 to 21 percent since the 1970s.

Table 3.2 below shows the development of merchandise exports of

Table 3.1 Economic growth in the world from 1980–1999.
Percentage annual increases in GDP.

	1982–91	1992–99
World	3,3	3,2
Industrialised countries	3,1	2,7
of which USA	2,9	3,6
EU	2,6	1,9
Japan	3,8	1,0
Developing countries	4,3	5,6
of which Asia	6,9	7,8
Latin America	1,8	3,2
Africa	2,3	2,3
Middle East	3,3	3,5
former East Bloc	1,4	–3,6
LDCs	2,2	3,1

Source: Based on IMF, World Economic Outlook, October 2000.

Table 3.2 Percentage annual growth of merchandise exports (by volume)
1982–91 and 1992–99.

	1982–91	1992–99
Industrial countries	5,5	6,4
Developing countries	4,3	8,0
of which Africa	2,7	2,1
Sub-Saharan Africa	2,2	3,8
Asia	8,4	11,1
Middle East and Europe	2,0	5,3
Latin America	2,3	8,3

Source: IMF, World Economic Outlook, October 2000.

goods (in fixed prices) for various country groupings from 1982–1999.

Development in LDCs is addressed in greater detail in Section 3.4 below.

3.2 Globalisation

Few social phenomena have attracted as much interest and coverage as globalisation. Globalisation affects core issues within every conceivable

Tabell 3.3 Declining costs of transport and communications (1990 US$)

Year	**Sea freight** (average ocean freight and port charges per ton)	**Air transport** (average revenue per passenger mile)	**Telephone call** (3 minutes, NY/London)	**Computers** (index, 1990 = 100)
1920	95	–	–	–
1930	60	0.68	245	–
1940	63	0.46	189	–
1950	34	0.30	53	–
1960	27	0.24	46	12,500
1970	27	0.16	32	1,947
1980	24	0.10	5	362
1990	29	0.11	3	100

Source: UNDP. Human Development Report 1999, p. 30, based on data from the IMF.

area: culture, mass media, advertising, consumption patterns, financial markets, criminality – not least trade-related crimes such as the drug trade and "trafficking"[20] – political processes, social movements, the emergence of new networks and popular organisations, etc. Obviously this report is not the place to discuss all these disparate, but interconnected, phenomena; we may, however, make a couple of observations to help clarify a few issues important to the integration of the economies of the poorest countries into the world economy.

3.2.1 Technical and economic driving forces

The most powerful underlying driving force behind what we call globalisation is the development of technology that has enabled international communications to become quicker and quicker and equally important, cheaper and cheaper. An illustration is provided in Table 3.3.

Spectacular developments within IT in recent years have led to further decreases in the cost of communications.[21] The marginal cost of send-

20. We should emphasise that this report addresses legal trade only. We are, however, well aware that illegal trade plays a major and growing role in many countries, not least in the very poorest.

21. One exception, however, is postage in Sweden which has increased more rapidly than the consumer price index. The fact that it is more expensive today to send a letter from one Swedish town to Stockholm than to send a letter to Stockholm from Kathmandu, for example, opens a niche market for postal services in poor countries, and certain companies and organisations have already started to post high volume mailshots from poor countries.

ing e-mail and other information round the world is virtually zero, if you have access to the Internet.

This technical and financial trend towards cheaper and faster communications is irreversible; political decisions can only have a marginal effect on the rate of progress in this respect.

3.2.2 The growing role of financial markets

Financial markets are one of the sectors that have gained the greatest benefits from this explosive communications development. Turnover on the world's currency markets has grown exponentially during the 90s and is now estimated at USD 2,000 billion per day, or more than ten times the GDP of all the LDCs combined.

The LDCs, naturally enough, are playing a very marginal role in these global financial markets. The inflow of private capital to LDCs has remained insignificant. Nonetheless, the numerous financial crises of the 1990s have clearly shown that even the very poorest countries are affected by unrest on global financial markets. For example, a large number of poor countries suffered from "contagion" by crises in Asia or Russia in the form of financial turbulence, capital flight, interest rate rises and pressure on local currencies. Many of the countries that had liberalised their foreign exchange and capital markets were especially hard hit.

Greater financial vulnerability can now be included alongside the LDCs' traditional vulnerability to fluctuating prices on the world commodity markets.

3.2.3 Globalisation: key players

The move towards greater integration of world markets for goods and services that has been briefly addressed above has its roots in technological and economic developments that have caused the world to shrink and economies to become globalised. There are also a number of key players behind the globalisation process, the most important of which are the big transnational corporations who not only act globally within their respective spheres, but also put pressure on governments and international organisations to accelerate globalisation.

Various international organisations are also found amongst these influential players. The most important of which, in recent decades, have been the IMF and the World Bank who have played a decisive role in hastening the liberalisation and deregulation of the poorer countries of the world. During the 1980s and 90s a large majority of today's developing nations had agreements on economic policy with the Bretton Woods institutions. The conditionality that marked these agreements was to all intents and purposes based on the "Washington Consensus" briefly discussed under Section 2.1.4.[22]

Other international organisations that can be considered important players in this context are naturally the WTO, which we will look at in greater detail in later chapters in this report, and the rich industrialised nations' co-operation and development organisation, the OECD, which continuously urges its member countries to pursue further deregulation and liberalisation.

Behind these organisations stand governments, principally the governments of the dominant industrialised countries. These have, almost without exception, supported the movement towards more liberalised world trade and the abolition of individual country's foreign exchange restrictions and capital controls that have characterised recent decades.

3.2.4 The implications of globalisation for world trade

As issues concerning globalisation and the integration of the poorest countries into the world economy will be a recurring theme throughout this study, there is no need at this stage to go any deeper into the globalisation debate. However, we intend to make a few general comments at this point.

From the point of view of foreign trade the falling costs of communications combined with political decisions on reduced tariffs and trade restrictions will make cross-border trade easier. Geographic location will play an ever less significant role in those areas of the world that have access to modern and inexpensive communications.

The classic competitive advantage "proximity to the market" will therefore become less and less important.[23] For certain types of trade, e.g. a growing section of the trade in services which is based on the exchange of information via the Internet, geographic distance is already virtually irrelevant. In addition, the fact that the size of the domestic market is playing an ever-decreasing role would seem to favour the LDCs; it has

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22. Naturally there are clear differences – concerning e.g. mandates and types of conditionality – between the IMF and the World Bank. These differences appear to have been accentuated in recent years, as the World Bank has retreated from several of its earlier positions, e.g. on demands for the liberalisation of capital movements in poor countries. In the structural adjustment programmes of the 80s and 90s, however, the similarities were substantially greater than the differences when it came to conditionality and principles of economic policies; hence the expression "Washington consensus" (a consensus that was sometimes taken to include the US Treasury).

23. This applies to actual production. In other respects – e.g. research and development – being close to excellent research environments is important; we see here more of a tendency to a greater concentration into centrally located "clusters" such as Silicon Valley. The ever-faster rate of change in product development, design, etc. also requires closeness to market, and a sensitivity to changes in fashion.

today become possible to make a direct entrance onto the world market without having first had to develop production for the domestic market.

For the large transnational corporations who are spearheading the globalisation process, developments on the communications front have turned the entire world into their playing field. Geography plays an increasingly subordinate role when it comes to deciding on locations and sub contractors. Nike trainers, or IKEA furniture for instance, can be manufactured in Estonia, Indonesia, Romania, the Dominican Republic or Vietnam; the distance to market is less important than factors such as reliability in terms of quality and delivery times, wage levels, political stability, reliable communications, tax polices in the host country, etc.

There are, however, a number of exceptions to the trend towards ever cheaper communications. In many poor countries, domestic communications are slow and expensive, and it is often cheaper to send goods – and information – from the capital city to Europe than to rural areas 50 kilometres away.

The same is true for imports; it is often cheaper to ship grain to the capital from Europe or North America than from surplus farmers in the country itself.

Consequently while the capital cities of the world are moving closer and closer, rural communities in poor countries risk becoming increasingly marginalised in the international division of labour.

Even so, the globalisation process is opening up new opportunities for the extremely poor countries too, not least within the service sector. The implications of this for the LDCs will be discussed at a later stage in this study.

3.3 The LDCs in world trade: an overview

Global trends in trade have been briefly addressed above. We intend to provide only a rough outline here. For more detailed information on the most important export goods from LDCs, see the chapters on textiles and agriculture (chapter 9 and 10, respectively) and Annex 2.

The table on the following page clearly shows how the LDCs' share of world trade has successively fallen over recent decades – from over two percent in the 1960s to less than half a percent today. Their share of world trade in commercial services has dropped from 0.21 percent in 1990 to around 0.10 percent today, and what little trade in services they do have is entirely dominated by tourism (see Chapter 11).

To illustrate just how marginal the LDCs are to the world economy, at

Table 3.4. Trade development in the LDCs: annual exports and share of total world exports 1960–99. BUSD, current prices and percent.

	1960	1970	1980	1990	1999
World	130,178	316,815	2,026,549	3,481,497	5,620,665
LDCs	3,144	5,216	14,222	15,332	22,280
LDCs as % of total exports	2.4	1.6	0.7	0.4	0.4

Source: UNCTAD, Database and Handbook of Statistics 2000.

just over BUSD 20 the total value of their exports is less than one fifth of that of Sweden alone.

Where the most important export products are concerned, as mentioned earlier, virtually all LDCs – with the exception of Bangladesh and a couple of countries in Asia and the Pacific – have failed to diversify their exports. Raw materials, and more or less the same raw materials as twenty years ago, continue to predominate. This pronounced concentration on a very small number of commodities is illustrated by the fact that the three most important commodities in each LDC account for over 70 percent of the total value of their exports. Raw materials make up less than 80 percent of exports in only five LDCs – Bangladesh, Laos, Cambodia, Myanmar and Madagascar.

As raw materials are generally exported in an entirely unprocessed state, the producing countries receive only a small and shrinking share of the value of the final product, as the subsequent stages – refining, processing, packaging, advertising, marketing, distribution etc – account for a successively growing proportion of the ultimate sales value.

An overview of the most important export products for individual LDCs can be found in Appendix 2. Table 3.5 summarises the most important export goods for LDCs as a group.

The table clearly illustrates that the LDCs have a very small share of virtually all product categories (however they do have a larger share of other, slightly unusual products such as sesame seeds and cashew nuts, and in certain smaller textile niches). Cotton is the only major product category in which the LDCs have a combined share of the world market of over ten percent.

It is also worth emphasising that the dominant export products in most LDCs can be found in stagnating world markets, i.e. markets where growth in demand has been poorer than for world trade as a whole. The major-

Table 3.5. Most important export goods, LDCs 1997–98. BUSD and percent of total exports.

Product	Export value (BUSD)	Share of LDCs total exports	Share of all world export
Textiles	3,951	19.7%	approx. 2.0%
Crude oil	3,920	19.5%	1.9%
Cotton	1,593	7.9%	14.3%
Coffee	1,126	5.6%	6.9%
Diamonds, pearls, precious stones	783	3.9%	2.1%
Shellfish	768	3.8%	4.9%
Copper	550	2.7%	1.8%
Tobacco	387	1.9%	5.9%
Timber, wood	379	1.9%	4.9%
Others	6,620	33.0%	
Total	20,077	100.0%	0.38%

Source: UNCTAD, LDC Report 2000, p. 230. More detailed information on individual products can be found in International Trade Centre, Export Performance of LDCs: Country Profiles (1999).

ity of export products important to LDCs can be found in stagnating segments of world trade.[24]

With regard to the major trading partners of LDCs, we have seen an encouraging rise in south-south trade in recent years (see Chapter 14). Today developing nations receive 28 percent of LDC exports. Exports from other developing countries currently account for fully 46 percent of total imports to LDCs (of which OPEC countries account for seven percent).

The EU is the most important single market for the LDCs, taking around 36 percent of their total exports by value. On the import side, the EU accounts for 27 percent and Japan and USA/Canada for six percent each of LDC imports.

24. For an interesting discussion and graphics, see the Geneva based International Trade Centre, Export Performance of Least Developed Countries: Country Profiles (2000).

Trade policy reforms in LDCs

CHAPTER 4

It is difficult to make generalisations about 49 heterogeneous countries whose only common link is that they are classified as LDCs. As such, we are aware that observations in this and other sections will not be true for all LDCs and our comments are, as a rule, more relevant to the poorest countries in sub-Saharan Africa than for e.g. Bangladesh or the tiny island states of the Pacific.

Trade policies of most LDCs up until the beginning of the 1980s were strongly protectionist, and characterised by more or less pronounced import substitution strategies. Then, as previously mentioned, the debt crisis and structural adjustment programmes, as well as widespread dissatisfaction with the fruits of past policies, led to a period largely characterised by liberalisation and deregulation, including more liberal trade policies.

It is difficult to measure the degree of protectionism. The most commonly used gauge – the level of a country's tariffs – often reveals rather little about the nature of a country's trade policies. For example, a country can give a very "open" impression if it levies low tariffs on goods that the country does not produce at all, but high tariffs on a small number of goods where there is competition from domestic suppliers. In many developing countries (and industrialised countries!) there is also a variety of non-tariff trade barriers in the form of quotas, licences and bureaucratic formalities that make it very difficult, if not impossible, to import.

A protectionist approach can also be pursued with the aid of exchange rate policies. A severely undervalued currency (rarely the case in LDCs, however) discriminates against imports.

4.1 Trade policies liberalised in most in LDCs

Bearing these reservations in mind however, there are many indicators that show that trade policies have been liberalised in the majority of LDCs. In sub-Saharan Africa, the average tariff rate is estimated to have fallen by between 30 and 50 percent between the mid 80s and beginning of the 90s (Oyejide, December 2000, p. 10). A 1995 World Bank report on Africa states that *"...the greatest progress has been achieved in replacing quantitative restrictions with lower and less dispersed tariff levels; more than half of the countries now have average tariff rates of 15–20 per cent with the highest rates set at 35–40 per cent and the number of tariff categories reduced to 4–5"* (World Bank 1995, p. 24).

Another expression of greater openness is the growing share of foreign trade in the GDP of the poorest countries. Table 4.1 below reflects this development.

Developments in the latter half of the 1990s have, if anything, hastened trade liberalisation in the LDCs. One reason for this is that a number of poor countries have actively sought to become members of, or at least develop closer ties with, the WTO. WTO rules and regulations place great emphasis on "tariffication" even in the poorest countries, i.e. a transition from quotas and quantitative restrictions to more general and transparent tariffs. A large number of LDCs made long-term commitments towards liberalisation as early as during the Uruguay Round.

An even more vital driving force behind liberalisation probably was the structural adjustment programs that the majority of LDCs – 34 of 49 and virtually all African LDCs – implemented to a greater or lesser extent during the 1980s and 90s.

It is worth emphasising here that conditionality from the IMF and the

Table 4.1. Exports plus imports as a percentage of GDP in different regions 1970–1995.

Region	1970	1985	1995
East Asia and the Pacific	18.6	35.7	58.3
Latin America and the Caribbean	23.4	30.8	35.6
Sub-Saharan Africa	44.3	51.0	56.1
Low income countries excl. China and India	34.6	41.8	60.5
China	5.2	24.0	40.4
India	8.2	15.0	27.7
Industrialised countries	23.7	37.3	39.8

Source: Kaplinsky (2000, p. 4).

World Bank – and frequently even from bilateral ODA donors – in these programs have normally been far tougher and more binding than WTO demands. As we will discuss at a later stage, the LDCs that are members of the WTO have been granted various kinds of exemptions from, for example, WTO demands for lower tariffs and trade liberalisation. Conditionality in connection with structural adjustment programmes is of a different character, i.e. of a more mandatory nature.

Another importance difference is that the IMF and the World Bank control funds, which the WTO does not. Breaking WTO rules is not too costly for the poorest countries compared with rejecting demands for liberalisation linked to agreements with the IMF and the World Bank.

A summary of trade liberalisation in the LDCs as a result of structural adjustment programs is given in UNCTAD's "LDC Report 2000". Somewhat surprisingly perhaps, UNCTAD draws the conclusion that trade liberalisation in the 1990s progressed further in the LDCs than in developing nations generally (probably because a larger number of LDCs underwent structural adjustment programs):

> "As a consequence of these reforms, the policy environment in many LDCs changed significantly in the 1990s. IMF data actually shows that trade liberalization has proceeded further in the LDCs than in other developing countries. In 1999, for 43 LDCs for which data are available, 37 per cent had average tariff rates below 20 per cent coupled with no or minor non-tariff barriers, whilst amongst the 78 other developing countries in the sample, only 23 per cent had this degree of openness. Indeed, 60 per cent of the 43 LDCs had average tariff barriers which were below 20 per cent and non-tariff barriers which were moderate in the sense that they were not pervasive, covering less than 25 per cent of production and trade. Similarly, UNCTAD data for the late 1990s show that, in a sample of 45 LDCs, only 9 maintained strict controls on remittances of dividends and profits and capital repatriation. Twenty-seven LDCs have adopted a free regime, guaranteeing such transfers, whilst nine have a relatively free regime."
> (LDC Report 2000, p. VI).

4.2 Some underlying causes for LDCs' shrinking share of world trade

One simple conclusion to draw is that the LDCs' shrinking share of the world market over the past two decades is less to do with failings in trade policy liberalisation in the poor countries themselves, but rather with other types of problems that we will return to, namely:

- *Supply constraints* and weak economic growth in general (Chapter 5). That this is clearly the most important reason for stagnating trade development in LDCs is highlighted by the fact that the LDCs have more, and more generous, preferential trade agreements than other developing countries and yet despite this they are still far less successful in exporting.

- *Unfavourable price developments* for the majority of LDC products (which are linked to market restrictions to a certain extent).

- *Market restrictions* in the (few) areas where the LDCs are competitive. Not least important in this connection are the restrictions on the markets for textiles and agricultural products which we will examine in Chapters 9 and 10 respectively. Other destructive protectionist trade barriers are the existence of tariff peaks, i.e. extra high tariffs on individual goods (such as sugar for example) which developing nations can produce at lower cost than the industrialised countries, plus the extremely damaging so called tariff escalation, where the higher the degree of processing of a product, the higher the tariffs levied. In concrete terms this means higher tariffs on, for example, roasted coffee than unroasted, and very high tariffs on jam and marmalade but no tariffs at all on tropical fruits, i.e. extremely high punitive tariffs on the manufacturing process itself in poor countries. (See Chapter 8).

Another element of the trade policies of industrialised countries which makes it much more difficult for poor countries to exploit the opportunities presented by various preferential agreements in place, are the so-called rules of origin. These are used to determine if the exporting country has the right to preferential market access in those cases where part of the manufacturing process has taken place in a country other than the exporting country (see Chapter 13).

4.3 Trade liberalisation problems in LDCs: tariffs and government revenue

One problem connected with trade liberalisation in the poorest countries is that many of them remain heavily dependent on import tariffs as a source of government revenue. On average, tariffs and other trade-related taxes and duties account for around 30 percent of the income side of government budgets in African LDCs. This figure is far higher than the average for other developing nations and naturally for industrialised countries, where tariffs now make an insignificant contribution to government revenue.

In many poor countries with a poorly developed tax base, tariffs and trade-related duties are a relatively easy way of financing government spending as compared with alternative sources of income. The effects on income distribution are not unequivocally negative; rather the opposite, as the import intensity, i.e. the proportion of income spent on imported goods and services, is much higher amongst the urban middle class than the rural poor.

For these and other reasons there is often strong political opposition to import tariff reductions. Naturally, there are also instances of more dubious motives, related to corruption and "rent-seeking".

Tariffs and quantitative import restrictions are often due more to historical chance and powerful pressure groups than being related and subordinate to the country's development policy in general. Stimulating imports with the help of a selective trade policy with differentiated tariffs, e.g. inputs for small-scale farmers or to labour-intensive small industries, can be excellent complements to a development strategy based on job creation and poverty alleviation. However, the pattern is often completely the opposite: e.g. subsidised foodstuffs are imported duty-free from the EU or the US which adversely effects domestic agriculture but makes food cheaper for city dwellers. Other examples include the tariff free import of capital goods that stimulate the use of capital-intensive technology in domestic industry.

In many LDCs, a large proportion of imports are financed with ODA which can create major problems for trade and development policies. As donors are unwilling for their ODA or credit-financed exports to be subjected to tariffs, the domestic price and cost structure risks becoming (further) distorted and non-ODA financed activities then experience difficulty in competing.

A concern more pressing than further tariff cuts to many LDCs is how to make the entire import system more efficient. Many poor countries have particularly inefficient and bureaucratic (and sometimes also corrupt) procurement procedures. Improvements in these respects, and an overhaul of the tariff structure from a development perspective, can be more urgent than a general liberalisation of trade, and ODA for efforts of this kind can bring many benefits.

It is important in this context to once again emphasise that a development policy that promotes trade is by no means synonymous with trade liberalisation. A liberalisation of trade can stimulate both imports and exports, but export-led growth requires much more than lower tariffs and reduced trade barriers.

4.4 Debt and financing issues as obstacles to trade in LDCs

Recent decades have brought reduced access to foreign exchange for the majority of LDCs. This has severely restricted their opportunities to import goods and to finance the investments necessary for exports. As a consequence of the ever more critical debt situation, financing of trade has also become more difficult (see Section 5.1.5).

The combination of falling export prices and low growth of export volumes has, as previously mentioned, meant that export revenues for LDCs grew very slowly during the 80s and 90s. This was especially true for the African LDCs.

The same is the case for the inflow of finance in the form of ODA, credits and direct investments. Table 4.2 shows, in very aggregated terms, the inflow of finance to LDCs between 1985 and 1998.

As in the paragraphs below, which are also based on the same UNCTAD report, Senegal is not included as it was not granted LDC status until 2000.

The inflow of capital to LDCs can be compared with exports. In 1998 total export revenues for LDCs amounted to just over BUSD 20, while the in-

Table 4.2 Financial flows to 48 LDCs (all LDCs except Senegal) 1985, 1990 and 1998 in BUSD.

	1985	1990	1998
ODA and concessional credits	10,049	16,014	12,066
Non-concessional flows (FDI, export credits etc.)	392	862	2,255
Total financial flows (current prices BUSD)	10,441	16,876	14,321
Total flows in fixed prices (1990 USD)	13,051	16,876	13,384

Källa: UNCTAD, LDC Report 2000, Table 19, p. 233.

flow (gross) of credits, ODA, export credits and other private capital amounted to just over 14 BUSD. Or, put another way: around 60 percent of the foreign exchange available to the LDCs came from their own exports – the rest from ODA and other forms of capital inflow.

As illustrated by the table above, a weak but positive trend can be detected in the area of non-concessional finance, including foreign direct investment (FDI). However, FDI is very unevenly spread amongst the LDC group: at the beginning of the 1990s, oil and gas extraction in four countries (Angola, Equatorial Guinea, Myanmar and Yemen) accounted for fully 80 percent of all foreign direct investment in LDCs.

In per capita terms, the total inflow of capital has fallen from USD 33 to 28 (in 1990 prices) per capita in LDCs as a whole. Cutbacks in ODA have been even more drastic: from USD 32 to 18 per capita and year, or almost fifty percent. This can be compared with the promises of sharply increased ODA levels made at the second LDC conference in Paris in 1990.

As a result of all the different factors outlined above, the foreign debt situation has tended to worsen during the 1990s (as was also the case in the 1980s). The nominal value of the LDCs' foreign debt rose from BUSD 121 to 150 between 1990 and 1998[25]. This later figure is the equivalent of six and a half times the value of total exports for 1998. Expressed as a percentage of GDP the foreign debt burden rose from 92 to 101 percent.[26]

According to the standards that have been agreed within the HIPC initiative (Heavily Indebted Poor Countries), the debt burden in 27 of the 42 LDCs for which we have reliable data is "unsustainable". If the small island states are excluded, over two thirds of LDCs can be said to have debt levels that are "unsustainable" according to HIPC criteria.

As concerns debt servicing, i.e. the amounts countries pay in interest and repayment on their foreign debts, this has remained relatively stable at between BUSD 4-4.5 annually, with a slight decrease since the mid 80s. Around one third of annual ODA (including concessional credits), or a fifth of annual export revenues, can thus be said to be used for debt servicing.

Appendix 2 includes a summary of the foreign debt situation of each LDC.

25. Data from UNCTAD, LDC Report 2000. IMF (World Economic Outlook, October 2000) gives a somewhat higher figure for the total foreign debt of the LDCs as of 1998: BUSD 164.

26. Several LDCs, especially the very tiny ones, are not included due to a lack of data.

4.5 Future export opportunities for the LDCs: traditional areas and new niches

Naturally it is impossible to "pick the winners" when talking about future export products from LDCs. Incredibly rapid developments, particularly in the services sector, are constantly opening up new opportunities even for the poorest countries to grab a share of the world market, and we will illustrate this with specific examples in subsequent chapters.

LDC exports will probably continue to be dominated by traditional raw materials for a long time to come, and a best-case scenario would be a reform of agricultural policy in the industrialised countries which would create greater export opportunities for them within the agriculture sector. However, remaining trapped in today's one-sided export structure is not, in our opinion, a genuine long-term solution to the problem of development for these countries. Even if commodity prices were to increase once more, as they did in the 1970s, maintaining the current natural resource based comparative advantages would be a dead end street for most LDCs. Every solution must be based on the diversification of exports, and improved opportunities for further processing of export products. It is against this background that several of the market obstacles that have been briefly addressed above – the problems associated with tariff escalation and tariff peaks – become especially significant and harmful.

It is also important to find niches that, although small in global terms, can offer great opportunities for certain LDCs. We have chosen to illustrate this with organic products, and to demonstrate opportunities of obtaining higher revenues from existing resource bases.

4.5.1 New niches for LDCs – the example of organic products

In 1997, the world market for organic products was approximately BUSD 12[27] and is estimated to be growing by around 20–25 percent per year. The EU alone accounts for 50 percent of the world market. Around 15 percent of these organic products are traded internationally, and grain, coffee, tea and cotton are the most commonly purchased products. Organic products provide producers with a premium that varies tremendously depending on the market and product. A 20–25 percent mark-up is not unusual.

Many farmers in the LDCs who have never converted to modern farming methods have an excellent opportunity to farm organically. Switch-

27. This is approximately equivalent to China's total textile exports for the same year.

ing production is not so very taxing if you have never been able to afford pesticides anyway, and these farmers have often continued to use the old hardy strains and still know how to minimise insect attacks and enrich the soil using natural means. The greatest obstacle to a rapid increase in the export of ecological products to markets in the North – where there is a chronic shortage – is the lack of an advanced and expensive infrastructure for the inspection and certification of production. These obstacles are, however, exacerbated by the regulations introduced by EU which other major import markets are set to follow.

EU regulations are designed to provide consumers with a guarantee that everything that is marketed as "organic" meets the set EU requirements. According to EU regulation 2092/91 there are two ways of importing organic food into the EU. The principal rule states that the exporting country's regulatory and inspection system must be approved by the EU in accordance with a specific procedure. This has proven to be so complicated that only six countries (of whom only Argentina could possibly be classed as a developing country) have been approved since 1992. In the other option, a derogation which extends until 2005, a member country can approve imports if the importer can prove to the authorities in the importing country that the products meet the requirements of the regulation. Special import approval must therefore be sought for every contract. This places a major administrative burden on both the importer and exporter, and makes the whole transaction very insecure. The rules are applied differently in different EU countries, and there are numerous examples of shipments being delayed or blocked in European ports for bureaucratic reasons.

A fundamental problem is that the EU does not accept that the global standard for cultivation and inspection developed by IFOAM (International Federation of Organic Agriculture Movements) is sufficient proof that the goods are organic, despite the fact that many retail chains consider IFOAM to provide consumers with the best guarantees. In practice, this means that exporters must satisfy two parallel inspection systems, IFOAM's and the EU's.

Since the mid 1990s, Sida has supported the certification and export of organic produce from Uganda. Many exporters there cherish high hopes for the organic market, although they are well aware of the teething troubles in building up a reliable shipping system and relationships with customers. Their understanding of EU regulations is, however, very limited despite several examples of shipments being stopped or delayed due to problems with EU approval (Axelsson Nycander, 2000). The testimony of collective farmers in Mexico with 15 years experience of exporting organic coffee to the EU indicates that the problems tend to increase as EU rules are tightened and constantly changed.

It is worth noting that about a dozen LDCs already export organic produce to the EU despite all these obstacles. These exports are relatively more diversified than other farming exports and even include fresh fruit and vegetables, which are relatively profitable crops. The quantities exported are small today, but have growth potential.

Foreign trade and domestic factors

CHAPTER 5

There are two types of obstacles that restrict LDC participation in world trade: problems related to market access, i.e. tariff and non-tariff trade barriers on export markets, and domestic factors that limit production and competitiveness. For the sake of simplicity, we can call these external trade barriers and internal trade barriers, even though we are aware that in certain areas, e.g. the financing of exports and imports, problems can be both of an internal and external nature.

External trade barriers, the most important of which affect agriculture and textile industries, have been briefly discussed earlier and will be dealt with in later chapters. This section aims to summarise a few of the most important internal barriers which prevent more active participation in world trade. As usual, it is difficult to make generalisations about 49 different countries, and this discussion will probably be most relevant to the African LDCs.

It is also worth emphasising that the factors that restrict a country's participation in world trade are mainly the same as those that lie behind a country's general economic stagnation. If a country is to be a successful exporter and attractive trade partner, various preconditions must be fulfilled and various types of constraints removed. Below is an examination of some of the decisive factors in a country's ability to be a successful trading nation.

5.1 Internal factors facilitating trade

5.1.1 Political and institutional factors

The significance of "good governance" has gained increasing prominence in development theory discussions in recent years. "Good governance" embraces a wide range of aspects related to how governments exercise power at both central and local level, such as:

- a democratic society that enables a functional interplay between state, market and civil society;
- sound macroeconomic policies;
- stable rules of the game in business and everyday life;
- a credible, predictable and honest legal framework;
- a public sector that is reasonably efficient and uncorrupted;
- "accountability"; power holders are held accountable for their exercise of power.

As a whole, LDCs can be said to display major failings in most of the above. Political instability and even armed conflicts have been commonplace in many LDCs, especially in Africa in recent decades, and few LDCs can be said to boast well functioning democracies. Many LDCs have undergone dramatic political changes, with constant shifts in leadership, economic policy, etc. Corruption is often rife. As a rule "accountability" is feeble, and the heavy dependence on ODA, foreign loans and international financial institutions in many countries has meant that the "accountability" of a regime has often been directed towards foreign donors and financial institutions rather than to the local population. For instance in many LDCs, ownership of the structural adjustment programmes of the 80s and 90s has been very tenuous, and the same is also true for many trade policy reforms and agreements.

It should also be added that many of the institutions required in a mature market economy – associated with well-defined property rights and a well-functioning legal system, financial instruments, statistics and information systems, etc. – are poorly developed in the poorest countries of the world.

Where specific trade related institutions, rules and regulations are concerned, a great deal could be done to make the administration of both imports and exports simpler and more efficient. Despite the substantial political reforms implemented in the area of trade which were briefly addressed in the previous chapter, foreign trade is still snared by complicated and inefficient legislation and administrative regulations concerning e.g. import licenses and quantitative controls, tariff administration, export taxes etc.

The most urgently needed trade policy reforms in many LDCs today are not further tariff reductions but reforms aimed at reducing opportunities for arbitrary administration and corruption and to simplify regulations and make them more transparent.

5.1.2 Human capital

Development theory discussions have long taken as read that human capital is more important than, say, natural resources. Those countries that have been the most successful in terms of development in recent decades are countries that have invested in education and healthcare rather than exploiting rich natural resources.[28]

Singapore is an excellent illustration of this. A country with no natural resources to speak of and a population of three million, today exports over six times as much as all LDCs combined. There are many different factors behind Singapore's success story and other similar success stories, but the most important of all is the high level of education.

Many LDCs, not least in Africa, are rich in natural resources and could be called rich countries with poor people. Irrespective of what indicators we choose for human capital[29] – average life span, calorie intake, level of education, gender equality or some other indicator – LDCs trail far behind the average for poor countries; it is actually this situation that makes them LDCs.

Although the significance of human capital is obvious for economic development in general, it is also worth noting that foreign trade often calls for specialist know-how. As such, certain skills – such as languages, international experience, IT know-how etc – are becoming increasingly important in today's globalised world.

5.1.3 Physical infrastructure

When the LDCs were asked to complete a questionnaire ranking the most important internal barriers to trade, two factors dominated their answers: shortage of human resources and poor physical infrastructure, including inadequate and unreliable power supply.[30]

The infrastructure failings that were emphasised in this questionnaire included a number of well-publicised problems: poor road networks and costly transport, expensive and unreliable road, sea and air connections,

28. A number of studies have even established a significant negative connection between a country's access to natural resources and its economic growth in recent decades. One of the main explanations often given for this phenomenon is that these "rich" countries have suffered more serious internal conflicts than less well endowed countries.

29. See e.g. The UNDP Human Development Report, or the UNCTAD LDC Report 2000.

30. See WTO, Sub-Committee on Least-Developed Countries, Market Access for Exports of Goods and Services of the Least-Developed Countries: Barriers and Constraints, Geneva, December 1998.

inadequate storage capacity, etc. Prominent amongst these obstacles was all forms of domestic transport – as mentioned earlier, it is often simpler and cheaper to buy food from industrialised countries than from the country's own farmers.

There is also an enormous gap between the rich and poor countries in the increasingly important area of IT. The so called "digital divide" that separates countries and people that are "connected" from those that are not is shrinking in the fast growing Asian industrialised countries, but for the majority of LDCs the digital divide between them and the rich countries is growing.

The vast majority of people in LDCs have never even used a telephone. Virtually everyone in the industrialised nations has access to a phone. On average there are 58 phones per 100,000 people in the developing nations – in the LDCs the equivalent figure is four phones per 100,000 inhabitants. In general 60 daily newspapers are sold for every 100,000 people in the developing world, but just eight in the LDCs.[31]

5.1.4 Domestic market size

As previously noted, the constraints presented by a small-scale domestic market makes it impossible for most LDCs to industrialise on a broad front. In order to have any prospects of success, they must attempt to exploit economies of scale within certain limited areas.

It is difficult for countries with a narrow economic base, small domestic market and limited experience of trade and international marketing to break into foreign niche markets. In addition to technological demands for efficient, large-scale production, manufacturers in LDCs often face competitive disadvantages associated with high shipping and transaction costs. Many LDCs used the WTO questionnaire mentioned above to vent their considerable frustration at what they see as the virtually prohibitively high costs of international freight and insurance.

5.1.5 Financing issues

Problems associated with the financing of foreign trade are legion in LDCs. Both export and import financing face major problems, particularly in the majority of LDCs that are seriously in debt and have a poor credit rating.

This is partly linked to the low level of savings in LDCs, which limits access to capital in general. In addition, the domestic financial sector is poorly developed as a rule and forms a bottleneck for investments and

31. Source: UNCTAD, LDC Report 2000, Table 12.

for companies' access to working capital in general. But even external financing is problematical.

Normal supplier and trade credits are more difficult to obtain for the majority of LDCs than for other, richer countries, and interest rates and loan conditions are often less favourable. It is expensive to be poor and to run a business in a poor country.

5.1.6 New customer demands

In addition to the demands placed on successful exporters that have been briefly addressed above – such as a sound economic policy, supportive institutions for trade and development, human resources and physical infrastructure – we can add the fact that today's exporters need to meet growing and increasingly detailed demands from their customers.

The changes in business practices in recent decades, such as reduced stock levels and just-in-time deliveries, means that purchasing companies demand greater security of delivery and goods of an even and high quality. Many larger companies have now introduced quality management systems. Such systems, e.g. the international certification standard ISO 9000, are administratively complicated and costly to implement. Increasingly, these certification organisations in their turn have to gain official approval through accreditation; another expensive process.

In order to be able to compete in the industrial goods market especially, exporting countries are required to have the necessary administrative infrastructure including standardisation organisations, certification bodies, testing laboratories and so on. These institutions also need to be accepted internationally.

Consumers are also making tougher and more complicated demands. In order to be competitive, both goods and packaging must be designed in a way that attracts consumers just now. In the textiles and clothing industry in particular, designs must keep pace with current fashions.

Many customers are also beginning to demand that goods should satisfy ethical and environment demands, demands that are increasingly systematised in the form of criteria for different forms of certification and labelling. The environmental demands often apply to both the products themselves and how they are produced, for instance organic fruit should be both free of chemical pesticide residues and produced in an environmentally acceptable manner. Most environmental labels such as the Nordic Swan and the Swedish "Good Environmental Choice" are suitable for products that, generally speaking, are not exported from LDCs. Important exceptions are the sector specific labels for sustainable forestry (Forest Stewardship Council, FSC) and different certifications for organic agricultural products that can potentially be of major significance for LDC exports.

Ethical demands mainly concern the production process itself. Here too these demands are systematised in the form of labelling and certification using two different approaches, one of which is mainly concerned with agricultural production and the other one with industrial products.

The fair trade labels (such as Max Havelaar and Transfair) can be put on coffee and tea, for instance. This label has its origins in so-called alternative trade with the focus on a fair share for the producer. In recent years, Codes of Conduct have been introduced by many transnational companies selling manufactured goods. These Codes of Conduct consist of a series of demands that suppliers must meet, such as ILO Conventions on child labour, discrimination, and the right to association and collective bargaining.

The lack of international harmonisation and coordination between different systems makes it complicated and more expensive for producers to satisfy both ethical and environmental demands.

Most of the increased customer demands are purely commercial, but there are also statutory requirements in the importing countries that must be met. This primarily applies to health and safety requirements for products, plus in certain cases demands that packaging should be recyclable. The demands set out in the WTO rules concerning sanitary, phytosanitary and other conditions are discussed in more detail in Chapter 8.

Introduction to external factors: LDCs' market access

CHAPTER 6

In this and the following chapters, external factors which affect LDC trade are examined. These factors consist of international regulations and the occurrence of trade barriers on LDCs' export markets. The framework of LDC market access is currently determined in WTO (Chapters 7–12 and Chapter 15), however individual tariffs on the largest export markets are unilaterally set by the importing country itself. On the markets of industrialised countries, different systems are normally applied concerning tariff reduction for developing countries i.e. so called preference systems (see Chapter 13). Chapters 9 and 10 discuss, in addition to WTO regulations, the industrialised countries' trade barriers in the textiles and agricultural products markets so vital to LDCs. Trade barriers between developing countries are covered in Chapter 14 which deals with South-South trade and regionalisation. Below, a summarised picture of LDCs' market access is presented.

6.1 Difficult to measure

Market access is difficult to measure in a fair and just manner. Firstly, non-tariff barriers such as quotas and other regulations can affect export opportunities just as much as import tariffs. Secondly, tariffs are also difficult to describe in a standardised fashion as information on average tariffs mislead if charges vary considerably for different products. Extremely high tariffs on one or two types of goods can spell disaster if they apply to the very few products currently exported – or potentially exported in the future – by LDCs.

With these reservations fresh in mind we would like to present a general picture of LDCs' market access.

6.2 Tariffs

First it can be stated that LDCs are allowed to export most products tariff free to OECD countries. Minerals, coffee beans and other raw materials which dominate LDC exports meet non existent, or extremely low, trade barriers. LDCs currently experience freedom from tariffs for 70% of the tariff positions which dominate their exports. (Swedish Board of Agriculture, 2000).

However, for the remaining 30%, tariffs are high. These higher rates apply primarily to products which EU terms as "sensitive" such as those from the agricultural and textile sectors. Generally speaking, tariffs are much higher on agricultural products than on industrial goods. The average import tariff level for agricultural products is estimated at 40% (after the implementation of the Agreement on Agriculture), while charges for industrial goods average out at 5–10%. The so-called tariff peaks, i.e. extra high charges for certain individual products (according to UNCTAD's definitions, tariffs in excess of 12%), are often several hundred percent. In the case of LDCs it should also be pointed out that tropical agricultural products in unprocessed form which do not directly compete with industrialised country growers or foodstuffs companies, are met by low tariffs.

The fact that LDCs' goods are affected by relatively major trade barriers is not primarily because high tariffs are placed on goods from these countries, but because they export goods whose tariff levels are higher.

6.3 Tariff escalation hinders product processing in LDCs

Perhaps the most serious problem for LDCs is that tariff rates rise with the degree of processing of many goods. The combination of low or non-existent tariffs on raw materials and higher tariffs for processed products, not least processed agricultural products, creates *tariff escalation* which inhibits processing and therefore the industrialisation of the exporting countries. When the USA's and EU's import tariffs are much higher on roasted coffee and chocolate as compared to coffee and cacao beans, the tariffs on the actual processing become much higher.

In spite of the otherwise generous treatment by the rest of the world, LDCs are negatively affected by trade barriers in just the areas where they could actually increase their exports. Tariff structures trap these countries into continued raw material export and inhibit industrialisation in the areas which show the most promise – processing of textiles and agricultural products.

6.4 EU abolishes import tariffs for LDCs

LDC market access will be considerably improved when EU's decision on free import from LDCs according to EU's regulation 416/2001 (Everything but arms[32]) is implemented (European Commission 2001). According to this decision, all tariffs and quotas will be abolished on all products from 5th March 2001, with the exception of bananas for which trade barriers will be gradually decreased until 2006, and sugar and rice where the gradual decrease will continue until 2009. In order to compensate for the delay on these products, tariff free quotas will be opened and increased a little every year. At the same time the EU Commission will monitor the import of these three products and "… apply safeguards if necessary to prevent damaging surges" (European Commission 2001). This decision is less advantageous than was previously promised by the EU in the Cotonou Agreement (see Chapter 13).

32. Regulation 416/2001 is often called "Everything but arms" in the media and by EU. Actually this is misleading as LDCs do not manufacture any weapons for sale, and even if they did they would be forced to import, generally speaking, all the components which in turn would mean that they could not fulfil current country of origin conditions for freedom from tariffs.

WTO – the global trade regulatory framework

CHAPTER 7

Global rules for international trade are negotiated at, and monitored by, the World Trade Organisation, WTO. WTO agreements regulate the actions of countries, while companies' are regulated by national legislation. WTO currently has[33] 140 members; China and Russia are the only major trading nations who are not yet members. Thirty of the LDCs are members, 10 have observer or applicant status. This chapter deals with the development of WTO and its regulatory framework, including its dispute settlement procedures and approach to developing countries. In the chapters directly following, individual trade agreements within WTO are covered.

7.1 From agreement to powerful organisation

WTO was formed in 1995 in connection with the completion of the Uruguay Round of negotiations. This Round was the latest in a series of major negotiation sessions and led to the expansion of the organisation's body of regulations in several areas. WTO was preceded by GATT *(General Agreement on Tariffs and Trade)*, the general tariff and trade agreement which was signed in 1947. The GATT agreement contains the basic principles which permeate the body of regulations and still form its core. However, it has been complemented by a number of additional agreements over the years. From its original purpose of controlling tariffs and import quotas, the current regulations deal with a wide variety of other national regulations which may affect international trade such as product standards, export subsidies, health & safety requirements etc.

In contrast to most other international regulations, WTO regulations

33. 30 November 2000.

are totally binding in that countries which are found to have violated them must compensate the countries negatively affected or be "punished" in the form of trade sanctions. It is not, however the organisation WTO who punishes anyone, it is the country which has won the dispute who is permitted to introduce trade barriers against the erring party. Consequently if a small country wins a dispute against a larger one, in practice it has almost no chance of introducing trade sanctions by itself which are severe enough to affect the larger country. At the same time experience has shown that respect for the system is so strong that most countries follow the ruling of the panel without the introduction of any punitive sanctions. LDCs benefit from this respect for the system, but in practice gain no benefit from the actual dispute settlement mechanism. The fact that WTO establishes general regulations which must be followed by all members is basically beneficial to smaller countries who would otherwise be easy victims for the arbitrary behaviour and far superior economic guns of the larger countries.

7.1.1 The members decide

WTO is a member driven organisation, consequently the Secretariat is comparatively small scale and initiatives for new regulations always originate from member countries. In principle, decisions are made by consensus, however a country's opportunities for influence are strongly dependent on its importance as a trading nation and its capacity to work practically with negotiations in Geneva. In practice it is incredibly difficult for small, individual countries to put in their veto against changes. If the four major trading parties (USA, EU, Japan and Canada, the so-called Quad) agree on a proposal then it will be accepted by all members – or this was previously the case anyway. However during the last few years, opportunities for developing countries to influence matters have increased. Even if it has not been possible for them to drive their own issues forward, they have at least been able to block progress in areas prioritised by industrialised countries. This primarily applies, however, to the more advanced developing countries. LDCs are still, generally speaking, marginalised as far as WTO processes are concerned.

EU acts on behalf of all its members at WTO, consequently the EU Commission has acted on behalf of Sweden since 1995.

7.1.2 The negotiation process

In order to understand the dynamics of trade negotiations it is important to be aware of their basically contradictory nature. Liberalised trade is the final objective of WTO, based on the conviction that freer world trade creates the preconditions for growth and increased welfare in all countries which participate in it. This is the long-term trend, and most governments recognise the thought, in principle, that it is good for each country to open its markets to foreign imports.

In practice, however, WTO members are not expected to voluntarily liberalise their imports, they rather do so only as a result of concessions and in exchange for the reduction of trade barriers by their trading partners. A simplified description could be that national interests are still formulated based on a considerable degree of mercantilism: everyone wants to export, i.e. enter other countries' markets in the sectors where their own companies can compete well. And at the same time everyone wants to protect their own markets in the business areas where their own companies risk being forced out by international competition. It is therefore hardly surprising that liberalisation has progressed much quicker in areas of interest to industrialised countries, such as industrial goods and financial services, while trade is still strongly regulated in the areas which are, or could be, important to the exports of many developing countries i.e. primarily textile and agricultural products.

7.2 New sectors and agreements during the Uruguay Round

The previous GATT possessed a limited mandate: trade in industrial goods. During the Uruguay Round, new sectors were added such as agriculture, services and IP (Intellectual Property), which explains why many WTO issues are considerably more difficult, and more politically controversial, than previous GATT agreements. A new regime was constructed which affects developing countries to a much greater degree and which is much more mandatory in nature than was previously the case.

A series of new agreements were added. With the *Agreement on Textiles and Clothing* it was decided that the import quotas which had negatively affected developing countries for a long period of time within the framework of the Multi-fibre Agreement would be decreased and finally abandoned over a period of ten years (see Chapter 9). The *Agreement on Agriculture* brought trade in agricultural products under general rules for the first time (see Chapter 10). These agreements are generally stated to be most important to developing countries and the major carrot used to persuade them to join WTO. Developing countries hoped that these agreements would lead to industrialised countries opening their borders to the exports of developing countries in these important areas. However, liberalisation on this scale has not yet occurred.

The Uruguay Round also caused regulations in many existing agreements to be further specified and reinforced the dispute settlement mechanism. In addition the *Trade Policy Review Mechanism* (TPRM) was accepted. This mechanism regulates WTO's regular examinations of member country trade policies. LDCs are examined less regularly than other countries.

The results of the Uruguay Round are usually referred to as a "single undertaking", which means that all member countries must either sign all the agreements – or be kept totally outside them. This was especially important to developing countries. In previous rounds they had regularly used the opportunity to sign the agreements they considered of interest only ("à la carte"). Now they were forced to adopt, in a very short period of time, several extremely complicated and far-reaching agreements without actually being able to judge if it was in their interest to do so (Das 1998a, 1998b). In addition, the purely administrative costs of implementing some of these agreements have proved to be extremely high. A rough estimate from the World Bank shows that the costs for a developing country to implement three[34] of the agreements which require structural changes to national legislation are around MUSD 130, i.e. as much or more than many LDCs' annual development budgets (Finger and Schuler 1999). In Chapters 8–12, a brief review of the main WTO agreements is presented, with special emphasis on their implications for the least developed countries.

7.3 Dispute settlement

When WTO was formed, its dispute settlement powers became binding which has led to an increased number of disputes and increased respect for the process.

There are now carefully stated regulations as to what the process should include. Firstly the parties hold consultations, then a panel of experts is appointed to review each individual case. The Panel submits a report which is then, more or less automatically, adopted by the dispute settlement body (which consists of all members). Then it is possible to appeal to the so-called *Appellate Body,* which consists of three, permanently employed lawyers whose verdict sets a strong precedent.

One weakness connected to the WTO dispute settlement mechanism, as for a large part of international law in general, is the lack of efficient enforcement mechanisms. There is no court to impose punishments with-

34. The Agreement on Customs Valuation, the SPS Agreement and the TRIPS Agreement.

in WTO, it is up to the country who has won the dispute to punish the guilty party.

Dispute settlement thus entitles the country who has won the dispute to impose sanctions, or retaliatory measures, in the form of for example, punitive tariffs. These punitive tariffs may apply to a totally different category of goods than that involved in the original dispute (so called *cross-compliance*). Consequently USA imposed a 100% punitive tariff on a large number of EU goods – such as Swedish ginger biscuits – when EU refused to follow the WTO verdict concerning the EU's banana policies and ban on importation of meat treated with hormones.

The larger the country, the easier it is to impose hard-hitting sanctions. If, for example, Burkina Faso were to win a dispute against USA it is not very likely that the threat of punitive tariffs on American goods imported into Burkina Faso would be enough to persuade the USA Congress to change their policy and follow WTO's ruling.

The losing party in a dispute can also offer the winner compensation, primarily in the form of trade concessions on its own market. The difficulty in taking advantage of this alternative is that the parties must agree on the compensation and that the actors/companies which are negatively affected by the trade barriers which have been found to break WTO regulations are seldom the same parties who profit from the trade concessions offered as compensation.

The new dispute settlement system within WTO has been utilised to a relatively extensive degree by both industrialised and developing countries.

Table 7.1 below shows how disputes during the first five years (1995–99) are distributed between industrialised and developing countries.

Of a total of 148 cases, 32 have been decided by panel or by the Apellate Body. Many disputes have been settled via bilateral negotiations without a panel being appointed. Of course, it is also very common for states

Table 7.1. Disputes reported to WTO 1995–99

Complainant	Defendant	Number of cases
Industrialised country	Industrialised country	66
Industrialised country	Developing country	42
Developing country	Industrialised country	21
Developing country	Developing country	15
Industrialised + Developing country	Industrialised country	4

Source: Seth (2000, p. 41).

to infringe against many WTO regulations and agreements without other states finding out about it, or taking the trouble to report a dispute (for a discussion on this subject see Seth, 2000).

The model applied to dispute settlement at WTO means that the countries themselves must handle their cases. This is both complicated and expensive, and in order to assist the poorest countries to assert their rights an ODA financed legal advisory centre has been established in Geneva with the task of supporting developing countries with legal advice.

One idea which might be worth trying is to establish an "ombudsoffice" for LDCs with the powers to take up and handle cases and not merely act as adviser to LDCs. A suitable institution to act as host to such a "LDC ombudsoffice" might be UNCTAD.

7.4 Special and differential treatment of developing countries

Since as early as the 1950s, developing countries have received special benefits within the regulations, this phenomenon is known as *special and differential treatment* (S&D or SDT). SDT does not form a special program aimed at strengthening developing country trade and development, it is rather a collection of disparate provisions of extremely varied character and importance. Many of them apply to all developing countries, others only to LDCs. These provisions can, in summarised version, be divided into those that:

- aim at providing developing countries with extra market access;

- encourage industrialised countries to consider the needs and interests of developing countries when they apply agreements, for example to consider the interests of developing countries when national standards are adopted or to desist from reporting disputes with LDCs (generally not binding regulations);

- provide developing countries with more leeway in the design of their national regulations. For example, LDCs are allowed to introduce certain export-related subsidies which are forbidden in other countries;

- promise technical and financial support to developing countries (not binding);

– grant developing countries permission to take safeguard measures e.g. to introduce import restrictions when experiencing balance of payment problems;

– grant developing countries extra long implementation periods in new agreements. LDCs are often granted longer deadlines than other developing countries.

7.4.1 Historical development of special and differential treatment

In the mid-1950s, developing countries were granted special permits to introduce import restrictions when experiencing balance of payments problems. In 1965, an entirely new section was included in the GATT Agreement, "Trade and Development" (Part 4). This part, which is not binding, consists of three articles:

Article 36 establishes the principle of non-reciprocity, i.e. that industrialised countries shall grant concessions to developing countries without expecting anything in return;

Article 37 encourages industrialised countries to open their markets more to developing countries;

Article 38 states objectives and principles for the granting of unilateral tariff concessions to developing countries. Some years later this materialised in the form of the GSP System (General System of Preferences, see Chapter 13).

At the Tokyo Round (1973–79) a number of "codes" were adopted which expanded GATT's body of regulations to include technical trade barriers and subsidies. In spite of the fact that these codes contained several special regulations for developing countries (less severe requirements or that developing countries were totally exempted from certain requirements plus promises of technical assistance) many developing countries declined to accede to these regulations. At the same time the so-called *Enabling Clause*[35] was adopted which regulates opportunities to provide developing countries with special tariff concessions through, for example, the GSP System.[36]

35. Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries.

36. GSP means deviating from the principle of all tariff reductions applying to all gatt members (Most Favoured Nation Principle).

At the same point in time, LDCs were identified as a special group who deserved special treatment.

During the Uruguay Round, the previous possibility for developing countries to decline to observe certain regulations was removed as negotiations were implemented as a "single undertaking" where countries had to accept or reject negotiation results as a package. Consequently, developing countries made much greater individual commitments than previously. This Round therefore took a step back from the principle of non-reciprocity. SDT mostly consisted of extended deadlines, promises of technical assistance, measures to promote transfer of technology and in certain cases, less severe requirements as concerns liberalisation. The agreements contain many references to LDCs, however few of them are binding with the exception of extended deadlines as compared to other countries. Taken as a whole, it can be said that the strength of the SDT for developing countries was diluted by the Uruguay Round (Youssef 1999).

7.4.2 Special and differential treatment in practice

Certain SDT provisions have been utilised relatively often. This applies, for example (with Bangladesh as the only LDC) to the opportunity to maintain import restrictions with reference to balance of payments problems (WTO Secretariat 1998). At the same time, developing countries have lately been exposed to pressure not to utilise this possibility. Developing countries regularly utilise their entitlement to extended deadlines. However, the ODA and technical assistance promised has generally failed to materialise.

All industrialised countries apply some form of preference system as concerns developing countries. For developing countries generally, GSP benefits have been diluted in pace with the decrease of general tariff levels (at the same time that decreased tariffs in general also benefit developing countries). LDCs' benefits have increased somewhat during the last few years.

However, it is not only the application of the actual SDT provisions which decides their practical importance. The (theoretically) rousing calls of the 1960s to specially increase market access for developing countries have, for example, been sidestepped via arrangements made outside the GATT system. Often it is exactly the areas where developing countries could perhaps increase their exports that are exempted from arrangements concerning increased market access. One important example is the establishment of the Multi-fibre Agreement which has limited textile imports from developing countries.

7.4.3 Is special and differential treatment relevant?

When assessing SDT provisions it is important to remember that they have not been introduced because of a common conviction that this is the best way to promote the development of developing countries. They have actually been granted to developing countries after negotiations in which they have been forced to make concessions in return.

SDT is generally superficial in the sense that it is not based on analyses of the special needs of developing countries. The extremely approximate criteria on which the regulations are based (that a country is a developing country, LDC or has a GDP of less than USD1,000 per capita) do not contribute to making these exemptions very meaningful either. LDC specific preferences can also disturb relationships between neighbouring countries who live under largely the same financial conditions, but have landed on either side of the LDC borderline. The extended deadlines enjoyed by developing countries are also often rather arbitrarily established. The actual idea of longer deadlines is based on the perception that the regulations are, in principle, good for everyone but that developing countries need a little more time to implement them. Consequently exemptions are intended to deal with temporary, transitional problems in the introduction of new regulations, not to manage development problems.

It should not, therefore, be surprising that SDT has had such a limited effect. The original WTO body of regulations is, in itself, a grand mixture of sound economic principles on the one hand and regulations which are clearly the result of a power struggle between strong countries acting in their own interests on the other. This is why it is not easy to identify a simple formula to adapt the regulations to suit developing countries.

7.4.4 Special and differential treatment in the future

An intensive debate is currently underway both inside and outside the WTO on how SDT should be designed in the future. New approaches are often called for. Many proposals are based on making SDT less general and more differentiated on the basis of the actual situation in the various countries. Sweden has proposed that SDT be transformed into a development instrument. This would mean that instead of granting general deadline extensions, the parts of the agreements which individual developing countries should and were able to implement at the same time as industrialised countries would be identified. A schedule for the other parts would then be established and finally the forms of technical assistance necessary for their implementation. (The Swedish Ministry for Foreign Affairs, 1999).

In a World Bank study (Finger and Schuler 1999) on developing country implementation of three WTO agreements (Customs Valuation, TRIPS and the SPS agreements) it was stated that the agreements were not sufficiently adapted to the conditions and needs experienced by developing countries. The agreements are based on a faulty or incomplete diagnosis of the policy changes necessary in developing countries, and the measures they demand that the countries implement are erroneous or completely insufficient from a development perspective. Selecting a small, often irrelevant detail concerning necessary reforms, as is done in WTO agreements, is almost never meaningful. For example, demands have been made that WTO members introduce new principles of customs valuation. This is actually an extremely small part of more comprehensive reforms of the entire customs management system which are necessary in the majority of developing countries – it does not matter how much customs valuations are changed if the containers sit on the dock at the customs station for weeks. The report also questions whether the principles of customs valuation described in the agreement are actually the most suitable for all developing countries, given their other institutional constraints.

If the conclusion is drawn that the measures described in WTO agreements are not suitable for developing countries, extended deadlines become meaningless as an instrument of SDT. Extended deadlines will be necessary, but based on real needs and connected to other, broader policy changes which must also be implemented in these countries.

It has been proposed (Meléndiz-Ortiz and Dehlavi 2000) that SDT should be designed using sustainable development as a point of departure. Current regulations are, for example, blind to the political and market failures which makes it more profitable for many developing countries to exploit natural resources – and transfer the costs to society and future generations – than to invest in productive activities. The proposal suggests that by using sustainable development as an objective, and applying an understanding of development processes in developing countries, more purpose-designed regulations can be established. If this is to be possible, more specific criteria for SDT must be established, not only macroeconomic indicators but also those which reflect each country's development situation at a deeper level.

Another proposal which was put forward in certain developing countries and by NGOs, is that future negotiations should deviate from the principle of "single undertaking". Developing countries would then regain their right to decide which agreements they wish to sign (personal comment, Rashid S. Kaukab, South Centre). The advantages of this must, of course, be weighed against the risk that deviation from the principle of single undertaking could make practical negotiation results unachievable.

The basic issue for future negotiations is if the, in practice, increasingly diluted principle of non-reciprocity, i.e. that lower commitments are made by developing countries than others, is worth preserving. Is the current move towards increased mutuality of undertakings really desirable? In our opinion, the principle of unilateral undertakings for OECD countries and real advantages for developing countries, especially LDCs, are well worth protecting.

The GATT Agreement and other agreements on trade in commodities

CHAPTER 8

Within the WTO organisation, agreements are divided into three main categories, agreements which cover the trade in commodities, the trade in services and trade-related intellectual property (IP) rights. The original GATT Agreement belongs to the first category as do a series of other agreements, most of which will be dealt with in this chapter. The agreements on textiles and agricultural products are covered separately in Chapters 9 and 10, where a description of the importance of these commodities to the development of LDCs is also provided. The trade barriers that industrialised countries have erected are described in detail. The agreement on trade in services (GATS) and IP (TRIPS) are covered in Chapters 11 and 12. Any future WTO Rounds will affect all agreements, irrespective of if they have been established between EU and a developing country or represent a South-South agreement. New issues relevant to a new round of negotiations within WTO are therefore dealt with in Chapter 15, while the industrialised countries' preference system and South-South trade is discussed in Chapters 13 and 14.

8.1 The GATT Agreement and basic principles

GATT, the General Agreement on Tariffs and Trade, contains basic principles and regulations for tariffs and quantitative trade barriers, plus states the forms for tariff reductions concerning industrial goods.

The *Most Favoured Nation* (MFN) principle forbids any member from discriminating between two other countries. In practice this means that if a country decreases its tariffs as regards country A, the same tariff reductions must also apply to all the other WTO members. The principle does not only apply to tariffs, but also states that "like products" from all countries must be treated equally as concerns, for example, domestic taxes and charges, distribution regulations etc. Exceptions from the MFN have been made for customs unions and free trade areas (EU, Nafta, etc.), for special tariff reduction systems for developing countries (GSP etc) and, of course, for cases when sanctions are imposed as a result of disputes.

The principle of *National Treatment* (NT) states that imported products shall not be treated less favourably than domestically produced goods as concerns domestic taxes, distribution regulations etc. This principle is implemented in a less consistent fashion than MFN, as exceptions are made for import tariffs and also for other situations such as public procurement and subsidies for domestic production.

Within this GATT framework, tariffs have successively been reduced during the entire post war period. Theoretically the process is that countries "bind" tariffs, i.e. promise not to set various tariffs above certain levels. The tariffs that are then actually applied may be considerably less than the levels that have been "bound".

8.1.1 Tariff reductions in the Uruguay Round – LDC countries gained least

As has been mentioned earlier, information on tariff reductions should be interpreted carefully as the average can be extremely misleading. There are also many different methods of calculating tariff reductions (Finger and Schuknecht 1999). Some figures which are often mentioned in connection with the Uruguay Round are that industrialised countries' industrial products tariffs were decreased by one third to 3.9%. (Under GATT, industrial tariffs were decreased in several steps from an average of 47% (1947) to 6% (1980)).

Watkins (1997) has pointed out that tariffs in the trade between industrialised countries were decreased more (45%) than the total average of industrialised countries' tariff reductions. For import from Asia, tariffs were decreased by an average of one third, while tariffs on imports from the developing country group as a whole were reduced by only 20–25%. LDC countries gained least. When the Uruguay Round had been fully implemented, the average tariff level on imports from LDC countries to industrialised countries was 30% higher than the global tariff average. For developing countries as a whole, tariff levels are 10% higher.

Before the Uruguay Round, developing countries made minor commitments and concessions, but could draw advantage from MFN tariff reductions which applied to all members since, for example, EU and USA had agreed to decrease their tariffs. This type of advantage has, however, decreased in pace with the increased development of special free trades agreements and tariff unions. During the Uruguay Round, developing countries as a group made, in practice, greater tariff reductions than industrialised countries (Finger and Scuknecht 1999), even if their tariffs are still generally higher than those of industrialised countries. At the same time developing countries were met by higher tariffs than industrialised countries as they export products for which tariff levels are higher.

LDCs also made certain, if more modest, commitments. They bound large numbers of their tariffs at a high level, however (Oyejide 2000). In most LDCs, liberalisation as a result of IMF and World Bank structural adjustment programs has played a much greater role than the commitments made in WTO.

8.1.2 Tariff peaks and tariff escalation

EU has had no tariff peaks on industrial products from ACP countries, and LDCs not included in the ACP group, since 2000. Japan has done the same while USA has chosen to expand its GSP system for LDCs as concerns product coverage. This has lead to several foodstuff products from the LDC group receiving duty-free market access to the American market while textiles, clothes and shoes are still liable to tariffs.

The average level of tariff escalation on agricultural products decreased as a result of the Uruguay Round. Of the major industrialised countries and trading blocs, USA is least and Japan most protectionistic within this area. USA's tariffs on finished goods are currently an average of 9% higher than those on raw materials. Previously the difference was 12%. In EU, the average tariff escalation level has decreased from 23% to 16% and in Japan from 35% to 27 %. (Lindland, 1997, p. vi).

Close examination of EU's tariff escalation levels shows that the average level for fruit, vegetables, drinks, eggs and honey are relatively high.

Processing level	**Average tariff level after Uruguay Round**
Raw materials	17.6%
Semi-processed	20.8%
Fully processed	25.6%

8.2 Anti-dumping, safeguards and countervailing measures: different forms of protection against "free trade"

WTO's regulations entitle member countries to, in certain situations, protect their industry against dumping and import surges and to impose countervailing measures to counteract other countries' subsidies. These possibilities are included in the GATT agreement, but were specified and limited through the Uruguay Round in separate agreements: Agreement on Implementation of Article VI of the General Agreement on Tariffs and Trade 1994 (anti-dumping), Agreement on Safeguards, and Agreement on Subsidies and Countervailing Measures.

8.2.1 Anti-dumping

According to the WTO regulations, dumping is defined as when a company exports a product at "less than its normal value", i.e. cheaper than on the domestic market. The concept reflects the mercantilistic approach which characterises trade policy negotiations: the fact that the price of a product is low should actually benefit the importing country's consumers; however, in trade policy it is producer rather than consumer interests that are more often to the fore.

Purely destructive cases of dumping are extremely rare in the current business world. The clearly most common examples are the different forms of subsidies applied to exports of food surpluses practised by the rich countries. Poor countries can seldom afford to give state subsidies for dumping.

If a country can prove that it has been negatively affected by dumping, it is entitled to impose a type of punitive tariff, so called anti-dumping duties, against the company actually doing the dumping. In order to be allowed to impose anti-dumping duties, the country which feels it has been offended against must show that dumping exists, that there is material injury or threat of material injury to its domestic industry and that there is a causal connection between the two.

The role of the Dispute Settlement Panel in anti-dumping disputes is severely constrained. They merely examine if the countries which apply anti-dumping measures have made the necessary investigation in the correct manner, not if they actually have been following the rules.

Since the mid-1980s, anti-dumping has been the most common method for certain industrialised countries (Australia, USA, Canada, New Zealand and EU) to protect their own industries. Anti-dumping tariffs are often extremely high, 30–50% (Finger and Schuknect 1999). Something which is formally a method of protecting companies and markets against unfair business practices has actually become the primary tool for protectionistic measures to help domestic companies.

During the 1990s, several developing countries have also begun to impose anti-dumping duties, so that there are currently a total of around 30 countries exploiting this opportunity. Between 1992–1998, a total of approximately 2000 anti-dumping investigations were carried out. Companies manufacturing metals, chemicals, machinery, electrical equipment, plastics and textiles are most commonly affected. The most common targets of anti-dumping are USA, China and Korea. Industrialised countries generally aim their anti-dumping tariffs against other industrialised countries and countries in transition, while developing countries aim theirs against South, North and East in equal amounts. In proportion to the amount of exports, developing countries are affected more than industrialised countries. It can therefore be said that developing countries are currently both bigger users and targets of anti-dumping than industrialised countries.

There is a major risk that accusations of dumping will become increasingly common and that more and more countries will begin to use this method for purely protectionistic reasons. The large-scale losers in this sort of trade war would most likely be developing countries – in addition, of course, to the consumers in the countries who level the dumping accusations.

There are very good reasons to question the actual concept of dumping as it has come to be applied in trade disputes. If trade-distorting subsidies are already forbidden according to WTO regulations (with the exception, so far anyway, of industrialised countries' agricultural exports), and countries have access to so called safeguards (see below), no special anti-dumping regulations should be needed.[37]

To date, LDCs have neither been affected by, nor used anti-dumping measures.

8.2.2 Safeguards

If a country can prove that increased import of a certain product "causes or threatens to cause serious injury to domestic industry" it is entitled to impose temporary safeguards in the form of, for example, extra tariffs or quota reductions. It is often a very rapid import increase which triggers this type of measure.

37. The cases which are sometimes discussed in economic literature as examples of destructive dumping are those which go under the name "predatory pricing". This is characterised by a large company with superior financial resources decreasing its prices under a short period of time in order to wipe out its competitors, then increasing prices when competition has ceased. Cases of pure "predatory pricing" are, however, rare within international trade.

Industrialised countries may retain such safeguards for a period of eight years, developing countries for a maximum of ten. In addition, developing countries may re-impose these safeguards more rapidly than others.

Safeguards affect all countries which export to the country in question, which makes them considerably less aggressive than anti-dumping duties (anti-dumping action is aimed at individual exporters). Developing countries are, however, exempted from safeguards if their share of exports to the country in question is less than 3%. If safeguards exceed a certain level, the country that imposes them must compensate the exporting countries affected by, for example, reducing tariffs on other products. (The agreement does not currently fully apply to the textile and agricultural product areas. Safeguards in these areas are regulated in the Agreement on Textiles and Clothing, ATC, and the Agreement on Agriculture, AoA).

During the Uruguay Round, the rules were amended so that countries would use the safeguard option in preference to anti-dumping action. The number of safeguard cases has increased somewhat since then, but is still much lower than anti-dumping cases. A total of 19 investigations were initiated between 1995 and 1998, and only USA, Argentina, Brazil and Korea have notified to WTO that they have actually imposed safeguards (Finger and Schuknecht 1999).

The agreement on safeguards also forbids measures which previously lay in the grey zone to the permitted, i.e. primarily various forms of so called *Voluntary Export Restrictions* (VER) which some countries have more or less forced other countries to impose. (See in Chapter 9 concerning the Multi-fibre Agreement, a form of "grey zone measure").

8.2.3 Subsidies and countervailing measures

Subsidies to companies can be introduced for more or less legitimate reasons. As subsidies risk distorting export prices, WTO has introduced regulations which discipline members' application of subsidies. WTO regulations apply only to so called specific subsidies, i.e. those that are aimed at one or a particular group of companies. The Agreement does not currently fully apply to the textile industry and agriculture, as subsidies in these areas are regulated in the agreements covering these sectors (ATC and AoA).

The Agreement on Subsidies and Countervailing Measures divides subsidies into two categories: prohibited and actionable. Totally forbidden are:

- subsidies contingent upon export performance. This ban does not concern LDCs or countries with a GNP of less than USD 1,000 per capita, as long as they have less than 3.5% of the world market.

– subsidies contingent on the use of domestic raw materials. This regulation enters into force in 2000 for developing countries and 2003 for LDCs.

All other types of subsidies are permitted up to a certain level (3% for developing countries, 1% for others) and levels may be increased if they do not cause injury to other countries' domestic industries or have negative effects on their export markets. As other countries are able to question such subsidies, they are called *actionable*. A country which considers that another country grants subsidies in an illegal fashion may impose *countervailing measures* if it can prove that its own industries have suffered as a result. Such countervailing measures (for example some form of tariff) may not exceed the size of the subsidy and in practice usually lies under 10%, i.e. considerably lower than anti-dumping duties.

If it cannot be proved that domestic industry has been injured, only that there is a risk that it will be injured, or if the subsidies decrease industry's export opportunities, countervailing measures cannot be levied. However the complainant country can invoke the dispute settlement procedures and possibly force the country providing the subsidy to cancel it. It is up to the country which has introduced the subsidy to prove that it does not create disadvantages for the industry of the complainant country. (The burden of proof is, however, reversed if the subsidising country is a developing country.)

Previously there was also a third category: "non-actionable", i.e. support that was, in practice, allowed. However these regulations (Articles 6.1, 8 and 9) ceased to apply on 1st January 2000, as it proved to be impossible to come to an agreement on prolongation which is required according to Article 31 of the Agreement. Included in these permitted subsidies were regional support, support to research and support to facilitate adaptation to environmental requirements, i.e. subsidies utilised primarily in industrialised countries. The subsidies often used by developing countries, however, such as support for the diversification of exports or to introduce new technology, did not belong to the permitted group. General subsidies (which do not apply to a certain sector but to, for example, all small enterprises) are still protected from countervailing measures, as several of the previously "permitted" types of support should be considered as general (Åkerblom 2000).

Before 1995, countervailing duties were primarily imposed by USA, Australia, Brazil and Mexico, while after 1995 they were mostly used by USA, EU and New Zealand. Overall, the use of countervailing duties has decreased. Only 33 investigations were carried out 1995–1998, as against 137 during 1992–1994. EU, South Africa and Brazil have been the major targets for these measures (Finger and Schuknecht 1999).

8.2.4 LDC interests

As procedures for the application of safeguards, anti-dumping and countervailing measures are complicated and expensive, these instruments have never been used by LDCs. As long as their exports remain too small to threaten other countries, it is hardly likely that they risk being the target of these measures from other countries either. At present it can therefore be stated that these agreements are less important to LDCs. However in the longer perspective and from the point of view of developing countries in general, it should be important to severely limit opportunities to impose anti-dumping duties.

Before the Uruguay Round, developing countries had much more freedom as concerns the introduction of subsidies. It can be noted, for example, that the successful Asian countries employed a wide variety of subsidies which were used to build up their export industries. Even if there are also a huge number of failed attempts in many parts of the world to use state subsidies in order to develop competitive industries, the degree to which WTO should limit developing countries' rights to use this instrument in their development policies can be questioned.

Implementation of the Agreement on Subsidies and Countervailing Measures can be difficult for LDCs, primarily because they would be forced to phase out all subsidies which are contingent on the utilisation of domestic raw materials. Notification requirements could also be difficult to fulfil.

In a joint position paper (WTO 1999a) LDCs demanded that the rules provide greater room for subsidies for development purposes, that all LDC exports should be exempted from all safeguard and anti-dumping actions and that it should be easier for developing countries to impose anti-dumping tariffs themselves.

8.3 Agreements which regulate product requirements and regulations for health, plant and animal protection: the TBT and SPS agreements

The *SPS Agreement* regulates countries' possibilities of imposing health requirements on imported products *(SPS = Sanitary and PhytoSanitary Measures)*.

This agreement was adopted during the Uruguay Round and is a specification of Article 20b of the GATT Agreement. This article states that countries are permitted to impose measures that are "necessary to protect human, animal or plant life and health" provided that these measures do not constitute a means of "arbitrary or unjustifiable discrimination" or "disguised restriction on international trade". The SPS Agreement states that countries shall primarily base their SPS measures on international standards, e.g. public health standards established within the FAO agency Codex Alimentarius. If countries wish to set stricter requirements they must be able to justify their demands with scientific evidence and risk assessments.

As LDCs in general do not possess the laboratories and inspection systems necessary, they often experience difficulties in fulfilling the increasingly high levels of health requirements set by industrialised countries on imported products. Many developing countries fear that SPS requirements will be increasingly imposed for protectionist reasons, in pace with the imposition of tighter discipline as concerns the use of other protectionistic measures by industrialised countries (anti-dumping, VER, etc). The SPS Agreement, from this perspective, provides an improvement for developing countries as it primarily disciplines the product requirements of industrialised countries. International harmonisation also lies in the interest of developing countries as it makes it easier for their producers to adapt to the requirements of other markets. At the same time the actual implementation of the SPS Agreement can be both expensive and difficult for countries. LDCs which have their own SPS regulations which are stricter than international standards will have, after this agreement enters into force, very little chance to maintain these as they generally lack sufficient resources to be able to present scientific justification for their regulations.

The *Agreement on Technical Barriers to Trade* (TBT) aims at ensuring that technical regulations, standards and procedures for assessment of conformity do not create unnecessary obstacles to trade. This agreement concerns all product areas and all technical regulations except the specific risks covered by the SPS Agreement. And, as with the SPS Agreement, international standards are preferred. However, requirements for scientific justification in order to set stricter requirements are not as severe. When the original TBT Agreement entered into force in 1989, 40 countries signed on. In the Uruguay Round, the Agreement was expanded to cover all WTO members. As far as technical regulations are concerned developing countries also benefit, in principle, from the international harmonisation stated in the Agreement. Many developing countries have, however, experienced difficulties in implementing the requirements of the Agreement within their own government authorities and standardisation agencies as concerns reporting procedures etc.

Both the TBT and the SPS agreements contain undertakings concerning technical assistance and promises to take the interests of developing countries into consideration when establishing international norms and standards. However, there is a general mistrust in many developing countries as concerns international agencies such as the International Standardisation Organisation ISO, who they feel base their operations solely on the needs of the industrialised countries.

8.3.1 LDC interests

LDCs have requested that the opportunity of setting product requirements which are stricter than international norms be further limited, they demand clear commitments as concerns technical assistance and that international norms and standard setting must take their interests into consideration more consistently (WTO 1999a).

It is obvious that LDCs need more development assistance in order to be able to fulfil the technical requirements of export markets. International harmonisation should, meanwhile, proceed at a reasonable pace – different types and levels of risk assessments will continue to exist in the various countries so, for example, different health standards must continue to be permitted. In many cases, however, it should be possible to adapt requirements to the preconditions of developing country producers without lowering standards. If high standards are not maintained there is a risk that consumer confidence will decline and developing countries will not be able to sell their goods anyway. This aspect is increasingly highlighted by the representatives of the developing countries themselves (see, for example, Zarrilli, 1999).

8.4 The TRIMS Agreement

Development effects of foreign investments can, in certain cases, be reinforced if foreign companies use local resources and interact with local economies. Many developing countries therefore attempt to control the actions of foreign investors by linking special conditions to investment permits. The TRIMS Agreement *(Trade Related Investment Measures)* limits countries' opportunities of setting such conditions if they are directly connected to trade. The Agreement forbids, for example, requirements for "local contents" and that the company must export a certain part of their production.

TRIMS in itself does not contain any new prohibitions, actually it is a developed interpretation of previous GATT regulations. According to TRIMS, all countries who impose forbidden measures must report them, and then dismantle their system over a period of two years (industrialised countries) or five years (developing countries) or seven years (LDCs) after 1995. Longer transitional periods can be granted on a case-by-case basis. Of the investment measures prohibited by TRIMS it is probably the requirement for local contents which is currently most prevalent and which will be most difficult to phase out.

The ban is motivated by the fact that these investment conditions risk distorting trade and limiting international investments. The requirements developing countries place on foreign investors are regarded, in other words, as counterproductive as they risk scaring off essential investors. It should, however, be pointed out that there are both positive and negative examples of these investment measures. As in so many other cases it is impossible to say that a certain tool is always right or wrong, the main point is how it is used – i.e. primarily the intentions and capability of the government of the country in question. It can also be noted that several industrialised countries have used similar instruments during their own industrial development period. Especially USA who, up until the mid-90s, repeatedly required that foreign companies begin in-country manufacturing when they had obtained a certain share of the US market.

It could therefore be questioned why WTO should refuse developing countries the right to use the same instruments of industrial policy that many of present day industrialised countries used for long periods of time. LDCs have also pointed out that very few of them have fulfilled the Agreement's regulations as concerns notification, and argue that LDCs should be allowed to retain local contents requirements in the future (WTO 1999a).

The discussion on investment regulations in the section covering possible new negotiation rounds (Chapter 15) is also of interest here.

8.5 Customs valuation and other more technical agreements

In addition to the agreements discussed above, several others which dealt with trade in goods were concluded during the Uruguay Round, most of them of a fairly technical nature. When components are manufactured in a country other than that where the final assembly takes place, it can be difficult to establish exactly where it was manufactured. *The Agreement on Rules of Origin* is aimed at harmonising the methods by which WTO members are to classify the origin of goods. However, it does not aim to harmonise the rules of origin used within tariff preference systems such as GSP and the Lomé Agreement which play an extremely important role for LDCs' opportunities to benefit from special tariff reductions (see Chapter 13).

Certain developing countries require an inspection of goods before they are imported instead of, or as a complement to, the checks normally carried out by customs authorities. In certain cases this would be a method of combatting corruption in harbours and guaranteeing that the goods are actually delivered. The *PSI Agreement* (Pre-Shipment Inspection) has been established on the initiative of industrialised countries, and regulates opportunities of requiring PSI. The aim is not to allow PSI to cause unnecessary delays. In addition there is the agreement on *customs valuation* which states the method to be used when calculating tariffs, and one on *import licensing procedures*.

Finally the Uruguay Round included several plurilateral agreements, i.e. agreements which do not cover all WTO members (and which therefore were not part of the *"single undertaking"*): agreements on *government procurement, dairy products, bovine meat* and trade in *civil aircraft*.

Trade and agreements in textiles and clothing

CHAPTER 9

9.1 World trade in textile products

Development in the textile and clothing products trade varies from year to year. During the period 1990–1998, a total increase in value of 72% occurred in trade in clothing and 55% in trade in textiles.

The twelve major exporters of textiles in 1998 were Germany, Italy, China, South Korea, Taiwan, USA, France, Belgium, Japan, Great Britain, India and Pakistan in that order. Among the twenty-one largest exporters there were a few additional developing countries namely Indonesia, Mexico, Thailand and Hong Kong. Exports of textiles and clothing from LDCs are so marginal in the global context that none of them are even mentioned. The only LDC which is even on its way to creating a position for itself is Bangladesh.

9.1.1 World trade in textiles

Textile exports from the leading EU nations amounted to BUSD 55.8 in 1998, while exports from China, Taiwan and Hong Kong together amounted to BUSD 25.2, USA exported for BUSD 9.2 and Japanese exports reached BUSD 6.0. The value of textile exports from India and Pakistan was BUSD 5.2 and 4.3 respectively. Other developing nations have played a minor, marginal or no role at all in this trade to date.

The ten biggest textile importers were the USA, followed by China, Germany, Great Britain, France, Italy, Belgium-Luxembourg, Japan, Canada and South Korea. Mexico was in eleventh place, Hong Kong seventeenth, and the United Arab Emirates in eighteenth place.

Of global textile exports in 1998, internal trade in Western Europe accounted for 30 %, Asian internal trade 23 %, Asian exports to Western Europe 6 %, and West European exports to the former USSR, the Baltic

States, Central and Eastern Europe another 5 %. Asian exports to the USA amounted to barely 5 %, North American internal trade 3 %.

9.1.2 World trade in clothing

The ten leading clothing exporters in 1998 were China, followed by Italy, Hong Kong, USA, Germany, Mexico, France, Great Britain and India. Thailand was in twelfth place, Taiwan fourteenth, Indonesia in sixteenth place followed by the Philippines.

Clothing exports from the leading EU countries amounted to BUSD 33.4 in 1998, while exports from China, Taiwan and Hong Kong together came to BUSD 42.9, US exported BUSD 8.8 of clothing, Mexico BUSD 6.6 and South Korea BUSD 4.7. India and Thailand exported textiles to a value of BUSD 4.3 and BUSD 3.6 respectively, while the equivalent values for Indonesia and the Philippines were BUSD 2.6 and BUSD 2.5. The role played by other developing nations in this area has been limited, small, marginal or non-existent.

The ten leading importers of clothing the same year were the USA, Germany, Japan, Great Britain, France, Italy, Belgium-Luxembourg, Holland, Mexico and Switzerland. Russia was in fourteenth place and Hong Kong-China in seventeenth place.

Of the global exports of clothing in 1998, internal trade in Western Europe accounted for 26 %, Asian exports to North America 17 %, internal trade in Asia 11 %, Asian exports to Western Europe 10 %, Latin American exports to North America 7% plus exports from Central and Eastern Europe, the Baltic States and the former Soviet Union to Western Europe barely 5 %.

The information above is based on the report entitled: WTO Agreement on Textiles and Clothing; An Explanatory Note, Textile Division, WTO 1 Feb 2000. Together these statistics demonstrate that the clothing trade mainly concerns industrialised nations but with China in particular as a very important external player.

In the light of the fact that industrialisation began with the textiles industry in so many countries, it is worth mentioning that certain rich countries, including the EU, are obviously not going to relax their grip on this area, even if the price of this far reaching protectionism will be high for the consumer.

9.2 Textiles and clothing policies in GATT and WTO

Trade in textiles and clothing was first regulated when new Asian manufacturers entered the international arena. As early as the late 1950s, USA signed a bilateral agreement with Japan and other textile exporters in South East Asia to restrict imports. The 1960s saw the first agreement within GATT which covered cotton textiles. Textile manufacturers in the industrialised countries felt threatened by growing competition from an increasing number of developing nations who were able to offer far lower prices.

Since 1974 trade in textiles and clothing has been largely governed by the "Multi-fibre Agreement", MFA. This agreement has legitimised the introduction of import restrictions by industrialised countries on textiles from developing countries with competitive textiles industries. Within the framework of bilateral agreements, "voluntary restrictions" were fixed for exports from developing countries to each industrialised country. A comprehensive licensing system governed these restrictions.

9.2.1 ATC – The Agreement on Textiles and Clothing brought deregulation

However the MFA is in breach of both the GATT prohibition on quantitative restrictions and the Most Favoured Nation principle. Industrialised country promises to implement liberalisation measures in the areas of textiles and agriculture received a positive response from the developing nations in the Uruguay Round. Negotiations led to a resolution that this special treatment of the textiles sector would be totally eliminated over a ten-year transitional period as regulated in the Agreement on Textiles and Clothing which entered into force on 1st January 1995.

The Agreement on Textiles and Clothing, ATC, states:

- that all quantitative import restrictions on textile goods, which had been permitted within the framework of the Multi-fibre Agreement, be successively abolished over a ten year transitional period,
- that the subsequent trade in these products should adhere to the prevailing rules in the GATT agreement and
- that both finished and semi-finished products (i.e. both wool yarn and blouses) must be included in all steps towards deregulation.

During the transition period, industrialised countries have the right to employ specific protection mechanisms that permit the re-introduction of certain restrictions. Such safeguards may be adopted against individual exporting countries if the total import of the products concerned surges or if an increase in imports causes serious difficulties for domestic industry. A special body, "The Textile Monitoring Body" (TMB) was set up to monitor developments within the trade in textiles and clothing. TMB is organisationally linked to ATC and therefore forms an element of WTO operations in Geneva.

The gradual deregulation of the current special treatment of the trade in textiles and clothing is to be carried out as follows:

- From 1 January 1995, textile goods to the equivalent of not less than 16% of each country's 1990 imports by volume are to be integrated into normal trade conditions;
- From 1 January 1998, a further 17% of 1990 imports by volume are to be integrated into normal trade conditions;
- From 1 January 2002, a further 18% is to be integrated, and
- From 1 January 2005, all remaining products are to be integrated into the normal trade regime.

However the elimination of these restrictions does not mean that imports will not liable to tariffs. Nonetheless, a cautious liberalisation will also occur on the tariff side. Tariffs that currently range from 13–19% are to be reduced to 12% by the year 2005.

9.2.2 The effects of deregulation

Deregulation is expected to lead to many developing countries increasing their exports of textiles and clothing in the future. China is expected to increase its textile exports significantly. At the same time, certain developing countries that have carved out small niche markets within the restrictions system run the risk of losing these after deregulation. This mainly applies to manufacturers who make the same kind of products as China and cannot compete with the Chinese on price. Future increased market access will also favour the import of high quality textile goods from certain developing countries. It is worth adding however, that China is still not a member of the WTO and can therefore continue to be discriminated against by other states, including the OECD countries.

Sweden has already felt the effects of deregulation in its textiles sector in the first half of the 1990s, as the sole industrialised country to abolish all textile restriction agreements from 31 July 1991. However, when Sweden joined the EU the regulatory system was re-introduced. The Swedish experience clearly demonstrated that China was the major beneficiary of deregulation as high volume Chinese textiles could be offered immediately at low prices. However, this Chinese success was not at the expense of other developing nations, but rather of imports from Portugal[38]. The developing countries whose manufacturing and cost advantages have been reduced by deregulation, such as Hong Kong and South Korea, also lost market share, while e.g. India gained ground. Other losers included developing countries that had gained market share solely due to restrictions on other countries. Examples of these include Macao, Malaysia and the Philippines, while Bangladesh and others managed very well.

(Source: Statistics Sweden's figures on Sweden's import of textiles and clothing during the period 1990–1999. Information also taken from the Swedish Board of Trade's website and from their expert on the textiles area, Åke Strand. (Several contacts between November 2000 and March 2001.) Also from a longer discussion with Åke Weiler, the official spokesperson of the Swedish Association of Textile Importers on 9th March 2001 and some shorter conversations during the period December 2000 to February 2001. Parts of the above have been sourced from the Association's website at www.textileimporters.se.)

Deregulation in Sweden also led to increased imports from Central and Eastern European countries. It is also worth noting that these countries have become important suppliers to the entire EU since their exports were made totally tariff free from 1 January 1998. Even before then, their textile exports to the EU rose significantly, mainly due to contract manufacturing for EU companies through the "Outward Processing Traffic" system (OPT). Even though the role of OPT is now decreasing, EU companies based in Central and Eastern Europe continue to dominate imports into the EU. (Weiler 2001).

The Swedish experiment showed how important deregulation of the textiles sector is for many developing countries. The main losers have been industrialised countries and developing countries where manufacturing costs are far too high.

So far, deregulation of the textiles sector in industrialised countries has occurred in such a way that it has had a limited effect on the textile exporting developing countries. Market access for large and important product areas has not yet been markedly improved, and analyses indicate that the developing nations, including India, have missed out on billions of US dollars in export revenues that have failed to materialise (WTO 2000). According to UNCTAD's calculations, which were presented in press releases,

38. Portugal has been mentioned as a loser based on the experience gained from the temporary Swedish deregulation. However countries such as Turkey may also experience serious problems when deregulation according to the ATC Agreement occurs. Currently Turkish textile products are not subject to tariffs when entering EU countries and the country has harmonised its trade regime with EU regulations within the framework of its Customs Union with EU.

lectures etc. in 1995, developing country exports to industrialised countries should have increased by BUSD 175 (in fixed prices using 1993 as base year) by 2005. Such export increases from developing countries were actually confirmed in the trade statistics of the OECD countries for the period 1995–2001 (published by OECD in Paris).

9.3 Changes in the rules of origin

There is not a great deal of time left for the developing countries who are attempting to develop a competitive textile industry before deregulation is fully implemented on a global scale. It is open to debate how well African developing countries, for instance, will be able to survive in the face of international competition in the textiles sector. It is also uncertain whether domestic textiles industries in Africa are strong enough to compete at local and regional levels in the future. There is a major risk that they will not be able to compete, especially with China. One possibility would be for the African LDCs to be given the opportunity to make clothing from imported Chinese cloth that can then be exported tariff free to the industrialised world. In which case, the OECD countries affected would have to amend current regulations concerning rules of origin of duty-free imports from LDCs.

Even though the LDCs are already permitted duty-free market access for industrial products on many industrialised country markets, including the EU, they cannot take advantage of this due to the structuring of the rules of origin criteria in the preference agreements of each industrialised country. The requirements stated for freedom from duties within the textiles sector are also more extensive than for other industrial goods. It is not enough for the clothes to be sewn up in an LDC, the cloth must also have been sourced in the same LDC or industrialised country concerned. There are even requirements concerning the origin of the sewing machines used! LDC countries cannot meet these criteria, as illustrated in the case of Bangladesh below.

Case study: For a number of years Bangladesh exported cotton shirts to the EU and enjoyed duty-free market access, however, during a check by EC customs authorities it was discovered that the shirts did not meet the rules of origin criteria, and all importers involved then had to pay retrospective duty on every shirt imported. Bangladesh does not have the industrial infrastructure required to manage every stage of production from producing the thread and weaving the cloth to sewing the finished garment, and can only manage the final sewing stage. If the country were to purchase primary materials from the EU, the only option available under the prevailing rules of origin, the shirts would be too expensive. The rules of origin would have to be modified for Bangladesh to continue exporting cheap shirts duty-free.

In this case, the EU decided to modify the rules of origin so that the use of regional primary products would be permitted. Otherwise, manufacturing would have had to be abandoned.

(Sources Sten-Göte Lindström of the Ministry for Foreign Affairs: several meetings and telephone contacts during the period 1995–2000 plus Weiler 2001).

9.4 Consequences for LDCs

According to the agreement on textiles and clothing (ATC), described above, liberalisation must be carried out in four stages. Several developing countries are critical of the slow, ten-year deregulation process and also that as much as 49 percent of the regulated goods will not be duty-free until the final fourth stage, i.e. from 1 January 2005. There are also major concerns amongst developing countries that industrialised countries will not honour the commitments they made during the Uruguay Round unless developing countries agree to further liberalisation in return. In addition there is also a fear that the industrialised countries will employ protective clauses and/or implement anti-dumping measures in order to continue restrictions on their textile imports.

Many developing countries including COMESA[39], the common market for Eastern and Southern Africa, are demanding assurances on a number of areas concerning future trade in textile products. Their principal demand is that all countries should abide by the Textile Agreement, especially the industrialised countries. Calls have also been made for the promised measures to support small manufacturers to be implemented. This applies particularly to LDCs and other cotton producing developing countries. Concerning safeguards and anti-dumping measures, textile exporting developing nations want assurances from the industrialised countries that the latter will be restrictive in their application of these instruments.

39. The following states are members: Angola, Burundi, Comoros, Congo (DR), Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, The Seychelles, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

In November 2000, a decision was taken (presented in the Council's regulation 2474/2000 on 9 November 2000) by the EU concerning the product groups to be deregulated in the next stage. This deregulation, which will come into force on 1 January 2002, applies to 18% of products that were originally regulated. Around 40 product groups will be liberalised, although most comprise product groups that have little significance for most textile exporting developing countries. Only a few of these groups were of importance namely jackets, cotton tricot cloth which includes sports clothing, certain underwear and skirts[40].

Finally it should be emphasised that COMESA and other developing countries have developed a proposal for the improvement of WTO textile policy (COMESA and WTO 1999). This included a call for at least half of the textile products to which restrictions still apply to be immediately zero-rated, spread equally over all product groups within the textile and clothing sector.

Several LDCs export textile goods, although for the majority the value of these exports is small. Finished clothing exports account for around 65% of total exports from Bangladesh, and the trend is upwards. In Lesotho, the equivalent proportion is 48%. Cotton clothing accounts for 40% of Cambodia's exports and 33% of Haiti's. The clothing industry has become the most dynamic sector in the economies of all these countries.

Other LDCs export cotton that is neither carded nor combed. In certain LDCs cotton is the major export earner. For instance, unprocessed cotton accounts for around 90% of export revenues in Mali and Chad. In Benin and Burkina Faso the same product provides 85% and 75% of export earnings by value respectively. These export calculations are extrapolated from import statistics using the so-called mirror method. (See Sandzelius 2000).

If the rules of origin (see Chapter 9.3) were liberalised for LDC exports of textile goods to the OECD countries, investments in the clothing industry would probably increase drastically. This could provide many LDCs with a real opportunity to participate in the globalisation process and fulfil their potential. If this is to happen, industrialised countries must adjust their import conditions as concerns imports from LDCs.

40. Many NGOs, including representatives of the Textile Importers and the Swedish Government took up the question of why children's clothes were not included in this deregulation round. (This issue, among others, was taken up at the Poverty Alleviation Conference organised by Sida in Stockholm on 22 November 2000).The explanation given was that children's clothes, excluding baby clothes, are included in men's and women's wear respectively, i.e. they have the same customs number. The spokesperson for the Association of Textile Importers claims it should be possible to overcome this via a temporary supplementary directive that could apply until deregulation has been implemented if the EU were willing to do so (Weiler 2001). Baby clothes and dolls clothes were, however, deregulated.

Trade and agreements in agricultural products

CHAPTER 10

10.1 Agriculture's double role

Agriculture plays a double role in most LDCs: it is crucial for both exports and the domestic market. These twin roles should be kept separate when analysing the effects of trade on agriculture.

The exports of some twenty LDCs are totally dominated by agricultural products or fish and shellfish. However, there are currently many other countries where agriculture makes up a very insignificant part of exports – the dozen or so African countries with substantial mineral assets, the handful of Asian LDCs that have developed growing garment export industries plus the odd few countries that export large quantities of timber.

Agriculture is, however, fundamental to employment and food provision on the domestic markets of all LDCs. Almost three-quarters of the populations of these countries, the vast majority small farmers or farm workers, are dependent on agriculture for their livelihood. This group is also the poorest section of the population. For poverty alleviation to be successful it is vital to support these small farmers as there are few opportunities for them to find alternative employment in the short and medium term.

These small farmers account for a large proportion of staple food production, yet are often of marginal importance for export crops. Adopting the right policies nationally and internationally could provide major opportunities to increase productivity on smallholdings and thereby reduce poverty. This sector may perhaps not be crucial for exports, but it could at least supply staple crops to urban populations and make these countries less dependent on imports. This is particularly important for countries with little foreign exchange. LDCs are major importers of grain and this trend is continuing to grow – grain imports are expected to double in sub-Saharan Africa between 1989 and 2010 (SOU 1997:26).

At the same time there are major difficulties associated with promoting the interests of small farmers with the help of an improved infrastructure and supportive institutions. There have been numerous unsuccessful attempts to do this, and the small farming sector is in crisis in many countries. Developing country policies are one source of problems: prices on the internal market have been forced down, overvalued currencies have indirectly taxed farming and harmed exports, and the needs of small farmers have been consistently ignored. Small farmers are weakly organised as a group and in most cases have little or no political influence. However, domestic policies should not take all the blame. In many cases the situation for small farmers has been made worse by developments on the world market and the trade policies of other countries (see Section 10.3).

10.2 Trade in agricultural products

Trade in agricultural products makes up barely 10% of total world trade, a share that has been falling since the 1960s when it was 25%. The developing world currently has a 25% share of exports, compared with 40% at the beginning of the 60s. It is primarily African exports which have declined in significance (SOU 1997:26). Today the LDCs' share of industrialised nation imports[41] of agricultural goods is no more than 2% (WTO Secretariat, 2000).

International trade accounts for a tiny fraction of the total production of most agricultural products, 10–15% for cereals and other food crops, and less than 5% for animal products apart from powdered milk. Tropical plantation crops – coffee, tea, cocoa, palm oil, fruit and fibre crops – are more heavily traded internationally. In the case of coffee, international trade figures are as high as 85% (SOU 1997:26).

The industrialised countries and Argentina mainly export feed crops, grain, livestock products and oil seeds. The developing countries are major importers of grain (they import 76% of the wheat they consume) feed crops, and animal products. They export both "old" tropical products – coffee, tea, cocoa, rubber and sugar – and "new" tropical export goods – vegetables and cut flowers.

The EU is by far the most important market for LDCs. They are often totally dependent on a small number of export products, on average three products account for over 70% of LDC export revenues. Exports are often

41. As LDC statistics are so patchy, these export figures have been extrapolated from statistics provided by importing countries.

Groups of actors on the world agriculture products market

'Natural exporters'. USA, Canada, Argentina, Uruguay, Brazil, Australia and New Zealand have favourable climates and soils and are, at the same time, sparsely populated. They pursue large-scale intensive production with low production costs and are major exporters. USA exports are, however, partially dependent on subsidies. With the exception of the USA, they are all members of the Cairns group, a group of countries that act together in WTO to liberalise trade in agricultural products.

EU. The EU exports large quantities of grain and animal products. Production is based on the intensive use of pesticides and fertilisers and large imports of feedstuffs. As production costs are comparatively high, exports are dependent on governmental support.

Net importers in the North. The agriculture in Japan, Norway, Korea and Switzerland are very similar to the EU's. Farmers are protected by very high tariffs, but do not produce surpluses for export. Russia and other East European countries are current importers but they are potentially exporters.

Net exporters in the South. Apart from the South American countries in the group of natural exporters, Thailand and Vietnam in particular are major exporters of rice.

Net importers in the South. This group includes many LDCs and around 20 other developing countries, mainly in Africa. They import grain and dairy products and export tropical crops.

Largely self-sufficient countries. In the vast majority of developing countries, domestic production is around +/-10 percent of national requirements. Generally speaking, most are not dependent on exports and can balance grain imports against exports of plantation crops.

(Based on Einarsson 2000)

dominated by coffee, cotton or fish although other products include sesame seeds, cocoa or tobacco. Consequently these countries often compete against each other on export markets where demand for these crops is stagnating (Swedish Board of Agriculture and National Board of Trade, 1999).

Global agricultural markets are undergoing a series of trend-based changes for technical, economic and political reasons (from Kydd et.al. 2000). These changes concern

- increased productivity in the OECD and Cairns countries as well as in South and East Asia.
- Demand for foodstuffs is affected by high rates of economic growth in Asia and by the urbanisation of all de-

veloping countries and associated changes in eating habits and preferences. Demand for animal products is growing fastest, which in turn increases demand for feed. This can create competition with the poorest countries' grain needs.

– Inadequate infrastructures etc. in many developing countries, together with constantly falling long distance transport costs, mean that urban demand is largely satisfied by imports rather than by domestic production.
– Import barriers are being reduced, especially in the South, and internal markets are under deregulation which increases competition and reduces the role of government organisations.
– The increasing import of foodstuffs by developing nations which is not being balanced by increased export revenues.
– International supplier chains are developing that specialise in remote purchasing of specific, high value products such as vegetables and cut flowers.
– Trade in processed food is growing. This is estimated at around 75% of the value of total agriculture exports from OECD countries. This illustrates the importance of tariff escalation and makes issues concerning health and safety and labelling requirements etc particularly urgent for developing nations.

Against this background, and considering that food imports to African countries are largely on a par with urban consumption, the twin tasks of winning back the domestic market and feeding urban populations are perhaps the greatest challenges facing LDC agriculture. This is the primary way through which LDC agriculture may generate the resources required for rural development which will benefit small farmers.

10.3 The impact of industrialised countries' agricultural policies – the EU example

In 1999, the OECD countries provided over BUSD 80 in direct support for their own farmers, to which can be added export subsidies, tariffs and other measures that enable the price of agricultural products to be kept higher inside these countries than on the world market. In the same year, the value of the OECD countries' total support[42] to their agriculture sector amounted to around BUSD 250 (Swedish Board of Agriculture, 2000). This is the equivalent of approximately five times the total annual ODA budget to all developing countries, or substantially greater than the LDCs' total GDP of around BUSD 200. It also radically affects conditions for growers in developing countries.

In this context we will examine EU policies in particular as the EU is the single most important actor and obviously the one Sweden has the most chance of influencing. In addition, the EU accounts for by far the largest proportion of export support[43] which has an especially significant effect on agriculture in developing countries. By virtue of necessity, we have provided a simplified picture of EU policies here.

The EU is the world's biggest importer and simultaneously the second biggest exporter of agricultural products. Exports consist of wine, grain, dairy products, meat and processed foods, while imports are dominated by fruit and vegetables, fish, coffee, tea, cacao, feed crops and oilseeds. More than half of these imports stem from developing nations. Since the 1970s, EU has produced large surpluses. These surpluses are exported and, as world market prices are generally much lower than prices in the EU, these exports must be subsidised, i.e. the difference is paid out of the EU budget through the Common Agricultural Policy (CAP). At the same time, the EU protects its own markets with high tariffs.

There are several reasons why these surpluses have become so large: technical progress together with high levels of price support have raised production, and feedstuffs are imported duty-free on a large scale. Duty-free trade of e.g. protein feeds was a condition of US acceptance of EU rules when the CAP (EU's Common Agricultural Policy) was introduced in the 1960s and has been a contributory factor in the highly industrialised animal production that is concentrated in areas close to major import ports (Einarsson 2000).

Large EU subsidies, for both exports and direct support to farmers, means that exported goods can be sold very cheaply, i.e. in practice frequently dumped, on the world market. As the EU is such a major player on the market, the CAP depresses the world market price for many products. EU tariffs also help make world market prices lower as what cannot be sold on the EU market must be sold on other markets instead, with at-

42. OECD measures the total support levels in PSE, Producer Support Estimate that sets out how much higher revenues are for agriculture inside tariff barriers and with support funding than for agriculture without support or trade policy measures.

43. In 1998, EU accounted for 91% of the OECD countries' direct export support. The USA supports its exports with special export credits, where subsidies are difficult to quantify and so cannot be compared directly (Swedish Board of Agriculture 2000).

tendant price reductions. The EU has an especially strong downward effect on world market prices for dairy products, a major effect on sugar, beef and grain and a modest effect on other products. The EU regulations also "export" price variations that would otherwise arise within the EU, and so cause world market prices to fluctuate more (SOU 1997:26).

This downward pressure on prices means that consumers in other countries enjoy cheaper goods and processing industries in other countries gain access to cheap raw materials. However, the most important and extremely serious effect is that farmers in other countries lose the incentive to farm, which in the long-term adversely affects food security.

Agricultural regulations apply to processed coffee and cacao, but not raw coffee and cacao beans. This means that tariffs are much higher for processed products. Several ACP countries are permitted to sell set quantities of certain products to the EU on favourable terms – sugar, bananas, tropical fruit and beef. These particular countries are favoured by the EU, but the ACP countries as a whole are disadvantaged.

Sugar regulations

Sugar is surrounded by more trade barriers than possibly any other crop – probably because sugar beet and sugar cane are cultivated in industrialised and developing nations respectively, and because a large part of sugar production is sold on the world market. One third of world production is traded internationally and exports are dominated by the developing countries. The EU is the second biggest exporter after Brazil.

Sugar is one of the few products where the EU competes directly with developing countries on export markets. At the same time, it is the most protected sector within the EU. Its price within the EU is approximately twice the world market price. At the same time as around 5 million tons are exported annually, 1.6 million tons are also imported from 15 ACP countries plus India in accordance with quotas in a special sugar protocol. 80% of these quotas are allocated to five countries, none of which is an LDC.[44] The developing countries that have had access to their own "VIP card" as it were, in the EU naturally have the advantage of being able to sell their goods at the same high prices there. However, the developing countries, and the LDCs in particular, are losers on the whole in that EU exports depress the world market price.

Trade barriers are high in the USA as well. A re-orientation of trade policy has meant that domestic sugar production has soared. The price there is now around 80% above world market price. Imports are restricted and come from around 40 countries, mainly in the Caribbean and Central America. The situation will however change radically once imports from Mexico increase in pace with the implementation of Nafta.

(Swedish Board of Agriculture 2000)

44. Fiji, Guyana, Jamaica, Mauritius and Swaziland. Mauritius alone was allocated 38% of the quotas.

Examples of destructive effects of CAP

Unlike tariffs, which hit everyone equally, export subsidies can be targeted at specific geographical markets where they can have very tangible effects.

Tomatoes. Local cultivation of tomatoes in West Africa has been destroyed by imports of cheap subsidised tomato paste from the EU. In Senegal one of the two factories has closed, while the other now dilutes and packs Italian tomato paste rather than processing locally grown tomatoes as before. Thousands of farmers have lost the outlet for their tomatoes, and tinned tomatoes are beginning to replace fresh tomatoes in certain local markets. Local processing industries in Burkina Faso and Mali have also started to using imported tomato paste instead of locally grown tomatoes.

Powdered milk. In Jamaica and Brazil, the dairy sectors risk losing out to imported powdered milk from the EU. EU financed ODA initiatives to develop the dairy sector in Tanzania are being undermined by competition from subsidised powdered milk from the EU.

Beef. At the beginning of the 1990s, subsidised beef from the EU sounded the death knell for hundreds of thousands of cattle herds in West Africa. After strong protests from NGOs in Europe, the subsidies were reduced in 1994. Along with devaluations of the local currency, this led to a fall in imports. However dumping quickly reared its head again, this time in South Africa and Namibia as soon as they opened their borders to imports. After renewed protests from NGOs and the South African government, the EU reduced these subsidies in 1997. Subsequently exports have been targeted at Russia and now threaten domestic production there.

(**Source:** Fokker and Klujkist, 1999).

10.4 The real actors: companies

Simplistically, we talk of "countries" trading. In practice however, it is companies that do the exporting and importing. Agricultural trade is currently dominated by an oligopoly of corporations, i.e. most trading is carried out by a handful of companies that have the power to influence the market by controlling several supplier stages and manipulating prices paid to both growers and buyers. Morisset (1998) found that raw material exporters receive a decreasing share of the value of the finished produce, and points to the oligopolistic structure of the market as a possible reason for this.

The market structure means that a great deal of support to agriculture in industrialised countries never reaches the farmers. In practice, much of the export subsidies from the USA and EU for instance, end up in the hands of the transnational grain companies rather than going directly to the farmers. Other support to agriculture tends not to reach the farmers either, and goes to the purchasing companies, suppliers of primary materials or the landowners (land prices go up when support levels are increased, a process known as capitalisation).

In other words, it is not just government support and trade barriers that distort international trade in agricultural products. This must be an important point of departure when seeking to improve the way the market operates, otherwise there is a risk that all the benefits of deregulation will fall to the transnational corporations rather than to growers and consumers.

Transnational corporations play an ever-greater role also in the seed trade, which is vitally important for global food security. Today it is estimated that one third of the world's seeds come from a handful of transnational corporations and are protected by patents or Plant breeders' rights. One third comes from public breeders and the remaining third from the farmers themselves (Murphy 1999). The TRIPS agreement (see Chapter 12) will lead to more powerful patent protection in many markets and the TNC's control over seed may increase dramatically. The transnational corporations are currently concentrating on developing strains that are adapted to the companies' own pesticides rather than resistant to drought or other problems that are important for small farmers in the South. But even if this corporate research were to look more closely at the needs of developing countries and LDCs, the risks associated with a small number of companies dominating the market remain.

10.5 The effects of liberalisation on agriculture in poor countries

The liberalisation of markets produces different results depending on the imperfections that originally existed in each market, in addition to any distorting trade barriers. When discussing the effects of liberalisation on agriculture, it is also worth noting that the costs that always arise for producers when forced to adapt to new circumstances are often particularly significant in the farming sector. This is due to the fact that a very large number of people are dependent on agriculture for their livelihood, and that it is difficult for them to adapt production quickly or to find completely new forms of employment.

It is also important to differentiate between different forms of liberalisation. Does liberalisation lead to a reduction in direct or indirect export support, or less protection for domestic production, or both? It is just as important to see who is doing the liberalising. Is it the developing countries or the North who are opening up their markets? It may also be more important to differentiate between the effects on the export and domestic oriented sectors rather than differentiating between the effects on LDCs and on other developing countries.

10.5.1 Liberalisation in the EU

Since there has not yet been any genuine liberalisation of agricultural markets in the industrialised countries (see below) any discussion of the effects liberalisation would bring about are bound to be speculative. In this section we consider the possible effects of liberalising the EU market, although liberalisation in Japan and the USA would also have major consequences for global trade.

Broadly speaking, less support and lower tariffs in the EU are expected to lead to less dumping of surpluses, higher world market prices and greater access to the EU market. In simple terms, farmers in the South would be the winners, mainly those who can export more, but also domestic market producers who were previously at risk of losing out to cheap imports. Consumers and taxpayers in the North would also gain, while farmers in the North and consumers in the South (i.e. primarily urban populations) would be the losers (Swedish Board of Agriculture, 2000; SOU 1997:26).

However, supply constraints mean that farmers in the developing world would often be unable to take advantage of increased access to markets in the North. Properly functioning markets would be required to ensure that production in the developing world would gain from increases in world market prices and this is precisely what is lacking in Africa above all, which is riddled with inadequate institutions and infrastructure, unclear property rights and a shortage of capital.

The simplified image of winners and losers is not especially appropriate for the LDCs. Firstly, many of them, mainly African countries, are net importers of food and imports would become more expensive when world market prices rose. When, however, rising world market prices create greater incentives for the domestic production of grain, it often takes just a minor increase in productivity to reverse this import dependency.

Secondly, the LDCs have little to gain when the EU opens up its markets, even if they manage to increase their export production. As it is, their exports almost only consist of goods where there is little trade protection in the North, for unprocessed goods at least, i.e. tropical crops that do not compete with subsidised crops from the industrialised countries. Prices and demand for tropical agricultural products are expected to remain rather stagnant. This means that many African countries are in the unenviable position of on the one hand being dependent on export revenues from products to saturated industrialised markets where there is little potential to increase exports even if the market is opened up, and on the other hand being increasingly dependent on imported foodstuffs that are cheap thanks to agricultural policies in the North.

As the EU is at present depressing the prices of staple foods, such as grain and animal products, the biggest winners of deregulation would be those farmers whose produce is sold on local markets in LDCs.

10.5.2 Liberalisation of developing countries' own trade policies

While the debate on liberalisation in the North is hypothetical, there are already numerous real life experiences of liberalisation of agricultural imports in developing countries. In a study of the consequences of trade liberalisation on poverty and food security, the author examined 27 case studies from a total of 39 countries in Africa, Latin America and Asia (Madeley 2000). Only a handful of LDCs are affected, but these studies still show trends which are probably also valid for LDCs more generally. The liberalisation studied was that of trade policies of developing countries as a consequence of the WTO Agreement on Agriculture (AoA), structural adjustment programs and regional agreements (Nafta). In most cases, and in the LDCs in particular, the structural adjustment programs have led to more extensive liberalisation than that brought about by the WTO. Such liberalisation has not merely consisted of lower import barriers, but also reduced subsidies, the abolition of price control, privatisation of state owned companies and devaluation of currencies.

The general message from these case studies is that liberalisation has undermined food security for poor farmers who sell their produce on the domestic market. The winners have been found in the export sector above all, largely amongst international companies. Liberalisation has not, however, led to a diversification of exports. Generally speaking, the reforms have brought about a bigger rise in imports than in exports, and this has contributed to a greater concentration of agricultural companies, a process during which many small farmers became marginalised.

The greatest effect of liberalisation has been a major rise in imports. Produce from small farmers can no longer compete on local markets, even less so in towns, where they face competition from cheap (often dumped) imports. Profitability is squeezed from two directions: production costs rise when subsidies on agricultural inputs are abolished, while product prices fall. The reduced profitability for these small farmers is devastating to food security. If growers are driven out without having any alternative source of income, it is little consolation that cheap imported food is available in the market place.

One of the clearest examples comes from the implementation of the Nafta agreement in Mexico. Fruit and vegetable growers, mainly large-scale growers in one specific region, have gained from the increased trade with the USA. At the same time, the import of maize from the USA has led to a large-scale displacement of small farmers. The country has gone from being self-sufficient in maize to importing 40% in the space of three years. Maize cultivation has been rapidly replaced by growing feed crops and rearing livestock for export.

The reforms moved export production to a higher priority, which led to more land and financial resources moving into this sector, and less to production for the domestic market. In turn, this has been a contributing factor to the undermining of food security. There is also a gender aspect to this type of development – in Africa especially women are responsible for traditional farming practices, while the men are more active in export-oriented agriculture.

Certain elements of these internal reforms have had positive effects on domestic production, primarily the currency devaluations which have raised the prices of competing goods. In addition, an end to monopolies has, in certain cases, increased opportunities for farmers to sell to various competing purchasers. In other cases, however, state distribution and marketing systems have been replaced by a vacuum. But even in those cases where deregulation of the domestic market has led to increased market prices for growers, this positive effect has often been outweighed by more expensive inputs.

In a more general analysis of the effects of globalisation on farming in the South, Kydd et al (2000) emphasise that small farmers' possibilities of competing with larger corporations diminishes. They are adversely affected by such factors as poor roads and transport, less accurate information about markets and prices and a lack of credit. Government and parastatal organisations providing extension services, sales of inputs and marketing outlets have, in many cases, been abolished. These parastatals may well often have been inefficient, but they have not been replaced by private alternatives to any adequate degree. Nor is it likely that the private sector could be able to meet the existing demands. According to the authors of the above mentioned study, a great deal more public interventions, organised co-operative selling etc. may often be required to prevent small farmers from being totally wiped out by imports and larger growers.

10.6 The WTO Agreement on Agriculture

When the Agreement on Agriculture (AoA) entered into force in 1995 it was the first time that agriculture, traditionally heavily protected on most markets, came under WTO rules and regulations. As one of the most important and toughly negotiated parts of the Uruguay Round, the agreement was largely an arrangement between the USA and the EU. The interests of the developing countries are, however, more prominent in the current negotiations.

10.6.1 Principal commitments in the Agreement on Agriculture

In this agreement, the countries undertook to decrease both import barriers and various other types of support. Briefly the Agreement states that:

- All non-tariff trade barriers (quotas, variable import levies etc.) are to be converted into tariffs, so called tariffication. These tariffs are subsequently to be reduced by an average of 36%.
- The import opportunities that were available in the base period are to be retained through specific quotas (so called tariff quotas, in which the tariffs are lower). The importing country is also required to allow a minimum markets access of at least 5% for each individual product.
- Expenditure on export subsidies is to be reduced by 36%, and the volume that receives export subsidies is to be reduced by 21%.
- Internal support, i.e. all support that does not subsidise exports is to be included in a regulatory framework and partially reduced (see box on the following page).

As requirements to reduce subsidies apply to existing forms of support, and no new measures of this type may be introduced, the right to provide trade distorting support measures falls to those countries that previously enjoyed such rights (i.e. mainly the industrialised nations).

The Safeguard Clause provides countries with an opportunity to levy specific supplementary duties if import prices fall below, or import volumes exceed, a certain level. This clause may only be applied to products covered by tariffication and by countries that have tariff reduction measures in place and who notified their intention to invoke this mechanism at the time of signing the agreement – in practice, mainly the industrialised countries.

Agricultural support in different coloured boxes

Different forms of agricultural internal support measures are categorised in the Agreement on Agriculture into different boxes. Different rules apply for the different boxes on the traffic lights principle.

The Red box was prohibited when the agreement came into force. This box includes e.g. variable import levies, i.e. tariffs that vary automatically when the price is changed.

The Amber box contains trade distorting support measures that conflict with the principles of the agreement but which members may retain subject to reductions (20% during the agreement period). This group includes price support, subsidies for inputs and certain investment support. New support of a similar nature may not be introduced.

The Green box contains support that is "de-coupled" from production and considered not to distort trade. It includes support for research and rural development, food aid, environmental support, and certain investment support. These types of support measures are permitted until further notice.

The Blue box was added at the last moment after an agreement between the USA and EU when several types of support were moved here from the Amber box. These include support linked to production-limiting programmes, in practice, mainly the EU's set aside programme for crops and livestock. These types of support are categorised as being neither directly trade distorting nor the opposite, and are permitted for the time being.

According to the so called *Peace Clause,* several types of agricultural support measures that are in conflict with overall WTO rules are protected against action from other countries. When the clause expires on 31 December 2003, farming subsidies will be more vulnerable to attack. However it is unclear which rules will actually apply then. Export support measures, probably also Blue Box support, will be vulnerable.

10.6.2 Special and differential treatment of developing countries (SDT)

AoA also includes SDT regulations in a number of areas. Firstly, developing countries do not need to reduce tariffs, export subsidies and internal support as radically (2/3 of the level of the other countries). Certain specified SDT support measures may be retained in their entirety, for example, support for rural development and subsidised inputs for farmers with low incomes. All support below the so-called *de minimis* rule of 10% of product value is allowed (compared with 5% for other countries). Of all these special regulations, only the tariff commitments and, in certain cases, the *de minimis* rule are of genuine significance, as export subsidies and other support measures available in developing countries are extremely limited. Gambia is the only LDC that notified its intention of offering SDT support (Swedish Board of Agriculture and National Board of Trade, 1999).

The developing countries have a period of ten years to implement the agreement, compared with six years for other countries. They need only guarantee 4% market access instead of 5 %.

The LDCs are totally exempted from reduction undertakings. On the other hand, they must convert import quotas, if applied, to tariffs and bind them.

In connection with the signing of the Agreement, a specific resolution of ministers was adopted for LDCs and Net Food-Importing Developing Countries (NFIDC)[45], the Marrakesh Resolution. The background to this resolution was that the AoA was expected to lead to higher world market prices and consequently difficulties for poorer countries which had become dependent on cheap food imports. The resolution includes a commitment to establish a mechanism to ensure that the Agreement does not impact negatively on access to food aid. To date, the resolution has not resulted in any concrete actions, partly because it is difficult to prove that the agreement has led to any negative consequences. Costs for importing countries may have risen, but this is not due to a rise in world market prices. It was more probably caused by a decrease in food aid and an increase in the need to import. Imports currently account for 10% of grain consumption in LDCs, but as much as 30% for the Net Food-Importing Developing Countries.

10.6.3 The effects of the Agreement on Agriculture

The major advantage of the AoA is that it forces countries to convert various different import barriers into tariffs which are more transparent. It is now possible for the first time to compare import barriers in different countries.

In practice however, tariff reductions have been very modest. As world market prices were exceptionally low during the base period, the bound tariffs became very high when quotas were transformed into tariffs (so called tariffication). There were also wide ranging opportunities to spread these tariff reductions amongst different product groups so that tariff cuts

45. *Net Food-Importing Developing Countries* (NFIDC). According to the UN classification, this group includes Barbados, Botswana, The Dominican Republic, Egypt, The Ivory Coast, Honduras, Jamaica, Kenya, Cuba, Morocco, Mauritius, Pakistan, Peru, St Lucia, Senegal, Sri Lanka, Trinidad and Tobago, Tunisia and Venezuela.

were less painful. The industrialised nations have been most adept at exploiting these opportunities.

In the industrialised countries in particular, tariff levels on individual products are often very high, the so-called tariff peaks. This mainly applies to dairy products, sugar, grain, fruit and vegetables plus processed foods where in certain cases tariff peaks can be several hundred percent (Swedish Board of Agriculture and National Board of Trade, 1999). The range of different tariff levels has increased, which is a problem in itself as this distorts relative prices in the agricultural economy.

Tariff escalation remains significant. In the EU, escalation is high for dairy products plus for fruit and sugar-based products such as juice, jam etc. (Swedish Board of Agriculture and National Board of Trade, 1999). In the USA and Japan it mainly affects dairy products and sugar. The significance of tariff escalation increases with the growth in trade in processed foodstuffs, and results in a larger proportion of the added value accruing to industrialised countries.

Total levels of support in the OECD countries have risen since the Agreement came into force, which means that the requirements to reduce internal support measures have led to a redistribution, rather than a reduction, of these types of support. Above all, reform of the EU CAP has meant that export subsidies and other market price support measures have been transformed into direct support (Blue Box support measures), which are permitted for the time being. Of the commitments to reduce support measures, only the requirement to cut export subsidies has forced the EU to introduce specific measures. However, these subsidies continue to be significant; over the past few years the EU has been responsible for around 85% of total expenditures on export subsidies around the world.

Most developing countries have bound their tariffs at a much high level than they themselves levy, which has enabled them to retain a degree of flexibility and the option of introducing greater protection for domestic producers in the future, if e.g. world market prices were to fall. Around half of the sub-Saharan African countries have bound their tariffs at over 100% on average, but currently apply much lower levels. However some countries have committed themselves to lower levels, including some LDCs which have bound their levels at 50% or less.[46] The majority have already abolished internal support measures and subsidies as part of structural adjustment programs. The demand for minimum access (4 %) appears minor but can have a noticeable effect on markets in many devel-

46. Angola 52%, the Central African Republic 30%, Guinea 40%, Congo 30%. (FAO 2000)

oping countries as trade plays such a small part compared to the total production of many products.

To summarise, from a developing country perspective there are a number of imbalances in the WTO Agreement on Agriculture:

– many of the industrialised nation undertakings were very vague. In practice, market access has not increased[47] and various kinds of support have not been reduced.
– developing countries have bound their various types of support measures at low levels, bound tariffs and made tariff reduction commitments.
– broadly speaking, only industrialised countries are able to invoke the Safeguard Clause.[48]

This imbalance is illustrated by, for instance, the fact that in practice the Agreement has "legitimised" a situation where all Blue Box support measures, 96% of all Amber Box support measures and virtually all export support benefit only 4% of the world's farmers, namely those who live in the OECD countries (Swedish Board of Agriculture 2000).

10.6.4 New negotiations on agriculture

New agricultural negotiations were initiated in 2000 based on the mandate in the Agreement on Agriculture. According to this mandate, the aim of the negotiations is to continue reductions in import barriers and support measures in such a way that market access will increase most for developing nations. At the same time, so called non-trade concerns should be taken into consideration. These non-trade concerns include the environment, food security, rural development and food safety.

A number of issues are open to negotiation: Will Blue Box support measures (in practice EU set aside payments) continue to be accepted, even though they also affect trade? Will export subsidies be prohibited completely or merely reduced? Will the rules cover both the direct export grants provided by the EU and also the advantageous export credits available in the USA? Will the Peace and Safeguard clauses remain in some form? Even if the dominant conflicts will continue to be between the USA–EU and Cairns–EU, negotiations will be more complex as developing country interests are becoming more prominent.

47. In many cases tariff peaks in the industrialised world are so high they make it impossible to import.

48. A total of 38 countries, including 15 industrialised nations, have the right to apply this. So far it has been employed by five industrialised countries (including the EU and USA) and one developing country (South Korea).

The Cairns Group works wholeheartedly to achieve totally free trade. They are calling for the abolition of all export support measures (including export credits) and point to the fact that export subsidies to manufacturing industry were banned 40 years ago. They also demand an end to both Amber and Blue Box support measures and that stricter criteria should be developed for Green Box support measures (WTO 2000, W/11 and W/25).

During the 1990s, the USA has reduced its own subsidies and so has quickly been able to move closer to the Cairns Group position. However extremely low world market prices in 1998 resulted in new support measures, consequently the US position is no longer quite so clear-cut.

The EU is basically split between interests to expand exports and a desire to protect its own producers. As the CAP reforms already agreed (Agenda 2000) are not far-reaching enough to meet the demands of other countries, they will be forced to adopt a mainly defensive stance. To date, the EU has expressed a willingness to reduce export subsidies if other types of export support are also reduced, i.e. export subsidies and the hidden types of export support measures that are available through state trading enterprises. They are also prepared to discuss continued cutbacks in Amber Box support measures, as long as the Blue and Green measures are allowed to remain. They also wish to retain the Peace and Safeguard clauses. However the fact that the Peace Clause is set to expire in 2004 unless there is a consensus for extending it, is one of the ways pressure can be applied on the EU during the negotiations. It is unclear to what extent the current crises in meat production (BSE and Foot and Mouth Disease) will affect EU agricultural policies and ultimately therefore their trade negotiating positions.

The greatest opposition to liberalisation can be found in countries not blessed with naturally favourable conditions for agriculture, but which nonetheless are anxious to maintain a high level of domestic production. Japan, Norway, Korea and Switzerland are the most prominent of these, and they all apply very high import barriers.

The developing countries do not act collectively in agricultural negotiations. Several are members of the Cairns Group[49], although some of these countries are net importers in practice and joining the group has been politically controversial at home. At the same time, an alliance between the Cairns Group and the developing countries could be possible, as it is in the interests of both that the EU and USA abolish export support

49. Cairns Group members: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zeeland, Paraguay, The Philippines, South Africa, Thailand and Uruguay.

measures. On the other hand, their interests diverge on the question of how much countries should be allowed to protect their own markets in the future.

More than anything else, the main group of developing countries are disappointed to have seen so little of increased market access in the North as a result of the current agreement, while at the same time many of them are experiencing problems implementing their own commitments. LDCs and net importers are mainly working towards the payment of compensation for future price rises in accordance with the Marrakech Resolution. No concrete proposals have been put forward to date, but it is conceivable that a special fund could be set up and that support would be triggered if the world market price climbed above a certain level. Another alternative would be for donor countries to build up reserves etc. In terms of market access, the LDCs have demanded that they should have priority when the industrialised nations allocate their tariff quotas, and that LDCs should never be hit by safeguard measures.

Developing country positions have been articulated more clearly in recent times through proposals put forward by G11, eleven countries of which Haiti and Uganda are LDCs. The G11 claim that Green Box support measures, the only ones that are permitted in their entirety in the Agreement on Agriculture, also distort trade. They propose that all forms of support should go into one big box, and that the same criteria should apply to all of them. The proposal is that subsidies above 15% of production costs should be totally banned, while subsidies below 10% should be allowed in their entirety (WTO 2000, W/14).

In another proposal, the G11 suggest that a special "Development Box" be created through which developing countries wanting to stimulate domestic production and increase food security should have more leeway to, say, increase tariffs on key goods and provide internal support at a higher level than currently permitted. They also argue that only developing countries should have the right to invoke the Safeguard Clause rather than the current situation when only industrialised countries can use it. Finally, they demand that all forms of dumping, both direct and indirect should be banned. In a third proposal on market access, the group demand that tariff escalation and tariff peaks be eliminated in the industrialised world, that seasonal variations in tariff rates be eliminated and that tariff quotas be allocated in a more equitable and transparent way. It is further proposed that the developing countries should be allowed to reassess and in certain cases raise their tariff bindings, and that in future they should have the final say on which goods they wish to liberalise (WTO 2000, W/13, W/14 and W/37).

Mali has put forward a proposal concerning four sectors that are important for its economy: fruit and vegetables, animal products, leather and hides, rice and cotton. The proposal calls for duty-free imports in all these product areas for products from LDCs. It is also proposed that all export subsidies be abolished immediately for some product areas, and gradually for others (WTO 2001).

The EU is actively pursuing the issue of "multi-functionality", i.e. it should be taken into consideration that agriculture makes a social contribution in a variety of ways over and above actual production: rural development and regional balance, food security, the preservation of biological and cultural diversity etc. They argue that this multi-functionality differentiates agriculture from other sectors and justifies both state support and special trade rules. The EU is particularly anxious to preserve the "European model" of family farms. The traditionally protectionist nations of Japan, Switzerland, Norway and Korea have formed an alliance with the EU on this issue, and with a number of East European countries too, while several small developing countries (primarily small island states) have also expressed an interest (WTO 2000, W/36; Einarsson 2000). Talk of multi-functionality is, however, viewed with scepticism by many other countries who argue that even if the reasoning may be correct per se its main purpose is to draw the focus away from the dumping practices, which the EU cannot possibly defend. Even if the concept as such is accepted, the fundamental question remains: How can the positive contribution agriculture makes to rural development, biological diversity etc be supported in a manner that does not distort trade?

10.7 Conclusions

As the majority of the world's poor live in rural communities in developing nations, all trade policies that are designed to alleviate poverty must seriously consider how various changes affect populations there.

Small farmers who mainly market their produce locally are those hardest hit by industrialised nation dumping as, unlike exporters, they produce goods that compete with those of the industrialised world. Consequently they will also have most to gain from lower subsidies in the North. On the other hand, they will have great difficulty in exploiting opportunities for increased exports offered by improved market access in the North.

Small farmers must be given the tools to meet the increased competition that will follow when developing nations lower their import barriers. The adjustment costs of liberalisation are extremely high. For large parts of the population employed in small-scale agriculture it may not be possible to find alternative employment other than in the longer term. If these people do not have alternative sources of income their food security is threatened, even though there may be food available in the market place at a reasonable price. Yet many developing countries opened up their markets before they were ready. Small farmers in LDCs and other developing countries have therefore only felt the effects of their own countries' liberalisation so far, which has meant that they have been forced to compete with cheap, often dumped, imports. In practice, they are forced to compete with government budgets in the EU and USA.

Liberalisation in LDCs has largely favoured the production of cash crops, which often compete for resources with local production. This can have a negative impact on production for the domestic market and risk food security.

Small farmers in the LDCs will not, in the foreseeable future, be able to compete with wheat from Argentina or rice from Thailand. Tariff barriers to create incentives for local production might therefore be needed in the South even if EU and US dumping ceases. Tariff barriers are, however, expensive for urban consumers and others. The interests of various groups must be weighed against each other in an open manner and import barriers complemented by supply-side measures, i.e. infrastructure improvements, micro financing, extension services, guaranteed competition on national markets etc.

10.7.1 LDC interests in the new negotiations

The primary interest of the LDCs should be that the dumping of food from the industrialised nations on the world market must cease. It should be emphasised that all support measures which depress world market prices should be reduced. Not simply export support and Amber Box support, but all forms of support that enable goods to be sold below the cost of production, i.e. also Blue Box and certain Green Box support measures should be abolished.

Secondly it is important for the LDCs to retain or enhance their rights to protect their own vulnerable markets with import protection measures (both tariffs and safeguards) – at least as long as industrialised nation dumping continues. Tariffs are often the only form of protection they can afford.

The question of increased market access is also important, primarily for the export sector. It should however be stressed that market access is already relatively good for the tropical crops the LDCs export today, mainly because they do not compete with US or EU products. However bananas and sugar are important exceptions as is the tariff escalation that still exists. As industrialised countries are currently the biggest exporters, it should also be borne in mind that a general reduction in import barriers for major agricultural products such as grain and animal products may primarily benefit exports from the industrialised world.

The Marrakech Resolution on LDCs and Net Food-Importing Developing Countries is problematical because it lacks a clear analysis, division of responsibilities and an implementation mechanism. It is important that decisions are implemented and compensation paid as promised by the industrialised countries. Compensation should be given in the form of cash grants and development support and only in acute situations as food aid. At the same time it is important that the problems of the net importing countries are not used as a pretext to retain distorting support measures.

GATS
(General Agreement on Trade in Services)

CHAPTER 11

11.1 The large and growing potential of trade in services

The production of services forms a growing proportion of GDP in both industrialised and developing countries. Services of various kinds today account for 60% or more of GDP in OECD countries, and over 50% of GDP in most middle-income countries. The equivalent proportion in the very poorest nations is slightly over one third of GDP.

Today it is estimated that over 50% of foreign direct investments takes place within the service sector.

By its very nature, the service sector is extremely heterogeneous, and includes everything from shoe shiners, door-to-door hawkers and home helps, to bishops, generals and IT millionaires. In most industrialised countries, the service sector consists of a majority of highly educated people, not least in the public sector, and average salaries are often higher than in the manufacturing industry. However, in developing nations, where the service sector is dominated by the urban informal sector, the situation is very much the opposite; as a rule service sectors in developing countries have an even higher proportion of the economically active population than of GDP, wages are generally low, and job security non-existent.

As a result of the expanding service sector in industrialised countries, the rate of growth of trade in services has outstripped the growth of trade in goods in recent decades. All signs indicate that this trend will become even more pronounced in the future.

Another factor pointing towards a rapid growth in future international trade in services is development within the area of communications that has been touched on earlier and which means that geographical distance is becoming less and less of a factor in many of the most dynamic service sectors. There is however, a marked tendency towards “cluster building”

Table 11.1 Trade in Services by Modes of Supply, 1997

Mode of Supply Category	Value (BUSD)	Share (%)
Cross border commercial services (excluding travel)	890	41.0%
Consumer movement/travel	430	19.8%
Commercial presence/sales by foreign affiliates	820	37.8%
Temporary entry	30	1.4%
Total	2,170	100.0%

Source: Karensty (1999), reproduced in Hoekman/Mattoo (2000, p. 285).

in certain types of service; there are "financial centres", "IT clusters", "biotechnology clusters" and so on, in the mature industrialised countries. There are similar embryonic geographically concentrated networks in certain developing countries too (e.g. an IT cluster in Bangalore, India).

It is difficult to obtain precise information on the volume of trade in services. In contrast to trade in products, services are not subject to import duties, and the in and outflow of services is not registered by any customs authorities. Balance of payments statistics offer certain pointers for certain types of services, but there are plenty of sources of error.

It is also difficult to estimate the extent of trade barriers within the service sector. As there are no duties, quotas or similar on services, the obstacles to trade are of a different nature to trade in general. As a rule, formal or informal barriers largely apply to the establishment of service companies abroad (which corresponds to the so called *Mode 3* in GATS) or visa or immigration restrictions concerning the opportunities for individual service exporters to obtain entry permits and supply services (*Mode 4* in the GATS Agreement).

Trade in services is widely estimated[50] to account for approximately 20% of total world trade. However, the disadvantaged position of the LDCs in relation to the more developed nations is even more pronounced in services trading than in goods trading. The LDC share of world service exports – around 0.15% – is even smaller than their share of goods exports.

Table 11.1 above provides an approximate estimate of the volume of world trade in services divided into the four different *Modes* of supply as classified by GATS.

Tourism has, more than any other type, dominated the service export niches of LDCs to date. The tourist niche is reminiscent of raw mat-

50. For further discussion, see e.g. Roberts (2000).

erials exports in the sense that comparative advantages are related to natural assets – including attractive climate, beautiful sandy beaches and exotic environments – rather than access to skilled manpower.

In many developing nations outside the LDC group, service trade is increasing rapidly in other areas too. These include transport, construction and contracting (where countries like China and Thailand compete successfully with corporations from the industrialised world), call centres and reservation centres for airlines and credit card companies (where smaller islands in the Caribbean have enjoyed great success), certain consulting services, data processing, etc. Developing countries with a large pool of well-educated, English speaking professionals – e.g. India – have even exploited programming and other qualified development work niches within the IT sector. Thanks to its well-trained healthcare personnel, Cuba has successfully marketed healthcare services to Latin America and even parts of the industrialised world.

The GATS agreement lists 155 different types of service. Naturally, it is impossible to specify which services the various LDCs should specialise in. But there is tremendous potential, and in the slightly longer term, there are major opportunities for the LDCs to create new niches within the service sector.

11.2 The GATS agreement and its effects

The overall aim of GATS *(General Agreement on Trade in Services)* is to achieve the successive liberalisation of trade in services. It is actually the first multilateral agreement designed to create a regulatory framework for the cross border trade in services.

GATS is one of the agreements that resulted from the Uruguay Round of negotiations. However, as very little has occurred within the various sub sectors covered by GATS, the agreement still essentially addresses overall principles.[51] It is difficult to analyse the effects of agreements that still do not exist, and we will confine our comments to an account of certain basic principles that have been established, and to consider some of the questions raised by many developing countries.

It is also worth emphasising that the GATS Agreement is relatively vague and difficult to interpret as compared to corresponding WTO agreements on the product side. Trade in services is not about tariffs and quotas but

51. In the two areas of special interest to the industrialised nations – telecommunications and financial services – more binding agreements have been reached. The LDCs played no active role in these negotiations.

about issues touching on other, more sensitive, areas such as the rights of foreign service companies in the host country. For instance, the right to a level playing field in public sector tender processes for the provision of services, or requirements that public utilities supplying water, energy, telecom, transport etc, that were previously regarded as natural monopolies should be opened up to competition.

In contrast to conventional foreign trade, there are no established economic theories on the trade in services, which in certain important respects has its own special characteristics, and there has been relatively little research into the effects of its liberalisation in poor countries.

Different types of measuring instruments are also required. These methodological and theoretical uncertainties are one example of difficulties – which are themselves fertile ground for strongly politicised standpoints – that permeate research even in the industrialised countries into the effects of measures such as the privatisation of public utilities and the effects of privatisation and greater competition in health, education and other social services.

It is therefore not surprising that a common criticism of the GATS agreement is that it was not preceded by any "impact studies" on how its application would affect different countries and service sectors.

The principles on which GATS is based are, however, mainly the same as for trade in goods: the Most Favoured Nation principle, and the principle of non-discrimination against foreign companies.

However the exceptions for developing countries are more generous in GATS than equivalent agreements on the goods side. Developing countries are permitted to open up fewer sectors, and do this more slowly than industrialised countries, and liberalisation of trade in services must be carried out "with due concern for national goals and the level of development of individual members".

11.3 Profound consequences

A key difference between GATS and other WTO agreements is that GATS allows all countries to sign up according to the *smorgasbord principle,* sometimes known as a *bottom-up approach* or *positive listing*. In concrete terms, this means that countries can choose which sectors they wish to liberalise, and exempt certain areas e.g. financial services, energy supply, or healthcare from the principle of equal treatment of domestic and foreign service suppliers. A country can also decide that a particular service sector, e.g. education, should be wholly reserved for the public sector.

In practice, however, the GATS Agreement is a hybrid between *bottom up* and *top down* approaches in that many of the most controversial issues – concerning subsidies, public sector tenders, national regulations etc. – are covered by *general rules*. Consequently, demands for equal treatment nationally, and the application of the Most Favoured Nation rule can be regarded as overriding principles that a country cannot not select or deselect.

However, as very few binding agreements have been signed to date, there is a certain amount of uncertainty surrounding the possibility of obtaining approval for the *smorgasbord principle* from the other countries. If a country opens up a certain sector to domestic, privately operated companies, the country can – unless it has sought an explicit exemption when it signed up – probably be forced to open this sector to foreign competition in accordance with the equal treatment rule; this is just one of the concerns raised by developing nations and various NGOs.

Other controversial issues that have attracted criticism from developing countries and NGOs are the restrictions that the GATS agreement prescribes concerning the host country's room to manoeuvre in stipulating rules and regulations for foreign service companies wishing to establish themselves; GATS is similar in this respect to TRIMS (see Chapter 8.4). Accordingly, host countries are not permitted to stipulate joint ventures when foreign companies are investing, nor demand that a certain proportion of jobs there must be filled by local people (e.g. at tourist attractions), unless this is stated at the very beginning. With regard to environmental issues, a number of questions have been raised concerning what the parts of the GATS agreement covering tourism may mean; the general paragraphs on a ban on limiting the number of service operations may, for example, impair the host country's right to restrict mass tourism in environmentally sensitive areas. In all the above named cases however, it is possible for the country to specify the limitations to apply in its binding list.[52]

The fact that GATS also includes rules for setting up service companies in other countries means that it includes elements that touch upon multilateral investment rules, and concerns have been expressed from various directions that GATS is attempting to sneak a multilateral investment agreement (similar to the failed Multilateral Agreement on Investment, MAI) in through the back door.

52. A specific example: if a country decides to liberalise a certain sector but feels there is only room for, say, seven operators of a certain type, they must state that a maximum of seven companies can enter this market. Where licenses are issued, this should be done on a Most Favoured Nation basis.

From the developing countries' side, strong criticism has been levelled against the lack of symmetry concerning freedom of movement for people: all borders are normally open to citizens of industrialised countries, but not to people from developing countries. Naturally this is also a problem within goods trading but freedom of movement is often absolutely crucial for trade in services. The paragraphs in GATS that address these issues appear in Mode 4, which covers the rights of individuals to supply services in other countries.

How these issues concerning the free movement of people are to be resolved is far from clear – what is absolutely clear, however, is that developing country demands for greater freedom of movement under Mode 4 of the GATS Agreement clashes with the industrialised countries' strict rules for granting entry visas and temporary residence and work permits for people from developing countries.[53] There is an acute lack of coherence between the WTO's overall goal of opening up borders to goods, services and people and the ever-tougher entry restrictions in the USA, EU and Japan. How can you be expected to be able to visit clients and supply services if you are not even permitted to enter the country?

It is also worth noting that this is not just a complicated issue between industrialised and developing countries; many developing nations also impose entry restrictions which limit the freedom of movement for service suppliers, not least from poor countries.

It is clear from this resume of the GATS agreement that there are major grey areas concerning how the agreement should be interpreted, and how quickly specific negotiations within the different sub sectors can be initiated.

The LDCs' role has mainly been that of passive observers as far as GATS is concerned. Neither individual LDCs nor the LDCs as a group have set out or defined their interests, and there has been no joint initiative from them.[54] The modest service exports of the LDCs and their enormous disadvantages compared to service companies owned by industrialised country interests will probably remain important factors in their lack of involvement in the trade in services. They have chosen to save their meagre negotiating resources for other WTO issues, and the promise of "posi-

53. Under the EU Schengen Agreement, it often takes up to four weeks for a visa application from an African country to be approved – if it is granted at all.

54. As spokescountry for the African members of GATS, Mauritius has formulated demands that can be assumed to be in line with LDC wishes. These requirements firmly stress the importance of recognising *"the priority of development objectives"* and *"the primacy of national policy objectives, laws and regulations"*. Special reference was made to the importance of considering the interests of LDCs. Specific wishes include a demand that developing nations should be allowed to adopt *"emergency safeguard measures"*, something that the industrialised countries are currently unwilling to accept.

tive listing" has also created the impression that there is no urgency in the GATS field.

Even so, it is important that the LDCs look after their own interests in the area of services trade as well as strengthening their research and negotiating capacity. GATS may eventually prove to have far more serious and wide-ranging consequences than tariff cuts and liberalisation within trade in goods.

The TRIPS Agreement on Intellectual Property Rights

CHAPTER 12

The TRIPS agreement covers several different types of intellectual property rights including patents, copyright, trademark protection and protection of business confidentiality, industrial design, integrated circuits and geographical indications.

12.1 Intellectual Property Rights

Simpler forms of intellectual property rights such as trademark protection are designed to guarantee fair competition, and copyright to an author can be considered as a moral right. Patents, the most powerful form of intellectual property rights, give the holder a monopoly on all but strictly private use of patented products or technologies for a limited period of time. The rationale for patents is to give the person or company who develops new products and technologies exclusive rights to gain financial benefit from their investment and development costs. This protection aims to resolve the so-called free rider problem and stimulate technical development. The social benefits of patents, in the form of providing incentives to technical developments must, however, be weighed against the cost of higher consumer prices caused by this monopoly. As we move from an industrial society to a "knowledge-based economy", intellectual property rights will become increasingly important.

Understandably perhaps, intellectual property rights have been developed in countries that have made the greatest strides in developing advanced technology. Not for nothing did today's industrialised countries introduce intellectual property rights when they had already started developing their own technology. Before its introduction, everyone copied foreign technology as a matter of course. An overwhelming majority of all patents are held by companies from industrialised countries.

Intellectual property rights are mainly national, and the rules covering what can be patented, for example, and on what conditions, vary widely from country to country and also reflect a country's stage of development. Patent protection is generally stronger in more developed countries.

There is a long history of coordinating intellectual property rights[55] which has made it possible, for example, to apply for patents in several different countries simultaneously. However the TRIPS agreement was the first to create an international standard regulating in what fields of technology patents must be granted (all areas excluding exceptions stated), how long the patent should last and how powerful the rights must be. Another crucial difference is that all previous agreements on intellectual property rights had been separate agreements, while TRIPS is a mandatory part of WTO membership.

12.2 The TRIPS Agreement demands global minimum standard

When the TRIPS agreement was adopted as part of the Uruguay Round it was the first time a global minimum standard for the protection of intellectual property rights had been agreed. This minimum standard is quite high, and is more or less equivalent to existing intellectual property rights protection in industrialised countries. In many respects, the agreement eliminates all national flexibility in terms of, for instance, the scope of the patentable area. In other respects, the TRIPS agreement is somewhat unclear, and it remains to be seen how much scope there is to deviate from the standard established by the industrialised countries and establish systems that are more in line with the specific needs and circumstances of other countries (Byström and Einarsson, 2000).

According to the agreement, members must provide enforcement procedures. In economic terms, this is possibly the most important effect as governments in the Asian tiger economies are beginning to prevent local companies from producing and exporting pirate copies of branded Western goods.

The TRIPS Agreement also differs from other WTO agreements in that it mandates what legislation countries should introduce, instead of saying what they may not do. Despite its name, the agreement covers a great deal more than directly trade-related intellectual property rights issues. The

55. Principally through the Berne and Paris conventions, and WIPO, the UN *World Intellectual Property Organization.*

agreement has created a great deal of controversy, not least in the areas of patents on living organisms and on pharmaceuticals.

12.3 Patents on living organisms and genetic material

Patents on living organisms and genetic material have been permitted in the Western world for almost ten years and have strongly contributed to rapid developments within biotechnology. At the same time the preconditions for research have been fundamentally altered. Research in biotechnology and genetic engineering is now mainly the domain of private companies, and even the findings of government-funded research are often patented.

According to Article 27.3b, countries can exempt patents on plants and animals and "essentially biological processes", but not on microorganisms or "microbiological processes". As cell cultivation from plants and animals in the majority of countries is defined as microorganisms for patent purposes, this exception is a significant grey area. For developing countries that have not granted patents on any life forms, the agreement is a significant move away from previous legislation and also from widespread popular opinion on what is morally acceptable.

There are other fears that a further strengthening of intellectual property rights protection on gene technology research would lead to increased *biopiracy*. Biopiracy is the term for when a company patents living organisms or genetic material without acknowledging or compensating the original owner of the original material or recognising the contribution of the traditional know-how that was decisive in the development of the product. Biopiracy arises mainly due to shortcomings in national patent legislation, for example US patent authorities only need to take into account published information when investigating "prior art" outside the USA, while within the USA, oral sources must also be considered. As such, the TRIPS Agreement is not a direct cause of biopiracy but nor does it help prevent such patent abuse (Byström and Einarsson, 2000).

By strengthening the position of patent holders in several ways, TRIPS affects the distribution of economic resources between patent holders and the rest of society. This is the cause of one of several potential conflicts with the Convention on Biodiversity which seeks to ensure that the benefits of genetic resources are shared in a fair and equitable manner.

Article 27.3b prescribes that some form of plant variety protection be introduced in all member countries, something that currently exists in only a handful of developing countries. The present system for plant breeders' rights in the industrialised world is developed and co-ordinated by UPOV (Union for the Protection of New Varieties of Plants). If, for example, small farmers in developing countries stop using traditional seeds, which they are fully entitled to save from year to year and to further develop themselves, and switch to commercial seeds instead, plant breeders' rights may dramatically alter their entire situation. At present it is unclear how much leeway the TRIPS agreement gives countries to introduce plant variety protection that differs from UPOV and that is adapted to the conditions prevailing in developing countries.

The controversial Article 27.3b is currently under review. The African group has been very active in this respect and has put forward a number of far-reaching proposals. LDC demands include:

- it should be clearly stated that naturally occurring animals and plants, and parts thereof, may not be patented,
- patents must not be granted without proof that the country of origin of the biological material has consented (so called prior informed consent which, in the Convention on Biological Diversity, is stipulated as the terms and conditions for access to genetic resources. The same convention also established that genetic resources are owned by the country of origin),
- the flexibility to develop plant variety protection systems adapted to the needs of their own country shall be maintained (GRAIN 2000).

12.4 Pharmaceuticals

According to the TRIPS Agreement, countries must offer patent protection to pharmaceutical drugs, something that is lacking in around 50 developing countries (Correa, 2000) and which was introduced by Sweden, for example, as recently as the 1970s. The TRIPS agreement threatens to make locally produced medicines uncompetitive and result in sorely needed drugs becoming so expensive that they will be out of reach in many developing countries.

The agreement provides certain leeway for compulsory licensing. Compulsory licensing is one way of preventing a patent holder from blocking the use of a patent, and can even be invoked to guarantee that a particular innovation can be used in local production. In principle, TRIPS does not restrict the national right to determine the purposes for which a compulsory license may be sought. However, a series of detailed procedural requirements must be completed before a compulsory license can be granted.

The agreement does not restrict the right to parallel imports. This is defined as a country importing a patented product against the wishes of the patent holder from a third country where it is sold more cheaply. For example, AIDS drugs are cheaper in India and Brazil than in many other countries, which is why other developing countries in particular have powerful reasons for wanting to be able to import medicines from such countries.

In principle, it should be possible to use the TRIPS agreement to defend the right to compulsory license proceedings and parallel imports. To date, however, this has proved to be difficult to accomplish in practice. For example, the USA implemented economic sanctions against South Africa when it planned to introduce limited rights to compulsory licensing and parallel imports of certain AIDS drugs (Byström and Einarsson 2000). The sanctions were lifted after an extensive campaign in USA, however a group of pharmaceutical companies later sued the South African state directly in the South African courts. The companies maintained that the new regulations were in breach of both the South African constitution and the TRIPS Agreement. After massive publicity, a settlement was reached between the companies and the South African Government (BRIDGES, 2001a). At the same time, Kenya is planning to allow parallel imports, arguing that when 20–50 percent of the population are HIV positive the crisis is so great that parallel importing brooks no argument.

Among other things, LDCs have demanded that automatic compulsory licensing of vital medicines should be permitted.

12.5 LDC interests

Generally speaking, LDCs have the same obligations as other countries, but have more time (10 years) to implement the agreement.

The TRIPS Agreement was introduced in the face of strong opposition from developing countries, and would most probably not have been accepted if it had not been included in the Uruguay Round package, in which the developing countries felt they would benefit from the agreements on textiles and agriculture.

The Agreement is extremely unbalanced in the sense that the benefits mostly accrue to the industrialised countries, while the costs are mainly borne by the developing nations. The industrialised countries need only make marginal amendments to their legislation while developing countries are forced into major changes. Many LDCs will have to introduce totally new legislation. The administrative costs alone are in the magnitude of MUSD 10, and will also require access to highly qualified technical and legal expertise (Finger and Schuler, 1999).

Industrialised countries earn substantial amounts when their companies receive higher royalty payments and lose less to cheap pirate copies, thanks to more powerful intellectual property rights. Theoretically, tougher intellectual property rights should result in more foreign investment and technology advances in the developing world which can help economic development in the long-term. The link between intellectual property rights and foreign investments is not absolutely clear-cut however, and intellectual property rights are probably not the most important factor. The benefits of the TRIPS agreement, i.e. that high levels of intellectual property rights protection will be mandatory, should not be confused with the advantages of introducing intellectual property rights or signing international conventions, which are measures always open to all countries. In the short term at least, the TRIPS agreement will principally result in developing countries being forced to pay more to gain access to advanced technologies and products from the industrialised world.

As such it can hardly be claimed that the TRIPS agreement promotes the interests of LDCs. Conditions in the LDCs were not taken into consideration during the negotiating process, and the countries themselves still have only a very limited understanding of the agreement and its consequences. LDCs face the highest costs and gain very few advantages from implementing the agreement. The dynamic effects of introducing intellectual property rights protection offer very dubious benefits to LDCs and will only be realised in the long-term.

It will be impossible for most LDC countries to meet the terms of the agreement by 1 January 2006 as the agreement requires, without substantial development assistance. The relatively long implementation period is of no real significance for countries that – in the words of a WTO official – will probably only be ready for this type of intellectual property rights legislation in 50 years time. Advanced legislation in this area is not a plausible priority within their current development efforts.

The Lomé Convention, the Cotonou Agreement and other industrialised nation preference arrangements affecting LDCs

CHAPTER 13

For the developing countries in general, and LDCs in particular, it is not the general tariff agreements previously in GATT and now in WTO that determine market access conditions to industrialised markets for their products. Since the 1970s, all industrialised countries have introduced specific general and unilateral tariff preference systems, GSPs, for products from the developing world. Even more advantageous import regimes have come into force for the LDCs. GSPs are based on the specific and sovereign decisions of each industrialised country or the EU, and are therefore unilateral in character. Each industrialised country, like the EU, is entitled to make unilateral decisions concerning changes in their own GSPs.

The EU, however, has a more complicated trade policy structure, vis-à-vis both developing countries and LDCs, than other OECD countries. In addition to its system of general tariff preferences and an even more advantageous tariff preference structure for the LDCs, the EU has other preference arrangements based on various bilateral or regional agreements. These agreements partially overlap its common preferences for developing countries within the GSP or the enlargement of its GSP for LDCs.

The EU's most important regional arrangement is with the ACP countries – the former colonies of individual EU countries in Africa, the Caribbean and the Pacific Region. From 1975 till 2000, trade preferences and economic co-operation between the EC/EU and the ACP countries were regulated by the Lomé Conventions (I–IV). In June 2000 a new agreement was signed in Cotonou between the EU and the ACP countries. It was headed "Partnership Agreement between members of a group of states in Africa, the Caribbean and the Pacific Region on one side and the European Community and its member states on the other". The agreement is entitled *"The Cotonou Agreement between EC and the Country Group for ACP Countries"*.

The EU has also other bilateral agreements stating unilateral trading preference which are still in force with certain Arab states in the Mediterranean region, namely Algeria, Egypt, Jordan, Lebanon and Syria. These agreements are, one after another, being replaced by bilateral mutual free trade arrangements. Morocco and Tunisia have already entered such agreements and the ratification process is underway with Jordan and Egypt, while the EU and the PLO have an interim agreement in force.

In addition to the arrangements outlined above, it is also worth mentioning that the countries in the Andean Pact receive positive special treatment from the EU thanks to a significant broadening of GSP benefits which places these Latin American countries on a par with ACP countries as regards access to the EU market. The Andean Pact is an economic cooperation organisation founded in 1969 for the countries surrounding the Andes with the exception of Chile who left the group in 1977. Central American countries also enjoy the equivalent special and differential treatment based on an enlargement of the GSP framework.

The EU GSP system is due to be revised in 2002, and the more generous preferential trading terms available to LDCs will hopefully be further expanded. According to the EU Commission's original proposal, all LDC products with the exception of arms were to be imported duty-free into the EU from 2004 onwards. The Cotonou agreement states very clearly that by 2005 at the latest, the LDCs will be able to export virtually all their products duty-free to the EU market. After long drawn out negotiations within the EU, a decision was taken to grant duty-free market access to all LDC products with the exception of arms. (This decision is referred to both by the media and EU as: *"The everything but arms initiative"*. Such a slogan is, however, misleading as no LDC actually manufactures weapons for sale to the EU or other industrialised countries. Even if they did so they would have to import generally speaking all the components and therefore not be able to fulfil the rules of origin criteria for duty free market access.) From 5 March 2001, all tariffs were eliminated for all LDC products – with the exception of sugar, bananas and rice for which final tariff cancellation will take place in 2006 (bananas) and 2009 (rice and sugar). (These new rules are found in EC Council regulation no: 416/2001 of 28 Feb 2001).

As so many LDCs had previously signed the Lomé Convention and have now signed the Cotonou Agreement, it is worth providing a more detailed description of both these agreements, particularly in those areas that address the terms and conditions of trade preferences and the future.

13.1 The Lomé Convention

The ACP group of countries has grown over the years from 46 states in 1975 when Lomé I came into force, to 71 states when Lomé IV expired. In connection with the signing of the Cotonou Agreement, the circle of ACP countries was expanded by a further six island states in the Pacific and so reached 77 member states. One of these states, South Africa, is however not eligible for preferential treatment or financing from the *European Development Funds,* EDFS, but is permitted to participate in project procurement linked to specific EU development assistance to other ACP countries. 33 of the 48 African ACP nations are LDCs, while only one nation, Haiti, has LDC status among the 15 Caribbean ACP members. Five of the 14 Pacific ACP states are LDCs, which adds up to 39 LDCs in the entire ACP group. Consequently the majority of LDCs are members of the ACP circle, with only 10 outside this group.

In addition to far-reaching beneficial trading terms, the Lomé Conventions also included specific instruments for levelling out export revenues within the agricultural sector, STABEX, and for development projects within the mining sector, SYSMIN. The EU also made a series of commitments in support of trade and investment. These instruments and other measures along with other EU development assistance to the ACP group were to be financed from special European development funds (EDFS). Sweden contributed to the eighth development fund, which covered the final period of Lomé IV, i.e. 1995–1999.

An important element in the Lomé Convention was the opportunity for origin cumulation within the EU-ACP group, even though the rulings on this were made on an ad hoc basis. The cumulation of origin makes it easier to satisfy the criteria of original content for duty-free market access of certain ACP products to the EU market. It was also meant to encourage industrial co-operation and integration within the ACP group. In practice this opportunity has not been utilised to any appreciable degree due to lack of suitable industrial products and projects. The level of industrialisation in most ACP countries has been too low to benefit from this form of cooperation.

The Lomé Convention had to be revised when Lomé IV expired in 2000, as it had been granted a temporary waiver in GATT in 1994. This waiver had allowed the current convention to continue but not to be prolonged. One of the reasons for the decision was that the Lomé Convention was a unilateral free trade arrangement, which did not fulfil the requirements for mutuality as laid down in Article XXIV in GATT on free trade. The Lomé Convention also included a discriminatory preferences system vis-à-vis other developing countries outside the convention, who were forced to use the EU's GSP instead. As the Lomé Convention provided more preferential treatment for the ACP countries than for most other developing countries, this contradicted one of the fundamental principles of GATT and the WTO.

13.2 The Cotonou Agreement

On 23 June 2000, a new partnership agreement was signed between the EU and its member states, and the member states of the ACP group. The agreement covers a twenty-year period and will replace the current co-operation regime, except for the trade areas in which new agreements are to be negotiated and finalised before 2008. Such negotiations between the EU and individual members or groups of members within the ACP circle are scheduled to begin in September 2002. The question is whether or not the Cotonou Agreement will be granted a new waiver by the WTO for the period 2000–2007 until other solutions are agreed upon to bring it into in line with WTO regulations; in its current form, the Cotonou Agreement suffers from the same trade policy problems as the Lomé Convention.

Other important changes that should be noted are that both STABEX and SYSMIN have been eliminated in the Cotonou Agreement. Furthermore, the section on Trade and Economic Co-operation in the new agreement expressly states that the ACP countries must actively participate in the WTO and its multilateral trade negotiations. It is also emphasised that regional economic co-operation and trade are key instruments for the integration of the ACP countries into world trade. In the area of trade, the only promise is that the committee of trade ministers are to "investigate what significance more extensive liberalisation could have for ACP country trade and economic development" (Article 34:2 in the Cotonou Agreement).

All important sub sections within WTO regulations are covered by the Cotonou Agreement, and ACP countries' obligations to WTO are also emphasised. This enables the EU to put more pressure on the ACP countries to meet their WTO obligations as this can be carried out both within the WTO and within the framework of the Cotonou Agreement (articles 34-52). This should be noted against the background of the major economic, legal and administrative problems connected to the introduction of WTO regulations in ACP countries.

Support is also promised from the EU to ACP countries for debt relief and for continued assistance in the implementation of comprehensive structural adjustment programs. (Articles 66 and 67).

Full origin cumulation is permitted between and within the EU-ACP and OCT[56] (i.e. remaining EU colonies). This can also cover primary materials from a neighbouring state that is not an ACP country, but to do so the ACP country concerned must seek approval from the EU. With regard to origin cumulation with South Africa, this will be done gradually, namely after three years and then after a further six years. In the textiles area, however, rules are not as liberal. An annex to the Cotonou Agreement includes the specific rules of origin that the EU has set out for duty-free import of textiles from ACP countries. On the whole, it should be stressed that important steps have been taken to make various forms of cumulation easier both within the ACP group and with South Africa and where applicable, other neighbouring non ACP countries (see protocol and annexes IX–XII).

It is also worth noting that there is a specific article on fishing in the Cotonou Agreement. According to this, the parties have expressed a willingness to negotiate new fishing agreements. However, this exclusively concerns the right of EU members to fish in ACP territorial waters and not vice versa (Article 53).

In this context it is also worth observing that under the heading food security, the EU undertakes not to cause problems for national production and trade in ACP countries through its subsidised food exports (Article 54).

13.3 The effects of tariff preferences

ACP group exports to the EC/EU rose by just four percent by volume during the period 1988–1997, while the exports of other developing nations to the EC/EU increased by 75% during the same period. ACP countries' market share of the EU market has fallen from 6.7% in 1976, when the first Lomé Convention came into force to just 2.8% in 1999, when the fourth Lomé Convention expired.

In addition to all the other handicaps experienced by African nations vis-à-vis more advanced developing nations, it is also worth noting that the true difference between the level of preferences enjoyed by these more advanced nations within the framework of the EU's general system of tar-

56. OCT territories include Greenland, New Caledonia, French Polynesia, Dutch Antilles, Anguilla and the Falkland Islands.

iff preferences (GSP) and the ACP countries is just two (2) percent. An ACP country tariff level advantage of a mere two percent does not play a decisive role in the competitiveness of these countries' products.

However, one third of ACP exports enjoy a preference level of more than three percent above the GSP preference level and these exports increased 62% by volume during the period 1988–97, which could indicate that a higher preference level could have major significance.

Only five ACP countries enjoyed export growth on a par with the average for other developing nations, namely, Mauritius, Jamaica and, at a slightly lower level, Madagascar thanks to its textiles exports, and Kenya and Zimbabwe through the export of cut flowers, fruit and vegetables.

ACP countries are now at a preference level for manufactured goods that is 1.6% above the GSP level, implying only a very marginal improvement in their ability to compete. The sectors that enjoy the most significant preferences are chemical products, shoes and textiles plus clothing. However the rules of origin limit the opportunities for most ACP countries to take advantage of these benefits. (ACP country exports of manufactured goods by volume rose by just 1.5% between 1988–97).

The level of preferences on agricultural products has remained high, although 50 percent of agricultural exports, including coffee and cacao, have ceased to enjoy preferential treatment since the year 2000. Other agricultural exports still enjoy a preference level of around 10 %.

Around 1,000 agricultural products are still not totally duty-free for ACP countries not belonging to the LDC group. For many agricultural products there is either a certain tariff reduction (often of 16 %) or a reduction in Euros per ton, or seasonal restrictions. The competitiveness of ACP countries could be considerably improved if these tariffs and restrictions were removed.

When tariffs have been removed from all agricultural products except bananas, sugar and rice for all LDCs, irrespective of if they are included in the ACP group or not, their chances of establishing themselves in export niches for agricultural products will have improved considerably.

It can be noted that, generally speaking, the tariff advantages granted by the EU to the ACP countries are only marginally better than the GSP terms. However, benefits related to agricultural products have increased considerably for the LDC group within ACP who are now freed from tariffs for all such products with the exception of bananas, rice and sugar. The tariffs on these three products will also decrease gradually over the next few years.

13.4 A coherent trade and aid policy

13.4.1 The concept of coherence

In recent years, primarily the IMF and the OECD have begun to use the concept of coherence. Countless papers and reports have been published in which the concept of coherence has been taken to be synonymous with the meaning that all aid initiatives should be in line with, co-ordinated with, and in terms of policy, subordinated to IMF guidelines and WTO rules and regulations. The Swedish National Board of Trade's official definition of the concept of coherence reads as follows:

> "*Coherence:* Consultation between the WTO, IMF and World Bank (IBRD) with the aim of achieving greater insight into and mutual understanding of the implications that the activities of the respective organisations will have for the work of the other institutions. The goal is to promote coherence between the complementary efforts that the WTO, IMF and World Bank make on behalf of international economic stability in general and the situation in the developing world in particular. Cf. IMF, the World Bank."
> (Swedish National Board of Trade, http, 2001).

In this context it may be worth once again emphasising that the liberalisation demands of the IMF in debt rescheduling agreements with developing countries – including a large number of LDCs – goes far beyond the requirements laid down by WTO. Subsidies have been totally or partially removed and extensive liberalisation and privatisation has occurred in the state enterprise sphere. Consequently, most LDCs have gone further along the liberalisation road than is required of other industrialised countries and developing country member states, which means that in several areas, LDCs will not have a great deal more to offer.

The above interpretation and use of the term coherence differs from the definition given to the concept by EU development assistance bodies and which was given particular emphasis during the Dutch Presidency in 1997 and which also accords with the Sida definition. In this case, coherence shall be achieved between development assistance objectives and trade policies i.e. that trade policy actions must work for, and not against, development objectives. This can be illustrated with the support of a policy paper on *Coherence* dated Amsterdam, 28 February – 2 March 1997. This paper was presented and discussed during the Dutch Presidency. In its introduction the following is stated:

> "The establishment of the Maastricht Treaty has given the European Union a legal foundation for pursuing consistent economic and external policies that take account of the interests of developing countries. In practice, however, it turns out that there is little systematic weighing of interests; indeed, the procedures for doing so have not been devised. As a result, development co-operation policy amounts to do no more than measures to alleviate or offset the negative effects of other European policies. Nor, on balance, does it make any positive contribution towards realising the development co-operation objectives of the European Union."

In article 130 U and Y in the EU treaty on development cooperation three principles are cited, namely "complementarity, co-ordination and coherence". During the Dutch Presidency, work was started on analysing EU policy towards developing countries based on these concepts and with reference to other relevant articles in the treaty text. Initially, activities centred on food security and coherence, the EU's fishing agreements with developing nations and coherence and conflict prevention and coherence.

13.4.2 Food security and coherence

With regard to food security and coherence, there are several examples of how the dumping of EU food surpluses has driven local production out of business in ACP countries. A frequently quoted case is meat dumping in Cameroon, which resulted in the total failure of local meat production projects, developed using aid from the EU. It is also worth noting that in the Cotonou Agreement with the ACP countries, the EU and its member states promise to attempt to avoid this in future. However no guarantees have been provided and the EU has a gigantic meat mountain. What is more, recipient countries have no right to introduce anti-dumping tariffs or other protective tariffs against these products according to the so-called Peace Clause in the Agreement on Agriculture (see Chapter 10.6.1).

13.4.3 EU fishing agreements and coherence

Concerning coherence aspects linked to EU fishing agreements with developing countries, the major, repeated criticism is overfishing or depletion of fish stocks off the coast of Africa. Over the years the issue of overfishing has been a constantly recurring theme in reports from the UN Food and Agriculture Organisation, FAO.

The background to this is that the EU fishing fleet is vastly oversized in relation to the fish stocks in the EU's own waters and fishing opportunities in international waters. The industry is also heavily subsidised within the EU. At the same time, a large number of developing countries and not least LDCs possessed rich fishing grounds within their territorial borders while their own low technology fishing fleets could only manage coastal fishing.

The EU Commission has mostly managed to negotiate very advantageous agreements on behalf of the fishing fleets of its member states. However, there has been very little control of either fishing methods or catch volumes, which has resulted in overfishing. This has in turn resulted in the steady depletion of coastal fish. Fish stocks have fallen dramatically including for the African ACP countries, which have concluded bilateral fishery agreements with EU. Even though the EU has helped to improve technology, training and equipment through its aid programmes to the developing states in question, the final result has been a depletion of fish stocks and consequently supplies for local people have dwindled.

The Dutch Presidency strove for the development of a new fishing policy that would be able to demonstrate coherence with the established development goals of the developing countries affected. With regard to the EU's future rights to continue fishing in ACP territorial waters, this is covered by the Cotonou Agreement in which the ACP countries and the EU and its members also undertake to enter into similar agreements in the future. (Coherence Between the Fishery Policy and Development Policy at the European Union, Mölsä, Hanna, Finland 1997). It should be noted that the fishing agreements in themselves are negotiated between the EU Commission and each country and therefore constitute separate, bilateral agreements.

The Cotonou Agreement provides for the duty-free market access of processed fish products, and during the period 1987 to 1997, the ACP countries' exports of such products to the EU increased by 110 %. While this may appear to be a very positive development, it reflects just a small fraction of the ACP countries' potential.

In this context it is worth noting that the tariff level for fish and fish products is high, which means that the preference margin for the ACP countries is correspondingly high:

Fresh fish	23%
Other fish products	26%

(WTO document WT/CTE/W/25 22 March 1996; Tariff Escalation, Table 3)

For all the LDCs possessing fishing waters, the introduction of zero tariffs for fish and fish products is extremely positive. At the same time the over-fishing problem, especially in large areas along the African coast, must be dealt with if the countries concerned – of which several are LDCs – are to be able to utilise and develop any domestic fishing industry worth mentioning.

13.5 Some conclusions

The new Cotonou Agreement does not include any liberalisation of trade, but it does bring improvements as concerns origin cumulation. It is hoped that these more generous regulations will stimulate an increase in trade within the ACP group and possibly with certain neighbouring developing countries. A best case scenario would be for it also to stimulate a certain degree of industrialisation between ACP countries and increased interest from the rest of the world concerning investments in the ACP country group which currently includes the majority (39 of a total of 49) of the LDCs.

What the planned future partnership agreements between the EU and individual or groups of ACP countries outside the LDC group will mean for the latter category of ACP countries remains open to debate.

The above presentation clearly indicates that preferences are significant. In those cases where there is a large difference between the level of preferences offered to ACP exports and to other developing world exports, the ACP exports have shown a marked increase, while the opposite is the case when there is little difference between preferential tariffs.

In light of the reluctance (see Section 13.1) several EU countries have shown during the talks on introducing zero tariffs for virtually all products from LDCs, it can be assumed that many of the 1,000 or so products that up until 5 March 2001 were subject to tariffs are of tremendous interest to the LDC nations. Abolishing tariffs of this kind can also provide certain interesting opportunities for processing of agricultural products in LDCs. However, the effects of liberalisation on bananas, sugar and rice will be delayed as the process is to occur gradually.

One serious problem is connected to the issue of coherence between trade policies and food security if the EU's extensive dumping of foodstuffs, including meat and butter, on developing countries in general and LDCs in particular continues. The impact of this dumping knocks out, or seriously damages, local production in the same category. It is important that development objectives are prioritised above industrialised countries' – and especially EU's – interests as concerns dumping their food surpluses on economically vulnerable developing countries, of which LDCs are the most prominent.

It is extremely positive for all LDCs with fishing waters that tariffs have been removed on fish and fish products. As mentioned above, measures must be taken against overfishing so that the LDCs concerned are provided with realistic opportunities to independently develop and maintain a domestic fishing industry.

Finally it can be noted that the question of coherence between trade and development assistance policies with the aim of creating real economic development opportunities remains a sensitive issue which should be examined more closely. It is important that the different definitions of the concept "coherence" be elucidated. The one definition focusing on coherence between, on the one hand WTO regulations and on the other hand IMF and World Bank policy, where the two latter organisations must observe WTO regulations. The other definition focusing on coherence between development assistance objectives and trade policies, including demands that the latter must support – and definitely not sabotage – the former. This does not, therefore, mean a superior role for trade policies, more of an adaptation. Unless these differences in objectives of the concept of coherence are brought forward into the light, the various actors will continue to talk at cross purposes, which in turn may result in more contradictory decisions which seriously affect the situation of LDCs.

South–South trade and regionalisation

CHAPTER 14

14.1 Regional liberalisation: *trade creation* or *trade diversion?*

Regionalisation is a dominant trend in trade policy today. Virtually every developing country is involved in, or is about to negotiate, some form of free trade agreement. This process has also been intensified within industrialised country circles. The expansion of the EU and a broadening of the US free trade agreement with Canada and Mexico to include other Latin American countries are typical contemporary examples.

In contrast to the rules and regulations of global trade policy, this is more a question of different forms of trade agreements, each having its own rules and regulations and dispute settlement mechanisms. At the same time however, it is worth noting that these individual agreements may not contradict WTO rules and regulations and that substantially all trade must be included in a free trade agreement. In other words, a free trade agreement that only covers one or some sectors is not acceptable. All free trade agreements and customs unions[57] are examined by the WTO – assuming that the states in question are members.

According to prevailing trade theory, abolishing tariffs generates more trade. Production will migrate to whichever countries are the most competitive. In the absence of a total end to tariffs worldwide, establishing a customs union and/or a free trade zone can be an important intermediate stage. It can also be viewed as a method for preparing for more far-reaching liberalisation and a way of becoming more competitive. Or at least this is how the WTO likes to regard this contemporary regionalisation trend.

57. In a customs union, member states have the same tariffs for third party countries, while each individual member of a free trade agreement retains the right to determine what duties are to apply to third party countries. A third party is any country outside the customs union or free trade agreement in question.

According to theory, both a free trade zone and a customs union should lead to increased trade and so meet the criterion of *trade creation*. This means that a competitive advantage will develop in line with the model that each respective member of a union/free trade zone will increase its production of the goods that it is "best" at producing. The assumption is that other countries in the union/free trade zone will import the products in question rather than producing them nationally. This will lead to lower prices and more people will be able to afford to buy more, which is positive for both manufacturing and trade.

At the same time, there could be other countries outside these trading blocs that are actually able to produce the goods in question at a cheaper price. However, imports from these countries are more likely to fall than rise because they are not part of the customs union/free trade zone and are therefore subject to tariffs. Consequently, at the initial starting point, i.e. before the customs union/free trade zone was created, this category of countries could have exported more and had the potential to further increase their exports. The introduction of a trading bloc broke this trend, as the country that has the most competitive production within the customs union/free trade zone increases its production at the expense of countries outside. This phenomenon is called *trade diversion*. Trade between the USA and Mexico within *the North American Free Trade Agreement* (NAFTA) and internal trade in the EU both display signs of trade diversion.

Free trade blocs/customs unions are either open for additional members to join or closed. As a rule, they generally encompass a limited geographical zone which normally means that only countries within a specific area such as Europe, America or Africa can join. And conversely, countries outside these areas cannot become members. A typical example is the response Morocco received when it applied for EU membership in 1987. The reply made clear that as a non-European country, Morocco was not eligible for membership. (Since Turkey announced its intention to seek membership, Morocco has questioned this particular EU criterion.)

The relationship between *open* and *closed* regionalism can also be linked to customs union entry criteria for economic convergence and harmonisation of rules and regulations. This does not have to be all-inclusive as other political considerations can govern how de facto open or closed different regionalisation aspirations are.

The concept of *open regionalism* is also used in technical literature to indicate that we are talking about an arrangement that also includes continued parallel liberalisation on a global level – in contrast to earlier regional blocs established in the 1960s and 70s.

In this context, *the Asia-Pacific Economic Co-operation,* APEC[58] should be mentioned. In contrast to all other customs and free trade arrangements, APEC negotiations are multilateral, i.e. any individual liberalisation measures taken by a member state also applies on a global level and not just within the membership circle. This can be viewed as a special kind of open regionalism.

14.2 Customs unions and free trade zones that include both industrialised and developing countries

14.2.1 EU free trade arrangements; current and planned

The EU is by far the most important customs union in the world today, and the EU's gradual and continued expansion means that it will become an even more significant trading bloc. Even the countries that are part of *the European Economic Co-operation Agreement,* EEA, namely Norway, Iceland and Liechtenstein should be included in this context as they have been largely integrated into the ever-expanding European free trade sphere through pan-European cumulation of origin. (Origin cumulation is defined as being allowed to utilise primary products/materials from another country and include the processing value in the national origin value).

The EU free trade sphere is under further expansion via new free trade arrangements. EU policy within the framework of *the Barcelona Process* aims to create a large free trade zone between the EU and countries in the eastern and southern Mediterranean plus Jordan (excluding Libya however). This free trade policy was set out in the Barcelona Declaration in 1995 which calls for the free trade zone to be established by 2010, which may be somewhat over optimistic. Israel as well as Turkey, Malta and Cyprus also signed the Barcelona Declaration and are to be a part of the future Euro-Mediterranean free trade area. All these four countries already have, however, long term bilateral free trade agreements or customs union arrangements with the EU.

The EU is also negotiating to establish a free trade zone with the six Arab Gulf states in *the Gulf Co-operation Council,* GCC, namely Bahrain, the United Arab Emirates, Kuwait, Oman, Qatar and Saudi Arabia. One condition set by the EU in preparations for the final negotiations is that a customs union be established within the GCC, which the Arab states con-

58. The following are APEC members: Australia, Brunei, Chile, the Philippines, Hong Kong China, Indonesia, Japan, Canada, China, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Russia, Singapore, South Korea, Taiwan, Thailand, USA and Vietnam.

cerned hope to be able to achieve by 2005. It is also worth mentioning that both the EU and the USA have advocated expanding the GCC to include Yemen, which for Yemen as an LDC would have been very positive news. The GCC is, however, not in favour of such a step.

Chapter 13 in the Cotonou Agreement noted that the EU's future strategy for the ACP countries would be based on mutuality and free trade arrangements in line with WTO rules. In the first instance this applies to countries that are not LDCs. All in all, this means that the EU sphere of mutual trade preference arrangements will become stronger in the years to come. Increasingly strict requirements will be placed on the developing countries concerned compared with the current situation of unilateral preferences. In this context, the free trade agreement negotiated between the EU and South Africa should also be mentioned. The agreement is currently at the ratification stage within the EU.

In July 2000 a free trade agreement came into force between the EU and Mexico. The agreement covers both industrial goods and a substantial number of agricultural products. The agreement is asymmetrical in the sense that the EU undertakes to reduce tariffs more rapidly than Mexico. However both parties are to have eliminated duties on products covered by the agreement within ten years. Negotiations have also been in progress since 1999 on an association agreement/free trade agreement between the EU and MERCOSUR[59]. The same is the case for the EU and Chile.

14.2.2 Free trade arrangements that include the USA

An expansion of NAFTA is planned on the American continent to eventually also include Chile. Parallel with this development, the USA has mapped out the route to an all American free trade sphere, *the Free Trade Area of the Americas*, FTAA. In 1994 the USA and 33 other American countries – excluding Cuba – adopted an action plan aimed at the establishment of an all American free trade area. Negotiations towards such an agreement are to be finalised by the year 2005.

The USA and Israel also have a free trade agreement that has been fully operational since 1995. This agreement was signed in 1983. The US has added a unilateral supplement to this agreement broadening free trade to include Palestinian and Jordanian products – provided they have been manufactured in a specific industrial zone in the city of Irbid in Jordan. The US Congress is also due to consider a regular free trade agreement with Jordan this year. A similar initiative between the US and Egypt is

59. Mercado Común Del Sur, MERCOSUR, comprises Argentina, Brazil, Paraguay and Uruguay.

under discussion. The US is also a member of APEC, as discussed earlier in this chapter.

14.3 Free trade agreements between developing countries

As the trade agreements between industrialised and developing nations described above have been established, there has also been strong growth in trade between the developing countries that can best be described as middle income countries. Numerous new or renewed free trade strategies have taken shape or been revised and extended.[60]

14.3.1 Latin America

In Latin America special mention should be made of *Mercado Común del Sur,* MERCOSUR, a common market made up of Argentina, Brazil, Paraguay and Uruguay. MERCOSUR was started in 1991 with the aim of establishing a customs union by 1995. Duties on exempted products were to be abolished by 2001. There has already been a major increase in trade within the group.

There is also an umbrella agreement for all co-operation within Latin American, *the Latin American Integration Association* (LAIA); (ALADI in Spanish)[61], that in 1981 replaced an earlier initiative *the Latin American Free Trade Area,* LAFTA, dating from 1960. The aim is to eventually create a regional common market. To date LAIA has played a very limited role in moves to develop regional integration.

The Andean Pact[62] is another South American trading bloc. Four of the member states have established a partial customs union. Eventually this will include the free movement of goods, services, capital and labour, all of which is to be in place by 2005. This has had a positive effect on trade within this group. Countries in Central America have also tried to create a *Central American Common Market,* CACM[63], with an internal free trade zone and a common external tariff barrier. The majority of internal trade barriers have been removed, but the process has been rather long drawn

60. The main sources of much of this section are World Bank analyses on regional integration, and especially Regional Integration; Trade Blocks Policy Research Report, 2000 plus information from individual organisations including from their web sites.

61. LAIA comprises Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela.

62. Bolivia, Colombia, Ecuador, Peru and Venezuela, although Peru remains outside the customs union.

63. CACM comprises Costa Rica, Guatemala, Honduras, Nicaragua and El Salvador. Panama is an associate member.

out. Two of the member states, El Salvador and Guatemala have resolved to take a step further and establish a bilateral customs union.

There is also the *Caribbean Community and Common Market,* CARICOM[64]. Virtually all the CARICOM countries are also part of the ACP group that signed the Cotonou Agreement with the EU. The member states have signed far-reaching agreements designed to create a common market. However the ratification and implementation process is proceeding very slowly, and the effects have so far been limited. Nonetheless, significant trade liberalisation progress has been made and a common customs tariff is in the process of being introduced.

Of total exports from Latin America the proportion that goes to developing countries fell from 29% in 1997 to 22.5% in 1999. Most of these exports go to developing countries within Latin America, namely 20.6% in 1997 and 15.9% in 1999 of total exports.

14.3.2 Asia

The best known organisation in Asia is *the Association of Southeast Asian Nations,* ASEAN[65], within which a free trade agreement was reached in 1993, *the Asian Free Trade Association,* AFTA, whose goal is to have abolished tariffs inside the group within 15 years.

In the mid 1980s, seven countries in Southern Asia initiated *the South Asian Association of Regional Co-operation,* SAARC[66]. In 1993 *the South Asian Preferential Trade Agreement,* SAPTA was established. Several negotiating rounds have taken place within the framework of this agreement. Progress towards a duty-free zone has been slow and the deadline has been extended to the year 2008 for non-LDCs and to 2010 for LDC members. There are also plans to establish a customs union by 2015 and a common monetary and economic policy by 2020.

BIMST-EC (the acronym is based on the initials of the participating states namely Bangladesh, India, Myanmar, Sri Lanka and Thailand), founded in 1997 should also be mentioned. This partnership includes trade, investment and infrastructure. However, tangible benefits have yet to be seen.

Of the combined exports of Asian developing nations (excluding oil states in the Middle East) the proportion that went to developing coun-

64. CARICOM comprises Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St Kitts and Nevis, St Lucia, St Vincent and the Grenadine Isles, Surinam, plus Trinidad and Tobago.

65. Members are Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Laos and Burma/Myanmar and Cambodia. The latter are relative newcomers.

66. The following are members of SAARC: India, Pakistan, Bangladesh, Sri Lanka, Bhutan, the Maldives and Nepal.

tries fell from 49.5% in 1997 to 46.6% in 1999. Most Asian exports to developing countries are within Asia, namely 27.2% in 1997 and 26.4% in 1999 of total exports by value.

The Arab world is also trying to develop various kinds of free trade. There is *the Gulf Co-operation Council,* GCC, which aims to establish a customs union by 2005, and a Pan-Arab (all Arab states in the Middle East and North Africa) decision was taken in 1997 to abolish all tariffs between Arab states by 2008, based on bilateral agreements on tariff reductions.

14.3.3 Africa

Ever since independence, African countries have made many attempts to create various co-operative organisations in order to increase trade and promote industrialisation through integration. So far with very limited success. However in light of the ever-growing trend towards regionalisation in various parts of the world along with the continued globalisation, many African states are also trying to develop partnerships. The EU has also expressed a wish that the African ACP states which have signed the Cotonou agreement, develop free trade blocs. The agreement requires that by 2004 non-LDCs must enter into negotiations on permanent future free trade solutions.

EU has set out proposals on how a transition to free trade agreements with individual or groups of African countries could be carried out within the framework of REPAS, *Regional Economic Partnership Agreements*. Similar proposals have been presented by Walter Kennes of the EC Commission (Kennes 2000, p.30). Plans to divide up the African continent into different free trade blocs and also a type of LDC group have given rise to criticism from many different parts of Africa. If the LDCs were excluded, a map of sub Saharan Africa would look like Swiss cheese. The main criticism is aimed at the problems which may arise if the continent is further split, and how this would weaken the preconditions for dynamic economic co-operation on the continent. While EU, through its enlargement, is collecting the European states into an increasingly strong unit, EU's African policies may have the opposite effect unless rules of origin etc. are made extremely liberal and flexible.

Within the framework of *the Organisation of African Unity,* OAU, various initiatives have been adopted to create a pan African free trade zone. In 1994 *the Common Market for Eastern and Southern Africa,* COMESA, was established, replacing the earlier *Preferential Trade Area,* PTA. COMESA's principal goal was to establish a free trade zone by the year 2000 and then take the next step of realising a customs union. Transport systems and communications are also to be liberalised. Goals include a common regulatory framework for investments and standards and a harmonisation of macroeconomic policy-making within the group.

Currently, COMESA[67] has 20 member states and a population of 385 million. Internal trade between members has more than doubled between 1991–98, and now exceeds USD 2 billion.

As an organisation COMESA has been granted observer status at the WTO. The organisation has also established common positions for member states as preparation for the next WTO round.

Large parts of COMESA overlap with another important African organisation, *the Southern African Development Community,* SADC[68]. This organisation's aim is to create wide-ranging economic cooperation between all member states and to establish a free trade zone. However, regional conflicts, mainly the war in the Congo, have created problems in implementing the SADC action programme. The member countries are experiencing major economic problems and it is estimated that 40% of the 190 million inhabitants in the region live in extreme poverty.

In this context it is worth mentioning the longstanding *Southern African Customs Union,* SACU[69]. The fact that South Africa has entered into a free trade agreement with the EU has complicated matters within SACU.

Yet another noteworthy example is the *Common Market for East Africa,* EAC, that was created – or more accurately reformed – in 1999 and consists of Kenya, Tanzania and Uganda. The aim is to create a common market for goods and services and the free movement of labour and capital. Rwanda and Burundi have also applied to join the EAC.

In West Africa there is another organisation, *the Economic Community of West African States,* ECOWAS[70]. Like the other organisations already discussed, ECOWAS aims to eliminate tariffs between member states and to create a common market with common tariffs vis-à-vis third party countries. The economic policies of member countries are also to be harmonised, and a monetary union established. However, this region has also been torn by wars and crises that have prevented any great progress in the spirit of ECOWAS.

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67. Angola, Burundi, Comoros, Congo (D.R.) Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, the Seychelles, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

68. The following are members: Angola, Botswana, Congo (D.R.) Lesotho, Malawi, Mauritius, Mozambique, Namibia, the Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. However Tanzania has withdrawn from free trade co-operation.

69. Customs union members are Botswana, Lesotho, Namibia, South Africa and Swaziland

70. Member states are Benin, Burkina Faso, Cape Verde, the Ivory Coast, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal and Sierra Leone plus Togo.

The *Union Economique et Monétaire Ouest-Africane*, UEMOA,[71] is another organisation worth noting. Its common denominator is ties to the French Franc. The organisation was restructured in 1994 when it adopted its current name. The restructuring project was designed to make the organisation more efficient, something that has been only partially achieved.

There is also *the Arab Maghreb Union*, AMU,[72] established in 1989. The aim was to create an integrated market and build a partnership that embraced economic, social and cultural areas. However the issue of Western Sahara has been a stumbling block preventing cooperation to date.

Of total exports from African states, the proportion that went to developing countries rose from 27.8% in 1997 to 28.6% in 1999. Exports within Africa amounted to 10.6% in 1997 and just under 10% of total exports in 1999.

14.4 LDC opportunities for increased regional trade

The above account of all the important free trade agreements affecting developing nations reveals that, generally speaking, all developing countries including LDCs have entered into some form of free trade arrangement. A great many developing nations are also party to more than one agreement.

Certain free trade initiatives have been realised in full or in part, and the establishment of a customs union beckons. At the same time, there are plenty of examples of total or partial failures to report. Delays in timetables for tariff abolition are not uncommon. Yet despite all the shortcomings, efforts to achieve greater integration have intensified and interregional trade is important – also between LDCs – in Africa.

As the majority of LDCs are, to a large extent, raw materials exporters their markets are mainly not other LDCs but industrialised countries and, to a certain degree, the most industrialised developing nations such as Brazil, India and ASEAN countries. Naturally this is a major influencing factor on regional trade in the short and also in the medium-long term.

Furthermore the demand for the kind of raw materials produced by LDCs is not rising, which means that increased exports can lead to falling prices instead of increased revenues. Previously in this report, the negative development of the relationship between LDCs' export prices for raw ma-

71. Members are Benin, Burkina Faso, the Ivory Coast, Mali, Niger, Senegal and Togo, i.e. former French colonial West Africa.

72. AMU includes Algeria, Libya, Morocco, Mauritania and Tunisia.

terials and the prices of the industrial and processed foodstuff products imported was examined. In other words their *terms of trade* have deteriorated considerably. This also negatively affects countries' opportunities to generate resources for other investment projects in order to increase their general levels of development.

In addition, the physical infrastructure within and between LDCs is often so poor that it can be both more difficult and more expensive to develop effective regional trade than to import the products concerned from an industrialised country, which for African states often means their former colonial rulers. This has also been addressed earlier in this report. To which can be added inefficient administration and corruption. Smuggling is also widespread, but for obvious reasons, such trade never appears in official statistics.

Although both formal and real trade obstacles are attracting ever increasing attention from the industrialised countries and within LDC circles alike, the implementation of a well functioning society with a sufficiently developed administration and an acceptable infrastructure is far distant and the resources available are very, very modest. Several initiatives have been taken, as described above, to gradually overcome these barriers through liberalisation between countries on a regional level and through harmonisation of various parts of the trade policy rules and regulations. Against this background it is important that EU's future policy for free trade agreement regarding developing countries within the ACP group, does not work counter to or hinder regional economic cooperation and integration, which can provide better preconditions for regional trade including the LDCs of each region.

Future WTO negotiations

CHAPTER 15

15.1 A possible new round

When plans for a major new round of WTO negotiations floundered at the Seattle World Summit in December 1999, it was the reluctance of the developing countries rather than the demonstrators on the streets outside that proved decisive. The number of developing country members at the WTO had increased considerably since the Uruguay Round, and this new majority began to make its presence felt. The developing countries were frustrated about the undemocratic nature of the summit and were not prepared to enter into negotiations on a whole host of new areas.

For a number of years the EU has been the most prominent advocate of a new round of negotiations, where they wish to include the "new issues" such as investment, competition, labour and the environment. The EU's primary motive for a broad round is that they wish to balance out the current agriculture talks – where they themselves have defensive interests – with areas where they have offensive interests. Off the record, it is well known that the EU will not enter into serious talks on agriculture unless there is a new round. For their part, the developing countries have stubbornly argued that they are unwilling to enter into new negotiations until various outstanding issues concerning the implementation of the Uruguay Round have been resolved. In plain English: the developing countries will not accept new negotiations until they have seen some tangible results from the agriculture and textiles agreements, while the industrialised countries want a new round to be able to negotiate some concessions in these areas.

Another reason why the developing countries are so hesitant is that these "new issues" – just as the TRIPS Agreement, for example – affect central areas of national policy and not only trade policies.

In preparation for the next WTO Ministerial Conference at the end of 2001 in Doha, Qatar, where a decision on a possible new round may be taken, disagreements continue. EU representatives have, however, indicated that they could consider a partial move away from the principle of "single undertaking", partly by making negotiations on investment and competition issues voluntary (BRIDGES 2001b). There may, however, be objections to this way of working. If the developing countries are not part of the original negotiating group they risk being more or less forced to sign up to a finished product at some time in the future. The EU has also agreed to give all LDC products duty-free access to the EU market (Regulation 416/2001; see also Chapter 13) as part of its efforts to persuade the developing countries to be more positively inclined to a new round.

A short resume of these new issues is provided below.

15.1.1 Investment

Discussions concerning investment were initiated in WTO in 1996. Following the failure of OECD negotiations on a multilateral agreement on investments (MAI) in 1998, the WTO appeared to be a possible forum for future negotiations in this area. MAI was designed to improve the climate for international investments by creating similar rules in all participating countries[73] and also to accord foreign corporations national treatment. It also included far-reaching rights to compensation in the event of, for example, expropriation. The proposal was very comprehensive and based on very broad definitions of "expropriation" and "investment", which even extended to the pre-investment phase.

Investment rules within WTO could mean that the TRIMS rules, which only apply to trade related investment measures, would also apply to all foreign investments, including production for the domestic market. Although a few, more advanced developing countries (mostly in Latin America) expressed a great deal of interest in the MAI Agreement, the vast majority of developing nations have been sceptical about both MAI and investment negotiations within the WTO. This is mainly due to concerns that an agreement would restrict their freedom to regulate and control foreign investment in line with their own national interests.

It is worth noting that the current TRIMS, GATS and TRIPS agreements all touch on investment issues.

73. Today there are around 1,500 bilateral investment agreements regulating terms and conditions for corporate investments in bilateral partner countries. One idea behind MAI was that the great mass of bilateral agreements would be replaced by a single set of regulations. However MAI has actually had many more far-reaching consequences than these bilateral agreements.

15.1.2 Competition

Trade and competition have been discussed within the WTO since 1996. These discussions are motivated by the fact that lack of competition legislation in certain countries risks undermining the effects of trade liberalisation. The ultimate aim of these negotiations is to create a multilateral framework for national competition legislation. To date the most sensitive issue (where the OECD countries strongly disagree) has been to what extent the discussions should also include the competitive consequences of anti-dumping and countervailing duties.

In general, developing countries and LDCs lack advanced competition legislation. The numerous mergers between multinational corporations, along with the wave of privatisation of publicly owned monopolies that have swept the world have, however, clearly demonstrated the need for competition policies in the developing world too. Nonetheless, there are reasons why countries at different stages of development need different types of competition policy. Many developing countries pursue, just as Japan previously did with great success, a policy that does not have free competition as its ultimate goal, but which in certain cases favours the growth of major domestic companies. From a dynamic perspective, this can be better for economic growth within the country than encouraging static economic efficiency by maximising competition (Singh and Dhume 1999).

Many developing countries are totally opposed to competition discussions in the WTO, while others have argued that the development dimension must be taken into account. Developing country doubts are probably based on concerns that future international rules would hamper the growth of major national corporations by forcing them to compete "on equal terms" with major foreign corporations. In many cases however, national companies would never be able to compete with multinational corporations who possess such advantages as global economies of scale, if they had to do it on equal terms.

Once again, this is an area where it can be questioned whether current legislation in the industrialised countries should be the norm for LDCs and developing countries which are currently experiencing totally different needs and circumstances. This is not to deny that both developing and industrialised countries might need a global competition law that could address these issues, which are becoming more and more urgent as global industries, such as the automobile and pharmaceuticals sectors, become increasingly concentrated. However this has not been the primary aim of the discussions within WTO.[74]

74. In 1980 the UN General Assembly adopted Resolution 35/63 – *"A Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices"*. However these rules are not binding.

15.1.3 Labour

In response to demands from their trade unions, the USA and EU have, for a number of years, sought to discuss the link between trade and labour standards. When the issue was discussed at the first WTO Ministerial Conference in Singapore in 1996, the matter was referred in its entirety to the ILO, although several countries are still trying to add it to the WTO agenda. The discussion has essentially been about a handful of ILO Conventions, the so-called core labour standards, mainly freedom of association and right to collective bargaining and the bans on child labour, forced labour and discrimination against workers. Advocates of a so-called social clause would like to link these labour standards to WTO rules.

This issue has, however, been more like a red rag to a bull for the developing nations who fear that industrialised country interest is motivated by a desire to exclude low wage competition[75] by creating a level playing field, rather than through genuine concern for employees. The industrialised countries have long denied that they wish to link labour standards to trade barriers ("red protectionism"), but President Clinton's speech in connection with the summit in Seattle, where he did not rule out the possibility of using trade measures, demonstrated that the developing countries have cause for such concerns. Clinton's remarks were a contributory factor to the developing countries' refusal to agree to a new round. (It should however be noted that the USA itself has not signed up to all the ILO standards in question and hardly has an unblemished track record when it comes to tolerating trade unions.)

15.1.4 Environment

Environmental issues were discussed at WTO throughout the entire 1990s. The developing nations have constantly been sceptical regarding talks on the relationship between trade and the environment, mostly because they are afraid that industrialised countries are going to introduce new trade barriers under the guise of environmental protection. According to the current interpretation of WTO rules, countries may not restrict the import of goods on the grounds of the negative environmental impact of their production (unless this is mirrored in the qualities of the finished product).[76]

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75. However it should be noted that these ILO standards concern the way in which workers should be treated, and not at all what a reasonable wage is. This is different from demands for a "living wage" that consumer organisations are starting to make from suppliers such as Nike.

76. A dispute in the WTO on shrimp catches has however demonstrated that the rules are no longer interpreted so one-sidedly. According to the Appellate Body ruling the USA was able to retain its import barrier against shrimp that had been caught in a way that also caused the death of endangered sea-turtles, if they modified the way in which this import restriction was implemented. (See Nycander, in Johansson (ed.) 1999).

It is worth emphasising however that increasing environmental demands on industrialised country markets do not necessarily, or in all cases, make it more difficult for developing countries to market their products to consumers in the North. For example, developing countries and LDCs both have good opportunities to gain a foothold in expanding markets for organic foods, if teething troubles with certification etc can be resolved.[77]

Apart from the genuine concerns that WTO rules would pave the way for "green protectionism" there are reasons to believe that many developing countries are opposed to these discussions for tactical reasons. The environment is seen as a bargaining chip in a larger game; if the industrialised countries genuinely do want action on the environment they will have to make concessions in the area of agriculture, for instance, so the logic goes.

In WTO discussions, subsidies and other trade obstacles that not only distort the world market but also exacerbate environmental problems – such as agriculture and fishing subsidies – have been increasingly highlighted in recent times. This is an area in which developing countries have shown great interest.

In a possible future round of negotiations, environmental issues will probably be given quite some time and space, both as an individual issue and as an important aspect in negotiations on agriculture, services etc. The opportunities of reducing environmentally harmful subsidies will also be raised. There have been rapid developments in methods of assessing the environmental impact of trade policies which may be of major significance.

15.2 LDCs' experience of WTO to date

The majority of LDCs are members of WTO, but seldom play an active role in negotiations other than possibly to monitor their own special exemptions. There are many good reasons for them not to prioritise the WTO[78]. Firstly they have yet to see any concrete effects of their membership as they have not made many major undertakings on liberalisation – the liberalisation they themselves have implemented as part of structural adjustment programs has been appreciably more drastic. And the specific tariff reductions they have enjoyed in certain cases were not negotiated through the WTO but bilaterally with the USA or EU (see Chapter 13).

77. It is worth stressing that developing countries are rarely strongly opposed to environmental demands, even those that affect their production, as long as they concern "business-to-business" requirements and not legal requirements on imports.

78. 30 LDC countries have representatives in Geneva, 10 of which attend the WTO.

Contacts with the World Bank, the IMF, EU and the USA deliver more immediate results in the form of loans, ODA and preferential tariffs. Nor have the LDCs ever been drawn into any disputes in the WTO, and probably never will as long as they are such a minor factor on the market that other countries do not think it worth their while to fall out with them.

Generally speaking, it is clear that the internal constraints in these countries mean that they have little to sell on the world market. Technical assistance and capacity development is currently more important than increased market access.

As the extensions granted to the LDCs for implementing the Uruguay Round agreements expire it will become clear that the WTO rules are also of major importance. It will be expensive to implement the agreements that require new or amended national legislation – rather than amended tariffs which, administratively speaking, is a very simple matter. Several of the agreements will also result in long-term structural changes in these countries, changes that will sometimes, but not always, coincide with their development interests. A World Bank report concludes that

> In two of the three areas reviewed, the resulting agreement provides an inappropriate diagnosis of development problems, inappropriate remedies even for the problems diagnosed. In no case did the negotiations deal with the cost of the investments the agreement mandated. […] Our review suggests then that international trade negotiations are a poor way to take on development problems. (Finger and Schuler, 1999, p. 25).

The inability of the LDCs to participate in negotiations also means that the national reforms they are forced to make have weak "ownership" in their own countries. In the same World Bank report mentioned above, the authors point out that the lack of national ownership makes it more difficult to properly implement the reforms.

> The content of the obligations imposed by the WTO agreements on customs valuation, intellectual property rights and SPS can be characterized as the advanced countries saying to the others, Do it my way! The lack of instinctive ownership of the reforms needed to comply with WTO obligations will make implementation very difficult, and will likely push governments to superficial adjustments aimed at avoiding clashes with trading partners. Private and social sector shareholders were not involved in the creation of these obligations – nor even the government agencies that will ultimately be responsible for implementation. (Finger and Schuler, p. 23–24).

This is in sharp contrast to authors who argue that the most important benefit of international trade agreements is that reforms that are politically unpopular domestically are "locked in" (Blackhurst, Lyakurwa and Oyejide, 2000).

There are signs that LDC interest in the WTO has begun to increase a little. However, it is by no means certain that they will always have such strong common interests. In the issues where the LDCs have been involved in other constellations – G11 that put forward proposals on agricultural negotiations, and the African group that presented a joint proposal on the TRIPS agreement – the proposals are much more concrete than when they have spoken as the LDC group with Bangladesh as an atypical spokescountry.

15.2.1 LDC priorities in new WTO negotiations

Below, we have summarised the WTO issues that this study considers crucial from a broader developing nation perspective and which are most important for the LDC group specifically.

The following issues are important for all developing nations, but are not of major specific importance for LDCs in the short-term:

- Increased market access
- Ban on use of anti-dumping measures and countervailing measures against developing countries
- Institutional reforms of WTO in order to make it easier for developing countries to participate.

The following issues are the most urgent for the LDCs at present:

- The principle of non-reciprocity and specific advantages for developing nations and LDCs in particular should be preserved. The extra time extensions that dominate the special treatment of LDCs today are not especially meaningful. All agreements must be adapted to come into line with LDC development efforts. This requires much more than the rather arbitrary exceptions that "special and differential treatment" has so far consisted of.
- Give the LDCs greater flexibility when implementing the

TRIPS and TRIMS agreements. They should be entitled to decide themselves when the time is right for them to implement the various parts of the agreements.

- Reduce direct costs to LDCs for implementation of the Uruguay Round agreements, through ODA in combination with less strict requirements in certain parts of the agreements.

- Strengthen the trade policy capacity of the LDCs, i.e. their ability to identify and promote their national interests rather than simply improving awareness of the WTO rules.

- Introduce some form of legal aid or ombudsoffice who can act on behalf of LDC interests in the cases where other countries infringe LDC rights but the LDCs lack the resources to pursue the dispute.

Furthermore it does not appear to us that, at present, a new round of negotiations on new areas is in the best interests of the LDCs. Even if certain of the issues may be of interest for these countries they do not, at present, possess sufficient capacity to defend their interests.

In a possible new round, LDCs should be provided with opportunities to determine themselves which parts of the completed negotiations they should implement, in a similar way as was suggested above concerning the TRIPS and TRIMS agreements.

Please also see specific conclusions on textiles and agriculture in Chapters 9 and 10.

Swedish ODA in this area to date

CHAPTER 16

Trade issues have traditionally played a subordinate role in Swedish development assistance. However, in the past few years there has been a marked increase in interest in trade policy issues amongst the parties responsible for Swedish development partnerships within both Sida and the Swedish Ministry for Foreign Affairs (MFA), and consequently a marked increase in support for initiatives that promote trade.

16.1 Trade and the environment

The first step in shaping an ODA policy for trade-related activities was taken in 1997, when Sida was commissioned by the Swedish Government to produce a report on trade, the environment and development co-operation (Sida 1998 a). The report included the following proposals

- ODA, trade and environmental policies should be mutually supportive with the goal of integrating the developing countries into the world economy and promoting sustainable development;

- within the EU, Sweden should continue to lobby for tariff free trade and the abolition of import quotas for all products from LDCs, and for a liberalisation of the rules of origin for EU imports from these countries;

- ODA should aim to increase LDC participation in particular in world trade;

- ODA should support the transition to environmentally friendly production in developing countries;

- ODA should support exports, especially environmentally friendly products from developing countries;

- ODA should be used to help increase awareness and discussions on the links between trade and the environment.

The strategy specifically proposed was:

- the development of institutions, including
  – strengthening the negotiating capacity of developing countries in international fora;
  – support for economic reform in developing countries in order to establish environmentally friendly production and consumption patterns;
  – support for more powerful and more advanced environmental institutions and environmental protection legislation.

- support for environmental and consumer organisations, including
  – NGOs within the area of "trade and the environment";
  – transfer of know-how to increase environmental awareness in developing countries.

- support for small and medium-sized enterprises, including
  – green technology;
  – organic farming.

- sector co-operation between organisations in the industrialised and developing countries.

- export-oriented initiatives, including
  – support for market intelligence for developing country enterprises;
  – the development of purchasing channels for environmentally friendly production;

- support for the development of infrastructures for certification and environmentally friendly operations;

- support for campaigns for the international harmonisation of environmental labelling;

- support for research into environmentally friendly technology and the development of new products based on the biodiversity of the developing countries;

Later that same year, a policy document based on this report was produced (Sida 1998 b) which defined and developed these proposals and guidelines more precisely.

16.2 Sida's policy for trade development

Sida's activities in this area are based on the overall goal of Sweden's development cooperation objectives i.e. to alleviate poverty, and aim at the increased coherence of Swedish trade and ODA policies.

Within the area of trade, one goal is to clarify the link between trade and development and to support partner countries, especially LDCs, in becoming more integrated into the global economy. This will enable them to take greater advantage of the opportunities trade can offer to increase economic growth and reduce poverty. Sida is also expected to support partner countries in their efforts to analyse the effects of international and regional trade agreements and to build up their own trading policy know-how. Sida will also provide background information and views to assist in the formulation of Swedish positions within the EU and WTO.

The policy lists five areas which Sida defines as strategic:

- To make trade a visible element in Sida's bilateral partnerships, from formulation of the country strategy and country programming to specific projects;

- To assist partner countries by creating a positive climate and the necessary legal framework for trade development and investments;

- To strengthen trade policy know-how and the analytical capabilities of partner countries;

- To improve the capacity of partner countries to deal with the environmental and ethical dimensions of trade and manufacturing;

- To support trade development at corporate level.

The policy document provides a number of specific proposals within these five principal areas.

16.3 Swedish ODA initiatives in recent years

16.3.1 Support via Sida

Since Sida adopted the trade policy strategy briefly touched on above, part of this work has focused on integrating trade issues into overall development cooperation (mainstreaming) and on training Sida personnel in trade issues. The fact that the first strategy paper addressed trade and the environment reflects the focus of ODA in that a large number of initiatives are closely linked to environmental issues.

In addition, financial support has been provided for a wide range of different specific ODA activities, of which the following can be named (not in any particular order):

- Support for the ICTSD (International Centre for Trade and Sustainable Development), a Geneva based international NGO, for disseminating information on issues concerning trade, the environment and development efforts;

- Support for the World Wildlife Foundation and its project entitled "Sustainability assessment of trade agreements";

- Support to enable LDC representatives to participate in the OECD seminar on "Trade policy issues: The labour, environment and competition policy dimensions" held in June 2001;

- Support for the South Centre, Geneva (an international developing country organisation representing 46 member states, including many LDCs), project "Sub-project to assist developing countries, particularly the LDCs, for their better participation in WTO negotiations on trade in services";

- The financing of a series of other seminars and studies on trade issues;

- A large number of bilateral initiatives in individual partner countries, such as
  – support for developing the capacity of Tanzania's foreign trade administration;
  – support for national projects to develop quality infrastructures in Mozambique, Namibia, Sri Lanka and the West Bank/Gaza.

The total ODA via Sida for direct trade-related issues has amounted to less than MSEK 10 (approximately one million USD) over the past three years, in other words, a very small proportion of Sida's total budget. However, a large number of other activities that are indirectly related to trade can be added to this figure, such as support for the production of domestic statistics, support for economic reform programmes, forest certification, "improve your business" courses, co-operative farming initiatives through NGOs etc.

16.3.2 Support through the Swedish Ministry for Foreign Affairs

The bulk of Swedish trade-related ODA is administered by the Swedish Ministry for Foreign Affairs and primarily consists of technical assistance channelled through different international organisations. These activities, which are predominantly concentrated on the needs of LDCs, have increased substantially in recent years to reach approximately MSEK 25 in 2000. The principal recipients in the 2000 and 2001 will be:

- WTO, whose "Global Trust Fund for Technical Co-operation" was granted MSEK 7;

- ITC (International Trade Centre), primarily for training and institutional development (MSEK 7);

- ACWL (The Advisory Centre on WTO Law), a Geneva based advisory centre for the poorest nations (MSEK 10);

- UNCTAD, for various activities related to the printing of the World Investment Report and for the UNCTAD ODA programme to promote bilateral investment agreements.

In addition, Sweden has provided other support including MSEK 4 to assist LDC participation in the third LDC conference in Brussels in May 2001.

Sweden has also supported various joint multilateral trade development programmes such as JITAP *(Joint Integrated Technical Assistance Programme to Selected Least Developed and Other African Countries),* a training and capacity development programme jointly administered by the WTO, ITC and UNCTAD.

16.4 The future direction of ODA

Sweden's overall support for trade development in the narrow sense has increased in recent years and today amounts to over MSEK 30 annually. Even so, this is only approximately 0.2% of the entire Swedish aid budget and in our opinion, there are excellent reasons to increase this substantially.

We have not sought to evaluate specific ODA initiatives in this report so we can make no comments on them. However we merely state that the direction of the support, with a strong emphasis on training and institutional development in the very poorest countries and to support these countries in building up their analytical capacity vis a vis the WTO and other trade policy regulatory frameworks, is in line with the priorities we consider most appropriate.

In this context we would once again like to stress how prohibitive the costs associated with implementing the Uruguay Round and subsequent trade policy agreements are, as the requirements are not simply a question of reducing duties and other trade barriers, but also of reforms – sometimes even from the ground up – to national legislation and the exercise of governmental authority. The generous promises of ODA to LDCs to help them implement these changes have largely failed to materialise. We therefore believe that as a matter of urgency, Sweden should increase its bilateral support in these areas, and lobby other donors to do likewise.

It is equally important to strengthen and build up an infrastructure to enable LDCs to successfully meet the various quality, health, safety and standardisation demands posed by export markets. Health and safety requirements are becoming increasingly strict in the food area, to which can be added new EU demands that products containing GM crops should be labelled as such. If the LDCs lack the capacity in the form of necessary infrastructure (laboratories, transport and storage facilities, certification organisations etc) and know-how, these new and tougher demands will become formidable barriers to trade that risk nullifying new preferential trade treatment in the form of freedom from tariffs on the EU market.

It is also important to support independent research institutes and "think tanks" that can research into trade issues from a development perspective, and provide the poorer countries with information and advice on trade policy issues. The individual LDC seldom possesses the capacity to analyse the implications of complicated regulatory frameworks and agreement small print – this calls for common resources.

Technical assistance and training initiatives currently undertaken by organisations such as WTO, ITC and the World Bank show promise and deserve continued support, but there is also a need for analytical capacity totally independent of established international organisations.

As part of our efforts to reduce the handicaps of the poorest nations, one measure to consider could be the appointment of an LDC ombuds office – possibly as a special department of UNCTAD – to monitor the interests of the poorest countries and to whom individual countries could turn for free legal advice. The "legal advisory centre" that currently receives financial support from Sweden and others is able to perform this function to a certain degree. However, in contrast to this centre, an ombuds office would play a more public and pro-active role and draw attention to vital LDC interests before they develop into full-blown disputes. In the longer term there is an urgent need to improve LDC capacity on the education/training front, preferably on a regional basis. Building up trade policy expertise demands more than short seminars and courses.

There is a tremendous shortage of initiatives to promote trade in individual partner countries, and Sweden must continue to supplement its own initiatives by working with other donors and institutes. Nonetheless it is important to emphasis that all such initiatives must be demand driven, and adapted to the prevailing circumstances in each individual LDC.

Just as important as increasing direct support to trade-related activities, however, is to continue efforts to raise the profile of trade issues within the rest of development assistance activities. This can mean e.g. that trade aspects are more clearly considered in connection with infrastructure investments, or studying the possibility of enhancing financial sustainability in programs through exports, and that support is provided to identify markets and for international marketing.

Most ODA initiatives designed to increase production are severely skewed in favour of supply instead of demand. Questions include such aspects as market access and international trade policy rules and regulations – which products pay lowest tariffs? Are there any tariff escalations that could adversely affect processing of raw materials? Are there any bilateral preferential agreements? What health, safety and labelling demands are there for products on the various export markets? What rules of origin apply for exports to the EU and USA respectively? To which markets can GM foods be exported? What labelling requirements are demanded? Such questions can be decisive for the success or otherwise of an ODA project and yet they have traditionally received short shrift from development cooperation administrators. Ongoing training in trade issues for Sida personnel is therefore vital if the mainstreaming of Sida's trade policy strategy is to be realised.

Summary and recommendations

CHAPTER 17

17.1 Summary of conclusions

17.1.1 Stagnation and marginalisation

LDCs have become successively marginalised in the global economy. They contain more than 10% of the people in the world, while their share the world's production is less than 1%. LDCs' share of world trade has continuously decreased and is currently only around one third of one percent. Sweden's annual exports are five times greater than the total exports of all LDCs together. Only 0.2% of the world's direct investments go to LDCs.

One important reason for LDCs' difficulties in asserting themselves on the world market is their lack of diversification of exports. Most LDCs – with a few encouraging exceptions such as Bangladesh – are currently as dependent on one or two raw materials as they were ten, twenty or forty years ago. For most of these products, demand and price developments have been weak for a long period of time; the raw materials which dominate LDC exports belong to the stagnating rather than the dynamic segment of world trade.

The so-called structural adjustment programs which most LDCs, especially those located in Africa, have implemented in a more or less wholehearted fashion since the 1980s, have not managed to reverse the negative trend as concerns economic growth and social development. Nothing can be said with certainty, of course, about how developments would have been without these programs, however most observers would today agree with the assessment that these programs have failed, at least in the African LDCs.

The LDCs' debt situation has deteriorated. In the majority of these countries the foreign debt burden – both in absolute terms and in relationship to exports and GDP – is dramatically greater today than in 1980 or 1990. At the same time, ODA to LDCs has decreased considerably during the last few years in spite of extensive promises of increased development assistance from the industrialised countries made in 1990, at the Second LDC Conference in Paris.

17.1.2 Globalisation's opportunities – and risks

Globalisation means that the world is shrinking, and decreasing costs of international transport and communications have created major opportunities for everyone, including LDCs, to find new markets and niches on a dynamic world market.

This study underlines how much the poorest countries of the world have to gain from increased foreign trade, and examines the dynamic effects that trade can exert on the economic development of a country: trade increases access to imported inputs and capital goods, trade can introduce new technology and know-how, new ideas and international contacts, trade makes it possible to exploit economies of scale even in countries with very limited domestic markets, etc.

At the same time the report emphasises that increased integration with the world market does not automatically lead to increased welfare. The benefits generated by increased trade can be distributed very unevenly throughout the country, and there are also risks – of unemployment, destruction of domestic agricultural and industrial production due to competition from imports, increased vulnerability, decreased food security, exhaustion of natural resources etc. – all of which must be considered in the development strategies of poorer countries.

Agriculture provides a very clear example. As this sector employs the majority of the populations of LDCs, especially in the poorest countries, its importance to food security and opportunities to alleviate poverty is decisive. At the same time the extensive agricultural subsidies provided by industrialised countries produce a wide range of foodstuffs at such low prices that no unsubsidised grower can compete. When LDCs liberalised their trade in foodstuffs, cheap food imports decreased incentives for domestic production and sabotaged local markets.

One very general conclusion is that the least developed countries have not benefited much from the various bodies of global trade regulations that are emerging within WTO. Formally, the LDCs are to enjoy a privileged position via the provisions for special and differential treatment stated in many WTO agreements. This special treatment is, however, often only marginal in importance, and most WTO agreements are primarily designed to satisfy the interests of industrialised countries. The Uruguay Round forced the LDCs, after transitional periods which will soon expire, into a series of domestic reforms which seldom lie in their own interests to prioritise. At the same time, LDCs have not obtained increased access to the markets of industrialised countries as promised.

As regards market access, the industrialised countries' specific import regulations are, however, more important for LDC exports than WTO regulations. All industrialised countries apply systems of tariff reductions for developing countries, and the recent EU decision (regulation 416/2001) to dismantle all tariffs on goods from LDCs during the next few years is highly satisfactory. However, a real improvement of market access for LDC exports of industrial products will not occur until the rules of origin applied are liberalised and the various threats in the form of safeguards and anti-dumping measures are abolished.

17.2 Proposals and recommendations

As is stated many times in this study, we do not believe that the only, or even the most important, constraints on economic and social development in LDCs are of external character, i.e. related to the global economy or the trade policies of the richer countries. The greatest and most decisive development constraints are connected to the poverty of these countries, i.e. the low educational level of their populations, weak institutions, deficient physical infrastructure, sometimes also corruption, mismanagement and abuse of power – the list is long, and some of the most serious problems have been discussed previously in this report.

In the concluding recommendations which follow, we have abstained from making proposals to the LDCs themselves. The situations of the 49 countries which comprise the LDC group vary enormously and it is not meaningful to provide "good advice" which is of interest to all LDCs. Neither do we regard this as our task in this study, which emphasises external factors, primarily the international trade system and its regulatory framework.

It should also be stressed that our general recommendations are based on what we consider to be most important to the poorest countries. We are fully aware that the governments of industrial countries also have their own national interests to consider. We are also aware that Sweden is not able to present its own views in the WTO context but must attempt to influence EU policies.

17.2.1 LDCs and WTO

LDC participation in the World Trade Organisation, WTO, and in the global body of regulations within the trade area which is in the process of being established is, as mentioned several times in the report, marginal. One third of LDCs are not members of WTO, and the majority participate extremely sporadically in WTO's trade policy negotiations.

One cause of this limited involvement in WTO is lack of resources, primarily in the form of trade policy expertise. The richer countries possess an enormous advantage in this respect. In order to decrease the disadvantages of the poorer countries we recommend:

- support for institutional reforms within WTO which would increase the practical influence of poorer countries over the WTO decision-making and negotiating processes;

- substantially increased ODA to strengthen LDC trade policy capacity and negotiating strength (see below);

- the introduction of some form of legal assistance or ombuds office which is able to monitor the interests of LDCs in cases where other countries violate LDCs' rights and the LDCs themselves do not possess sufficient resources to manage the dispute settlement process.

A large part of this study has covered the various WTO agreements. One conclusion is that, even if LDCs have been granted a series of exemptions and special regulations – primarily in the form of extended transition periods for implementation of agreements – their special conditions and development needs have not been sufficiently taken into consideration.

- The principles of non-reciprocity and special benefits for developing countries generally and LDCs in particular should be retained. All agreements should pay special attention to LDCs' development efforts. Much more is required than the ad hoc exemptions which have previously formed the WTO's *"special and differential treatment"*.

The opportunities which the WTO agreements provide for the industrialised countries to apply protectionist measures aimed at the exports of developing countries form a latent threat which may counteract any advantages gained from improved market access. This applies not least to anti-dumping regulations. Although no LDC has, to date, been involved in a formal dispute concerning dumping, there is always a risk that this will happen if an LDC should become extremely successful on a certain export market.

We therefore recommend:

- a ban on anti-dumping measures aimed at LDCs, and a more restrictive application of the anti-dumping clause against developing countries generally and especially against the relatively economically weak developing countries outside the LDC group. In addition, the middle-income developing countries should be restrictive in their utilisation of the anti-dumping instrument against the economically weaker developing countries and, of course, against the LDCs.

- a ban on industrialised country invocation of the Safeguard Clauses against LDCs, while use of safeguards by the LDCs should be accepted.

In the WTO Agreement on Agriculture, it is the richer rather than the poorer countries which enjoy special benefits. This agreement appears to be considerably imbalanced as it has not lead to a decrease of industrialised countries' subsidies or import barriers at the same time as it has limited LDCs' opportunities of protecting their markets. We therefore recommend:

- a tightening of requirements as concerns dismantling of industrial countries' trade distorting agricultural subsidies and a decrease of their import barriers within the agriculture area;

- improved opportunities for LDCs to protect their domestic markets for foodstuffs, at least as long as industrialised countries continue to dump their surplus agricultural products on the world market.

Several of the WTO agreements – such as TRIPS which regulates intellectual property issues, TRIMS which covers investment issues and GATS which deals with services – primarily provide the industrialised countries with benefits and are poorly adapted to the needs of LDCs. We therefore recommend:

- that LDCs be entitled to increased flexibility as concerns opting out of parts of the agreements and regulations (such as

TRIPS, TRIMS or GATS, or parts of the agriculture agreement). LDCs should have the right to decide for themselves when to implement the various parts of the agreements;

- that, in future WTO negotiations, LDCs should be entitled to decide for themselves which parts of the negotiated results they wish to implement, i.e. an exemption from the "single undertaking" requirement.

- that detailed impact assessments of GATS from a development perspective should be carried out covering the effects this agreement would have on LDCs.

The implementation of the various trade policy agreements is connected to enormous costs for developing countries. Agreements do not merely cover decreasing tariffs and other trade barriers, they also imply the reform of – or sometimes building up from scratch – national legislation and exercise of governmental authority such as the changes necessary in the case of the TRIPS Agreement and the Agreement on Tariff Valuation. Many LDCs therefore choose – often rightly in our judgement – to invest their scarce resources in other, more urgent, areas. We therefore recommend:

- that LDCs' direct costs for implementation of the Uruguay Round agreements, and later WTO agreements, be reduced by the allocation of substantially increased financial and technical assistance.

As concerns the demands made by EU among others concerning a new, broader round of negotiations within WTO in which new issues such as competition law and investment regulations are to be included, we do not consider such an enlargement of the WTO agenda in a new round to be in the interests of LDCs at present.

17.2.2 Trade barriers and bilateral preference agreements

LDCs' lack of active involvement in WTO is to a large extent due to the fact that their development problems have more to do with supply constraints than with issues related to market access. However they are also negatively affected by many of the trade barriers still remaining on the markets of other countries which are more connected to the trade policies of these countries than WTO regulations; actually, not least the industrialised countries have been quite remiss as far as fulfilling many of the Uruguay Round commitments are concerned.

The most serious of these trade barriers is the remaining restrictions on the few areas where LDCs could actually be competitive i.e. agriculture and textiles/clothing. LDCs are negatively affected by a series of protectionistic elements in trade policies operated by the richer industrialised countries and other developing countries. One of the most serious is the so-called tariff peaks, i.e. extra high tariffs on certain products e.g. sugar and certain textile products of special interest to several LDCs. Another extremely destructive measure is tariff escalation i.e. tariffs which increase with the degree of processing of the product which therefore facilitates continued exports of raw materials and makes it more difficult to export finished or semi-finished goods with higher value added.

In the textiles/clothes area, remaining quotas and quantitative restrictions pose a serious problem for developing countries, as do the rules of origin which impose conditions on LDCs textiles products if they are to receive freedom from tariffs on the industrialised country markets. LDCs meet no quantitative restrictions but are severely affected by the rules of origin regulations as their industrial base is too small to manage the criteria set by industrialised countries for freedom from tariffs. LDC cannot, for example, process cheap yarn and cloth from China in their domestic textiles industry and then export the finished garments to the industrialised countries and still retain their duty-free status.

The so-called voluntary agreements within the textiles area, i.e. that developing countries accept a quantitative limitation on their exports to industrialised countries are still sanctioned by WTO within the framework of the Multi-fibre Agreement. However, these should be totally terminated by 2005.

The majority of the LDCs, including those who are members of WTO, are also members of various bilateral trade preference agreements which are normally much more important for their market access than WTO. EU's trade policy, for example, is much more crucial to many LDCs than any WTO agreements.

The recent EU decision mentioned earlier to grant freedom from tariffs for all LDCs exports on EU's inner market is, in our opinion, highly satisfactory and it would be desirable if all the other industrialised countries could do the same thing. However, the long transition period for the opening of the EU market for some important products – rice, sugar and bananas – is unfortunate, as are the requirements concerning rules of origin which seriously hinder cooperation between LDCs and other developing countries. EU has also retained the right to unilaterally impose protectionist safeguards against imports of certain products if these should threaten important producer interests within the EU.

On the basis of the conclusions listed above and other observations we wish to recommend:

- duty-free and quota-free market access for all LDC products to all OECD countries;
- more generous rules of origin for LDCs and expanded origin cumulation as concerns other developing countries;
- successive phasing out of industrialised countries' trade-distorting agricultural subsidies;
- more rapid implementation of the Uruguay Round textiles agreements on the part of the industrialised countries;
- extended opportunities for origin cumulation in the textiles area so that LDCs can process textiles from other countries, including China;
- successive reduction of industrialised countries' tariff escalation and remaining tariff peaks vis-à-vis developing countries

17.2.3 Recommendations concerning Swedish development assistance

As the most serious problems experienced by LDCs are related to supply constraints rather than market access, continued long-term development assistance is vital, not least within areas such as education, HIV/AIDS, infrastructure, institution building, financial sector development, rural development, debt relief and conflict management. At the same time the trade aspects of these programs must be made more visible. For development assistance activities which are aimed at increased production, issues of market access must be highlighted to a greater degree. Knowledge concerning tariffs, tariff reduction regulations, health and safety requirements, labelling etc. on export markets is often decisive for the success of such projects.

In this context we would also like to encourage Sweden to work within EU to break the trend towards decreased development assistance to the world's poorest countries which has characterised EU development assistance during the last decade.

The development assistance promised to LDCs to support the extremely costly implementation of the Uruguay Round agreements and later trade policy agreements have, generally speaking, not materialised. As has been underlined previously in this report, these agreements do not only consist of reduced tariffs, their major thrust is to reform – and sometimes build up from scratch – national legislation and trade-related institutions.

Swedish support could be aimed at:

- strengthening LDCs' trade policy capacity. General support could cover "think tanks" such as the South Centre, or training (preferably on a regional basis). Projects could also support the establishment of legal assistance for LDCs or support to an LDC ombuds office with the task of monitoring the trade policy interests of the LDCs;

- strengthening LDCs' trade-related infrastructure to enable the countries to be comply with the various quality, health, security and standardising requirements prevailing on export markets;

- special support at the request of individual LDCs. As is important to stress that these activities should be demand-driven we do not wish to state exactly the type of support to be prioritised. These activities could, however, include tariff management, certification, SPS related capacity development, market analyses and export promotion measures, import management, South–South cooperation within research and development, courses, seminars, study visits etc.

We regard it as crucial for Sweden, alone or cooperation with other donors, to increase their support to these areas and activities, and to other trade-related areas.

Appendix 1

The following countries have been awarded LDC status

Population (millions)	Country	LDC status since	WTO member since	GDP/capita (USD)
125	Bangladesh	1975	Yes	350
60	Ethiopia	1971	Observer	113
49	Congo DR	1998	Yes	124
45	Myanmar	1987	Yes	1,199
32	Tanzania	1971	Yes	173
28	Sudan	1971	Observer	296
23	Nepal	1971	Observer	218
22	Afghanistan	1971	No	70
21	Uganda	1971	Yes	338
19	Mozambique	1988	Yes	169
17	Yemen	1975	Observer	250
15	Madagascar	1991	Yes	231
12	Angola	1994	Yes	523
11	Burkina Faso	1998	Yes	249
11	Cambodia	1991	Observer	299
11	Mali	1971	Yes	264
10	Malawi	1971	Yes	169
10	Niger	1971	Yes	216
9	Senegal	2000	Yes	510
9	Somalia	1971	No	–
9	Zambia	1991	Yes	427
8	Haiti	1971	Yes	356
7	Burundi	1971	Yes	149
7	Guinea	1971	Yes	573
7	Rwanda	1971	Yes	279
7	Chad	1971	Yes	231
6	Benin	1971	Yes	405
5	Laos	1971	Observer	406
5	Sierra Leone	1982	Yes	160
5	Togo	1982	Yes	337
4	Central African Republic	1975	Yes	287
4	Eritrea	1994	No	190
3	Liberia	1990	No	–
3	Mauretania	1986	Yes	478
2	Lesotho	1971	Yes	485
1	Gambia	1975	Yes	349
1	Guinea-Bissau	1981	Yes	173
0.7	Comoros	1977	No	325

Population (millions)	Country	LDC status since	WTO member since	GDP/capita (USD)
0.6	Bhutan	1971	Observer	623
0.6	Djibouti	1982	Yes	757
0.4	Equatorial Guinea	1982	No	1,050
0.4	Cape Verde	1977	Observer	1,380
0.4	Solomon Islands	1991	Yes	751
0.3	Maldives	1971	Yes	1,209
0.2	Samoa	1971	Observer	967
0.2	Vanuatu	1985	Observer	1,415
0.1	Kiribati	1986	No	639
0.1	Sao Tomé and Principe	1982	No	339
0.01	Tuvalu	1986	No	1,373

Source: ITC (2000), UNCTAD, LDC Report 2000, Sandzelius (2000), World Bank, World Development Report 2000/2001.

Appendix 2

LDC exports and foreign debt (1998)

Country	**Total exports (MUSD)**	**Three most important export products**	**Total foreign debt (MUSD)**
Afghanistan	105	Fine animal hair, carpets, furskins	5 588
Angola	3 480	Petroleum oils, diamonds, fuel oils	7 951
Bangladesh	5 055	Shirts of cotton for men, T-shirts, singlets & other vests, shrimps and prawns	16 125
Benin	215	Cotton, cotton seeds, cashew nuts	1 633
Bhutan	21	Calcium carbides, ferrosilicon, particle board	156
Burkina Faso	163	Cotton, gold, leguminous vegetables	1 454
Burundi	71	Coffee, gold, black tea	1 164
Central African Republic	225	Diamonds, coffee, cotton	844
Comoros	12	Vanilla, essential oils, cloves	207
Congo DR	1 179	Diamonds, cobolt, non-sorted diamonds	12 227
Djibouti	16	Iron ore, gold, special transactions & commodities	339
Equatorial Guinea	437	Tropical wood, fuel oils, non-tropical wood	239
Eritrea	26	Beans,arabic gum, sheep & lamb skins	149
Etiopia	520	Coffee, sesame seeds, sheep & lamb skins	9 529
Gambia	139	Diamonds, cuttlefish, octopus & squid, groundnuts	532
Guinea-Bissau	67	Cashewnuts, cuttlefish, octopus & squid, shrimps & prawns	859
Guinea	764	Aluminium ores, diamonds, aluminium oxide	3 405
Haiti	321	Coffee, fruit & vegetables, essential oils	1 138
Cambodia	813	Non-coniferous wood, tropical wood, non-tropical wood	2 192
Cape Verde	18	Parts of footwear, footwear, crustaceans	257
Kiribati	40	Tunafish, living fish, dried fish	11 (1997)
Laos	216	Non-coniferous wood, coffee, wood	2 586
Lesotho	125	Diamonds, clothes, cotton	1 045
Liberia	1 262	Diamonds, vessels for transportation, tankers	1 688
Madagascar	705	Coffee, shrimps & prawns, vanilla	3 959
Malawi	456	Tobacco, black tea	2 567
Maldives	87	Tunafish, t-shirts, singlets & other vests, trousers & overalls	201
Mali	253	Cotton, diamonds, cotton waste	3 021
Mauretania	483	Iron ore, cuttle fish, octopus & squid, other fish	2 378
Mozambique	240	Shrimps & prawns, cane sugar, cotton	6 303
Myanmar	1 095	Tropical wood, shrimps & prawns, wood	5 761
Nepal	438	Carpets, Shirts of cotton, blouses	2 747

Country	Total exports (MUSD)	Three most important export products	Total foreign debt (MUSD)
Niger	271	Natural uranium, petroleum oils, natural rubber	1 613
Rwanda	77	Coffee, residues containing metals, hides and skins	1 220
Solomon Islands	170	Wood, tunafish, other fish	174
Samoa	54	Ignition wires, coconut oils, food preparations	189
Sao Tomé and Principe	12	Cocoa beans, wool & animal hair, waste	265
Senegal	1 319	Groundnuts, cotton, fish & fish products	3 861
Sierra Leone	115	Diamonds, coffee, shrimps & prawns	1 038
Somalia	32	Bananas, frozen fish, dried fish	2 308
Sudan	364	Cotton, arabic gum, grain of sorghum	10 695
Tanzania	551	Coffee, cotton, cashewnuts	6 079
Chad	126	Cotton, arabic gum, aeroplanes	1 103
Togo	232	Natural calcium, cotton, coffee	1 606
Tuvalu	0,3	Medicaments, printed circuits, caseinates	n/a
Uganda	452	Coffee, gold, fish fillets	3 601
Vanuatu	77	Tunasfish, copra, vegetables	108
Yemen	1 646	Petroleum oils, bituminous minerals, fish	4 003
Zambia	720	Refined copper, cobalt, cotton yarn	6 481

Source: Same as Appendix 1.

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List of tables and factsheets

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Notes on the Authors

Associate Professor *Stefan de Vylder* defended his Ph.D. thesis in Economics in 1974. Since then he has, among other things, been a teacher and researcher at the Stockholm School of Economics. He has now worked for a number of years as an independent researcher and consultant. His more recently published books include "Macroeconomic Policies and Children's Rights" (2000), "Children and Economic Policies" (1997, in Swedish), "From Plan to Market. The Economic Transition in Vietnam" (1996, jointly with Adam Fforde) and "On Poverty and Justice in the World" (1995, in Swedish). As a consultant, his activities during the last few years have included the social and economic consequences of HIV/AIDS, gender equality, rural development and trade and globalisation issues.

Gunnel Axelsson Nycander has a first degree from Uppsala University which includes economic history, economics and environmental conservation. She has also studied environmental economics at the Swedish University of Agricultural Sciences. Her primary areas have been issues concerning international trade, the environment and development. Previously she was employed as an environmental economist at the Swedish Ministry of Environment and participated in WTO negotiations. She is now an independent consultant. For Sida she has written studies on trade and environment, ethics and trade from a consumer perspective and studies of the constraints experienced by developing countries when exporting organic foodstuffs to EU.

Marianne Laanatza has a degree in economics, history and political science from Lund University. She has completed research training in history with a specialisation in empirical conflict research concentrated on the Middle east and North Africa, plus parts of a research course in economics. Since the end of the 70s she has specialised in trade policies related to developing countries. She is on leave from a position at the Swedish National Board of Trade. Since 1995 she has divided her time between work on her Ph.D. thesis and various assignments from the Swedish Ministry for Foreign Affairs, Sida and the World Bank. All these projects have been connected to trade policies and cover EU's development policies, developing countries and WTO plus trade policies in developing country groups. She also teaches at Uppsala University.

Glossary: Explanations and abbreviations[1]

ACP countries	Developing nations in Africa, the West Indies and the Pacific Ocean who are signatories to the Cotonou Agreement with the EU.
ACWL	Advisory Centre on WTO Law. An ODA financed centre based in Geneva providing legal advice to developing countries.
Amber Box Measures	Domestic agricultural support measures that the WTO Agreement on Agriculture deems to be trade distorting .
AMU	Arab Mahgreb Union
APEC	Asia-Pacific Economic Co-operation. Members include both industrialised and developing countries along the Pacific Rim.
ASEAN	Association of Southeast Asian Nations. Forum for economic and political co-operation for countries in Southeast Asia.
AoA	Agreement on Agriculture. Part of the Uruguay Round.
ATC	Agreement on Textiles and Clothing. Part of the Uruguay Round.
BIMST-EC	Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Co-operation
Blue Box Measures	Domestic agricultural support measures based on fixed acreages and fixed yields. They are exempted from the requirement to decrease production in the WTO Agreement on Agriculture.
CACM	Central American Common Market

1. The Swedish Board of Agriculture report on agricultural support and the developing countries (2000) has been a primary source for agricultural terminology in compiling this glossary.

The Cairns Group	A group of traditional exporters of agricultural products, such as Argentina and Australia, who are lobbying for freer trade in agricultural products under WTO rules. Lately a number of developing countries have joined the group which today has 18 member countries
CAP	Common Agricultural Policy. The EU agricultural policy
CARICOM	Caribbean Community and Common Market
Cash crops	Crop grown for sale rather than subsistence (e.g. coffee)
COMESA	Common Market for East and Southern Africa. Regional trading bloc established in 1994. 20 member countries at present
Cotonou Agreement	Partnership agreement signed in June 2000 between the EU and the ACP countries, which replaces the Lomè Convention
Cross-compliance	The right a country has to punish a country that breaks WTO rules by implementing sanctions on a sector other than the one involved in the original dispute
Cumulation (origin cumulation)	A system of rules of origin which enables product refining in two or more countries without losing preferential tariffs
De minimis rule	Regulation in the WTO Agreement on Agriculture which specifies that Amber Box support measures that are under 5% of the production value are exempted from reduction commitments
EAC	Common Market for East Africa. (Kenya, Tanzania and Uganda)
ECOWAS	Economic Community of West African States. Regional community with 16 members
EDF	European Development Funds, EU's development funds

Enabling clause	Clause in GATT that enables developed countries to give developing countries special treatment e.g. through tariff reductions that violate the most favoured nation principle
EPZ	Export Processing Zone, geographical free zone where foreign corporations can set up companies to export from the host nation
ESCAP	Economic and Social Commission for Asia and the Pacific
FDI	Foreign Direct Investment
FTTA	Free Trade Area of the Americas, embryonic pan American free trade area (excluding Cuba)
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade. Predecessor to WTO established in 1947
GCC	Gulf Co-operation Council. Embryonic free trade area for six states in the Arabian Gulf
Green Box Measures	Domestic agricultural support measures which in WTO Agreement on Agriculture are considered not to be trade distorting
GSP	Generalised System of Preferences. System through which countries provide increased market access for products from developing countries
G 11	Informal designation for the group of developing countries that have put forward joint negotiating proposals to the WTO agricultural committee. Includes two LDC countries, Haiti and Uganda
G 77	Developing country group at the UN.
ICTSD	International Centre for Trade and Sustainable Development. NGO based in Geneva
IFOAM	International Federation of Organic Agricultural Movements

ILO International Labour Organisation

IMF International Monetary Fund

ITC International Trade Centre

JITAP Joint Integrated Technical Assistance. Programme to Selected Least Developed and other African Countries. A program of trade related technical assistance administered by the WTO, ITC and UNCTAD

LDC Least Developed Countries

The Lomé Convention The predecessor to the Cotonou Agreement between the EU and ACP countries

MAI Multilateral Agreement on Investment. Negotiated in the OECD but withdrawn in 1999 following extensive criticism

MERCOSUR Free trade area in South America (Argentina, Brazil, Paraguay and Uruguay)

MFA Multi-fibre Agreement. Complicated system for protecting textile industries in the industrialised world from imports from developing countries with the help of import quotas and similar

MFN Most Favoured Nation. Important trade policy principle within GATT and the WTO stating that every trade benefit a country grants to another country must also be offered to every other country who is a WTO member

Multi-functionality A principle floated by EU meaning that in addition to producing agricultural goods, the farming sector also plays an important role in other areas (e.g. conservation of biological diversity and maintenance of farmed landscapes)

NAFTA North American Free Trade Association. (USA, Canada and Mexico)

National Treatment	Important GATT principle that aims to guarantee that imported products are not discriminated against in relationship to domestically produced goods
NFIDC	Net Food-importing Developing Countries
Non-reciprocity	The principle that developing countries do not have to make as large-scale commitments in WTO as industrialised countries. Deviation from the most favoured nation (MFN) principle
Non-tariff trade barriers	Measures other than tariffs to restrict imports or to make importing more difficult (e.g. quotas)
PARTA	Pacific Regional Trade Agreement
PRSP	Poverty Reduction Strategy Papers. Since 1999, the World Bank has sought to persuade developing countries to establish poverty reduction strategies based on PRSPs
PSI	Pre-Shipment Inspection, WTO rules on pre import inspections
PTA	Preferential Trade Area. African trade area that preceded COMESA
Rent seeking	Attempts to exploit restrictions, bureaucratic regulations, trade regulations such as import controls, licenses etc in order to earn money/gain advantages
SAARC	South Asian Association of Regional Co-operation
SACU	Southern African Customs Union made up of Botswana, Lesotho, Namibia, Swaziland and South Africa
SADC	Southern African Development Community. 14 members today
Safeguard Clauses	Provision in various WTO agreements which permit countries to introduce specific protective tariffs if import prices fall or import volumes rise above a certain level

Sanitary measures	Measures to protect the lives and health of people and animals
S&D or SDT	Special and differential treatment. Rules on exemptions, e.g. longer transition times for developing nations to meet WTO rules and regulations
Sida	Swedish International Development Cooperation Agency
Single undertaking	Requirement that WTO members accept a package of agreements in their entirety rather than each agreement individually, "à la carte"
SPS agreement	WTO agreement on sanitary and phytosanitary measures. Measures designed to protect the health of humans, animals and plants
Tariff escalation	A tariff structure in which protection rises with the degree of processing. Consequently finished goods pay higher tariffs than semi-finished products and semi-finished higher than raw materials
TBT Agreement	WTO Agreement on Technical Barriers to Trade. WTO agreement on which regulate countries' possibilities to introduce technical regulations and standards
TNC	Transnational Corporation
TMB	Textile Monitoring Body. International organisation monitoring trade in textiles
TPRM	WTO Trade Policy Review Mechanism. Periodic examination of the trade policies of WTO member countries
TRIMS	Trade-Related Investment Measures, WTO agreement on investment rules
TRIPS	Trade-Related Aspects of Intellectual Property Rights, WTO agreement covering copyrights, patents etc
Peak tariffs	Tariffs that exceed 12% (UNCTAD definition)

Rules of Origin — Laws and rules applied to determine the country of origin for exports. The origin determines whether or not the goods are eligible for preferential import treatment

UEMOA — Union Economique et Monétaire Ouest-Africane, organisation consisting of former French colonies in West Africa

UNCTAD — United Nations Conference on Trade and Development

UNDP — United Nations Development Programme

UPOV — Union for the Protection of New Varieties of Plants

VER — Voluntary Export Restrictions. Not very voluntary quotas that restrict poor country exports, mainly of textile goods, to industrialised country markets

WIPO — World Intellectual Property Organisation. UN body based in Geneva which monitors issues of intellectual property rights

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Associate Professor **Stefan de Vylder** defended his Ph.D. thesis in Economics in 1974. He has, among other things, been a teacher and researcher at the Stockholm School of Economics. Today he is working as an independent researcher and consultant. His consulting activities during the last few years have included the social and economic consequences of HIV/AIDS, gender equality, rural development and trade and globalisation issues.

Gunnel Axelsson Nycander has a first degree from Uppsala University in economic history, economics and environmental conservation. She has also studied environmental economics at the Swedish University of Agricultural Sciences. Her primary areas of interest are international trade, environment and development. As an environmental economist at the Swedish Ministry of the Environment she participated in WTO negotiations. She is now an independent consultant.

Marianne Laanatza has a degree in economics, history and political science from Lund University. She has specialised in trade policies related to developing countries. She is on leave from a position at the Swedish National Board of Trade. Since 1995 she has divided her time between work on her Ph.D. thesis and various assignments from the Swedish Ministry for Foreign Affairs, Sida and the World Bank. All these projects have been connected to trade policies and cover EU's development policies, developing countries' trade policies and WTO. She also teaches at Uppsala University.

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Sida

Swedish International Development Cooperation Agency
Address: SE–105 25 Stockholm, Sweden.
Visiting address: Sveavägen 20, Stockholm.
Tel +46 8 698 50 00, e-mail: info@sida.se.
www.sida.se