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NEWSLETTER OF THE CUTS CENTRE FOR INTERNATIONAL TRADE, ECONOMICS & ENVIRONMENT

No. 1, 2005

The Sutherland Report: A Call for Change

One thing which Supachai Panitchpakdi will leave behind as his legacy to the World Trade Organisation (WTO) is the seminal report on the future of the WTO, produced by a group of wise-men. The report, prepared by a group headed by the first Director General of the WTO, Peter Sutherland, was released in January 2005. Among other things, the report has frowned upon the increasing pursuit of preferential trade accords, which is harming the multilateral trading system. What the report did not do, and that has come in for some criticism, is the complete absence of a development context, and a failure to tie the WTO into the global compact on development.

On the controversial issue of preferential trade deals, which the report criticises, one can see the hand of Jagdish Bhagwati, an ardent despiser of preferential trade agreements (PTAs). There are valid reasons in his arguments, but there are other views as well. While many have defined PTAs as building blocks, he has labelled them as stumbling ones.

Whether they are building or stumbling blocks, these are allowed under the WTO rules, provided that they do not compromise the basic character of the WTO, which is based upon non-discrimination. There are equally strong reasons, why many countries also favour PTAs as WTO-plus commitments. It is also highly recommended for smaller countries to enter into PTAs with their bigger neighbours as a process of global integration through regional amalgamation. On their own, they are finding it difficult to navigate in the turgid waters of global trade.

For example, in the area of textile and clothing (T&C), we can see this trend evolving. In South Asia, nearly all countries are major T&C exporters. With the demise of the quota system under the agreement on T&C, least developed countries (LDCs) such as Nepal and Bangladesh will find it difficult to compete in the world markets against bigger players such as China, India, Pakistan, Indonesia etc.

Thus, smaller countries will need to build upon complementarities, by partnering with bigger countries of the region. In the specific case of South Asia, both Nepal and Bangladesh will gain by partnering with India and Pakistan. For this, the vehicle of South Asia Preferential Trade Agreement (SAPTA) is ideal.

Indeed, the debate is welcome because PTAs do have downsides. Firstly, it overburdens the same set of trade and commerce ministry officials, who have to divide their time and energy between PTAs and WTO. The same logic applies to the minister as well. Secondly, there are cases of trade diversion, but, equally, there is also trade creation. For example, the Indo-Sri Lanka free trade agreement (FTA) has already shown substantial expansion in trade volumes between both countries, which may not have been possible under the WTO.

The criticism against the Sutherland report is that it has not addressed the issue of development and what needs to be done to make it development-friendly. Also, the report is too simplistic, defensive and inadequate about the position of the WTO in the wake of the criticism it is facing as a vehicle of globalisation. Indeed, the WTO is being seen by a large number of sceptics as an organisation of transnational corporations (TNCs), pursuing profits for a handful of people. This sentiment is buttressed by the fact that inequality is increasing across countries and societies. The Sutherland report has not dealt with this factor adequately, but defended the WTO as an organisation which will expand trade. Granted that the WTO is mainly concerned with cross-border trade, and not domestic outcomes, but if people feel that the gains are not being distributed widely, the criticism is not off the mark.

Some of the other recommendations of the report are truly progressive. It has asked countries to argue why they are blocking a particular measure by spelling out how it will affect its national interest. So far, countries have been blocking many issues without spelling out how it affects them.

Most importantly, the report has called upon more frequent consultation among trade ministers to move the trade agenda, rather than be dependent only upon negotiators. One suggestion is that there be an annual ministerial meeting to give the agenda a political impetus. This should be followed up a World Trade Summit of government heads, on at least a five-yearly basis. Well, the Sutherland report has moved the agenda forward, and we will have to wait and see what Supachai's successor does, as and when he is appointed.

INSIDE

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Do We Need to Resolve all Disputes before Launching Economic Cooperation?

*– Pradeep S Mehta & Huma Fakhar**

India and Pakistan have been at loggerheads over the dispute on Kashmir, among other things, since their independence. However, times seem to be changing. This change of motivations gathered momentum when Pakistan's Prime Minister, Shaukat Aziz, at the World Economic Forum (WEF) meeting at Davos, Switzerland, in January, proposed to his Indian counterpart, Manmohan Singh, to agree to a series of confidence-building measures that need not be held hostage to the resolution of their central dispute over Kashmir.

The Kashmir issue has been singularly responsible for blocking all possible cooperation between the two nations, except in cases where it is imperative and unavoidable. At the international fora, both are great friends and allies, with similar views. For example, at the WTO, both are members of the strong developing country alliance: G-20, which is in the vanguard in tackling the mercantilist rich countries to ensure that the Doha Development Agenda (DDA) is truly one that will promote development among poor countries.

Both countries are also members of the South Asia Association on Regional Cooperation (SAARC) and its various instruments: SAPTA, to be succeeded by the South Asia Free Trade Arrangement (SAFTA) over time. However, any progress on either of these protocols has been mortgaged to the Indo-Pak détente. Consequently, the whole region has suffered economically.

India-Pakistan economic relations have been facing the bugbear of several myths that continue to haunt the debate of whether one should or should not resolve all disputes prior to forging any trade and economic relations. Thus, progress on closer economic cooperation between India and Pakistan has taken a back seat. Some major myths are identified and demolished.

Do we need to resolve all disputes before launching economic cooperation?

Pakistan policy makers have so far been following a policy that unless all disputes between the two countries are resolved, trade and economic cooperation will proceed on a case-to-case basis. Some change is happening on this front, but the jury is still out.

This is quite ludicrous. If we see the scenario around the world, disputes have never prevented closer economic cooperation. France and Germany had been at loggerheads for over a millennium, but now both are the leaders of the EU – continuously deepening economic and political cooperation. Malaysia and Thailand too have border disputes, but that has not prevented them from closer economic cooperation through the Association of Southeast Asian Nations (ASEAN) Free Trade Agreement.

Should we follow reciprocity in dispute settlement?

Reciprocity seems like a Hammurabian edict, which maybe not useful in current environs. Times are testimony to the adverse impacts economic growth has faced in both these countries. What cannot be undertaken officially has somehow been substantiated unofficially. The market apparently knows what is right for it. Unofficial trade has already reached an estimated staggering US$2bn. Imagine this done officially, cutting down costs and having its own trickle-down impacts.

India has already granted Pakistan the most-favoured-nation (MFN) status despite and in spite of any issues pending settlement. Curtailing the consideration of any possibility of trade due to unsettled issues is reciprocity at its worst. One should, therefore, attempt a non-reciprocal approach to initiate and foster greater trade.

Will India dominate the economy of Pakistan if trade is liberated?

One cause of concern raised by many is that if Pakistan liberalises its trade relations with India, the latter will dominate Pakistan's economy. Well, undoubtedly, India will have a trade surplus against Pakistan as it has been having with other countries of the region, viz Bangladesh, Nepal and Sri Lanka. Yet, no one complains.

Simple economic rationale indicates that this is merely because of the size of her economy and comparative advantages it enjoys due to diversified products. But this does not translate into a domination of Pakistan's economy by India. Going by the same analogy, China and the US should be dominating all economies of the world with whom they have a trade surplus!

Quite contrarily, many countries have a deficit against their trading partners. The USA has a deficit against most of its trading partners, but it does not dominate their economy. For example, China has a trade surplus against the US, which exceeded US$68bn in the year 2000. With Pakistan too, China enjoyed a trade surplus of US$0.8bn in 2003. It doesn't indicate economic subjugation. On the contrary, it indicates the vibrancy and presence of a leashed domestic demand waiting to be harnessed and catered to.

Will it promote more conflicts through trade disputes?

Trade disputes happen between all trading partners, as can be seen from the history of the WTO and other dispute settlement machineries. These are resolved through legal processes. Countries do not, and should not, descend to the battlefield to resolve commercial disputes. So, this is not something to worry about, but to live with as a fact of life. Disputes indicate a living macrocosm.

There will be a huge peace dividend if trade relations are strengthened. When two countries trade with each other, there is a vested interest in maintaining peace, so that flow of goods and services is not disrupted.

When countries are trading with each other, they avoid conflicts. If there are any disputes, as is likely to happen, they use the dialogue platform to resolve them. What has been seen in many similar situations is that countries decide to maintain the *status quo* [somewhat like the line of control (LoC)] and move on.

They always say one should learn from the lessons of history. Yes, not to repeat the same mistakes that were made while history was being written.

(The writers are respectively with CUTS International, Jaipur and Fakhar Law Associates, Lahore; a bigger version was published in Daily Times, Pakistan)*

US No More among Top Ten

Washington-based research group, Heritage Foundation, that promotes low taxes and limited government regulations, tied the US at the 12th place with Switzerland in the 2005 Index of Economic Freedom. The US was in the top 10 in all the previous years.

Although the score of the US remained unchanged from 2004, it has been surpassed by other countries that are willing to open their economies still further. Heritage Foundation is of the opinion that during the last nine years, countries like Iceland that have done the most to improve their scores on the index's 10 measures of economic freedom, experienced the highest rates of economic growth. *(BL, 06.01.05)*

Do-it-Yourself List of Excuses

Countries which run big budget deficits could produce a do-it-yourself list of excuses to try to escape punishment under the EU's stability pact. The new flexible approach has been floated by Jean-Claude Juncker, Prime Minister of Luxembourg and current holder of the EU Presidency.

Attempts to define a list of mitigating factors have foundered, not least because of German demands that the costs of its 1990 reunification should be taken into account. The mitigating factors would be considered only if a country's breach of the deficit limit was "small and temporary".

"That would certainly mean not more than a deviation of 0.5 percent, and three years of breaches would certainly not be 'temporary'," said one aide to Juncker. EU countries would have to draw a set of relevant factors explaining why it should breach the pact's deficit limit of three percent of gross domestic product (GDP). *(FT, 17.03.05)*

Deal Signed to Expose Bribery

The UK Government proposed 'The Extractive Industries Transparency Initiatives' to stamp out bribery in the oil, gas and mining business. It states that the signatory governments, to this proposal, should publish all payments made to them by oil and mining companies operating in their countries.

All revenues need to be audited by an independent auditor. Governments also require consulting with local non government organisations (NGOs) about the monitoring of the industry. Oil-rich developing countries, including Angolo, Azerbaijan and Kyrgyz Republic, Democratic Republic of Congo and Equatorial Guinea agreed to support and follow the guidelines.

This initiative would diminish distortion in the economy and help to reduce propping up of corrupt and autocratic governments. Other countries like India, China and members of petroleum exporting countries are yet to support it. *(FT, 18.03.05)*

US Gains from Outsourcing

While UK has gained US$30bn from outsourcing jobs to other countries, US is not left behind. Outsourcing jobs has freed people in the UK and the US to concentrate on the high-end works.

According to David C Mulford, the US ambassador to India, it was soon realised that it was the US that benefited from outsourcing. For every dollar spent, the US got more than one dollar. "We have a service balance."

US companies, which outsource to low-cost countries like India, had to face a lot of opposition at home as there was alleged fear of job loss in the home country. The opposition reached its peak during the US Presidential Elections in 2004, when John Kerry, the Democrat candidate, campaigned against it. *(ET, 11.01.05, BL, 30.01.05 & FE, 04.02.05)*

Brussels to Issue Wake-up Call

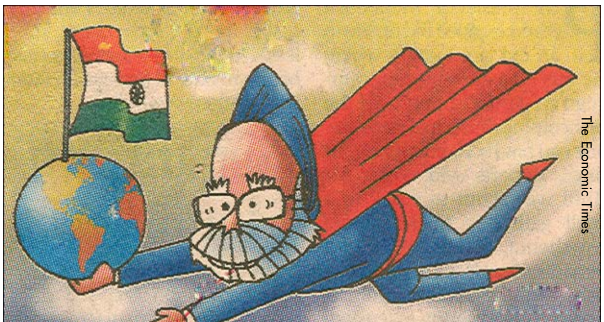
The annual economic report of the European Commission (EC) highlighted sluggish productivity growth, low research spending and a failure to create jobs. In some policy areas, the targets set at the Lisbon summit in 2000 – to be achieved by 2010 – now appear out of reach.

According to Joaquin Almunia, EU Monetary Affairs Commissioner: "Progress has been limited as regard to the on-going transition to a knowledge-based economy where a substantial gap remains between the EU and the US."

However, Goldman Sachs has given a more upbeat assessment of Europe's economic performance. "Over the past 10 years, the EU GDP per capita growth has kept pace with the US. We see this trend continuing," it said.

According to another report prepared by the United Nations, smaller economies are set to drive growth in the EU, as traditional powerhouses continue to lag behind the world's other major economies. *(FT, 26.01.05 & FE, 23.02.05)*

The Tiger Steps Out



India has become the fourth largest country in the world, accounting for 5.7 percent of the world's GDPs. Fifteen years of economic reforms through moving away from the license permit *raj*, gradual lowering of tariffs and other import barriers, financial sector reforms and the telecom revolution made India globally competitive.

Credit also goes to the computer software, business process outsourcing industries and the huge inflow of foreign investment, which helped India to foster the path of economic growth.

However, there is still a long way to go. Reforms are still required in the power sector, labour laws, and inter-state tax laws. Fiscal deficit needs to be brought down from 10 percent. Quality of service has also deteriorated. Misallocation of resources through subsidies in various items needs to be reduced from 14 percent. The quality of governance, which plays a crucial role for economic growth, has also fallen badly in the last 15 years. *(ET, 25.01.05)*

Davos to Mombasa to Delhi

In January, trade ministers from several countries met in Davos in an attempt to kick life into the Doha Round of trade talks. It took place on the side of the World Economic Forum (WEF). They expressed confidence that the Round could gather pace, reaching completion by the end of 2006.

"It is a starting point to give momentum, it is a political push," remarked Celso Amorim, Brazilian Foreign Minister. "The ministers showed their commitment. The time frame is to have real progress by July (2005)," said WTO's Director General, Supachai Panitchpakdi.

India expressed its concern that removing distortions in agriculture markets is overshadowing all other issues in the Doha Round. "We have to make sure that this is the Doha Round and not the agriculture round," expressed Kamal Nath, Indian Commerce Minister. It also wants to ensure liberalisation of the service sector.

Negotiators have hardly begun to settle differences in the services sector, with the WTO warning that failure to make progress in this area could scuttle the whole Doha Round. *(FT, 29.01.05 & BS, 31.01.05)*

Trade ministers from some 30 countries met in the Kenyan port city of Mombasa, in March to give push to the Doha Round. Looming large at the talks was the issue of cotton subsidies by the US. "What we are expecting is that by the next conference (WTO Ministerial) in Hong Kong, we'll get the real result about the phasing out of export subsidies, especially for cotton," said Samuel Amehou, ambassador to the WTO for cotton-exporting Benin.


The Hindu Business Line

At the meeting, the EU pledged the to poor the rewards of increasing openness through trade. "In the months to come we should make an effort to translate plans into concrete action, leading to more and better aid for trade adjustment," said Peter Mandelson, the EU's Trade Commissioner.

Poor countries are particularly concerned that general reductions in tariffs, under the next set of WTO rules, will erode their advantages from previous agreements with rich countries, which provide them with special access to their markets. *(BS, 04.03.05 & FE, 05.03.05)*

The G-20 group of WTO members, in its meeting in Delhi, in March, urged the EU and the US to cut farm subsidies in next five years. They also decided not to discuss tariff cuts in agricultural imports till the EU, the US, New Zealand and some other countries converted their specific duties to *ad-valorem*.

Trade ministers also cautioned against attempts by some developed countries to divide developing ones through further categorisation. Deepak Patel, Zambian Trade Minister, said: "There cannot be further categorisation of developing countries. The fact that G-20 comprises various shades of developing nations goes to show we are united."

Regarding sustainability of the group, Celso Amorim commented: "Time will tell. But a lot depends on our mobilisation and pragmatism." Uruguay formally joined the group, taking up the total membership to 21. Others include China, Egypt, Pakistan, South Africa, and Zimbabwe. *(BL, 19.03.05; FE, 19.03.05 & 20.03.05)*

Be Benign on Small Economies

A group of 16 countries, including Sri Lanka, Mauritius, Jamaica, Cuba, and Paraguay, have submitted a joint paper to the WTO, listing suggestions for implementation of the special dispensation for small economies provided for in the Doha declaration. It proposed that certain characteristics to identify the small and vulnerable economies should be considered first.

Second should be the identification of trade-related problems that could, reasonably, be attributed to such characteristics. Third, appropriate systemic responses to these problems should be designed.

The paper said that the characterisation of small economies should take into account:

- physical isolation,
- geographical dispersal, and
- distance from the main markets.

(FE, 23.02.05)

Issues for Hong Kong

The objectives for the Hong Kong ministerial conference of the WTO in December, 2005 have more or less been decided. Listing out these objectives, WTO's Director General, Supachai Panitchpakdi said that this would provide a springboard for final negotiations.

"I believe that political commitment is there on the part of all governments and I know that in Geneva, ambassadors are prepared to expend every effort towards the objectives of an early conclusion of the Doha Round," he said.

The objectives include:

- agreements on modalities for trade in agriculture and industrial products;
- a critical mass of market opening offers for trade in services;
- significant progress in areas such as rules and trade facilitation; and
- a proper reflection on the development dimension. *(FE, 14.03.05)*

Services: Biggest Sticking Point

For the Doha Round of trade talks, the need for trade-offs between the different strands of the deal – goods, agriculture, services and the rules that govern trade – means the delay in one can hold up progress in all. The tortuous services negotiations are currently the biggest sticking point.

In February, a delegation of representatives from the financial services industry descended on the WTO, in Geneva, in an attempt to generate momentum. They were sounding both an alarm bell and a *mea culpa*.

Alejandro Jara, Chilean ambassador to the WTO and chairman of the services negotiations said: "They (services negotiations) involve highly complex regulatory frameworks and public policies, the details of which trade diplomats cannot be expected to master completely." In contrast with goods, the obstacles to trade in services usually involve more complex issues of national regulation.

(FT, 10.02.05)

UK Intervenes in EU Trade Plans

The EU should not press poor countries to accept rules governing investment, competition and government procurement in return for continued special trade access to EU markets, the UK argued. A policy paper from the UK's Department for Trade and Industry debated against the proposed economic partnership agreements (EPAs) the EU is negotiating with African, Caribbean and Pacific (ACP) countries.

The European Commission has suggested that rules on these three Singapore Issues should be incorporated into the EPAs to encourage investment and growth. But the UK policy paper says: "It is for ACP regional groups to judge the development benefits of any agreements on these issues and the EU should not push for them to be discussed."

Matt Griffith, trade policy analyst at CAFOD (a London-based NGO) said: "African ministers are usually better placed to understand Africa's development interests than are EU trade negotiators." *(FT, 22.03.05)*

FICCI Ties up with EUREPGAP

The low quality of agro and food products in India has denied the country access to the global market. To overcome this problem, Federation of Indian Chambers of Commerce & Industry (FICCI) has tied up with EUREPGAP, an international organisation of 118 major growers, exporters and importers of agro and food products.

With assistance from Norwegian Agency for Development Cooperation (NORAD), FICCI has launched a project to promote EUREPGAP standards in commercial farms in India.

Farmers from around the country will be provided with information on export potentiality and advantages of opting EUREPGAP standards to export to the developed countries, said H Lal, Director General of FICCI Quality Forum. *(BS, 23.03.05)*

Bush Nominates Portman

US President George W Bush has nominated Ohio Republican Rob Portman to be the next US trade representative. Portman, who for 12 years has represented a state hard hit by manufacturing job losses, will replace Robert Zoellick.

If confirmed by the US Senate, Portman will take the job when the US Congress is faced with changing several popular laws to comply with WTO rulings against US farm subsidies and anti-dumping laws. "Rob has shown he can bring together people of differing views to get things done," Bush said.

Most business groups, including the National Association of Manufacturers, lauded the move. But the US Business and Industry Council, which represents some labour unions and manufacturers, said his support for free trade deals "has been a big part of the problem facing US manufacturers." *(FT, 18.03.05)*

Shake-up at the WTO

Higher level political involvement, including regular summits, is needed to inject dynamism and efficiency into the WTO. This was the essential point of "The Future of the WTO" – a report prepared by a "wise men" group of economists and business leaders, headed by Peter Sutherland, former Director General of the WTO.

The 83-page report mixes political and technical recommendations, including settlement of disputes, while making a fervent defence of the benefits of free trade. It criticised bilateral trade deals: "The reality today is that the WTO presides over a world trading system that is far from the vision of the architects of General Agreement on Tariffs and Trade (GATT), the predecessor to the WTO."

While welcoming the report, most WTO members said that it should not distract the organisation from focusing on the Doha Round of trade talks. Many also expressed disappointment to the proposal to set up a "30-member consultative group" of ministers, which they saw as an effect at creating an executive board dominated by major countries.

(TH, 28.01.05, FE & FT, 18.01.05)

Asia Pacific Trade Pact

The Bangkok Agreement of the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) will be renamed as Asia Pacific Trade Agreement. The issue of RoO in the PTA between six countries, including China, India and South Korea, has been sorted out.

"Many countries are willing to be part of the grouping, now that both India and China are in it," said Kim Hak-Su, UNESCAP's Executive Director. The first session of the ministerial will be in Beijing in April/May 2005 and will consider the following:

- tariff cuts to be deepened;
- item basket to be widened from 1,600 to 3,000; and
- new membership. *(FE, 19.01.05)*

Race for WTO DG Post Hots Up

Competition for the post of WTO Director-General (DG) is intensifying. There are four candidates:

- Pascal Lamy, former European Trade Commissioner
- Carlos Perez del Castillo, former Uruguayan ambassador to the WTO
- Luis Felipe Seixas Correa, current Brazilian ambassador to the WTO
- Jaya Krishna Cuttaree, Foreign and Trade Minister of Mauritius

"Many of the developing countries do not have a permanent contact with the system (WTO). The WTO Secretariat, which tends to become bureaucratic, should be more developing-country friendly," said Lamy.

The last battle for the WTO DG position, in 1999, was marred by bitter divisions between groups of nations. At that time, many felt that the job should go to someone from the developing world. In the end, the six-year term was split between Mike Moore, a New Zealander, and the current holder, Supachai Panitchpakdi, a Thai, whose term ends in August 2005.

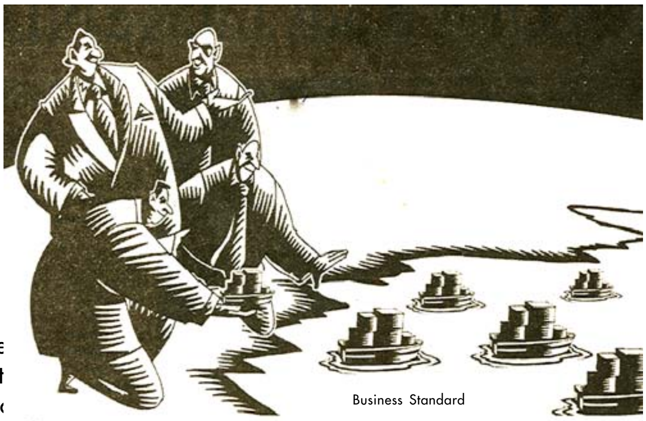
"If Latin America had managed to gather round a single candidate, he might have had a good chance," said Gary Hufbauer, senior fellow at the Institute for International Economics, Washington DC. "As it is, the race is Lamy's to lose."

(FT, 06.01.05 & FE, 19.03.05)

Backlash against China

The EC will publish "danger zone" guidelines for the level of Chinese textile imports. Once reaching this level, the EU will impose emergency trade restrictions, said Peter Mandelson, EU Trade Commissioner.

"The decision on whether or not to go further and impose defensive measures would be a complex one … and not one that should be resorted to light nor automatically," he t European Parliamentarians.



Business Standard

In a similar move, the US Government said that it would put in place a system for monitoring textile imports from China, in order that so-called safeguard measures could be enacted quickly.

China, on the other hand, said that measures to moderate its textile exports following the removal of the quota regime will have a substantial impact on sales and asked for patience to allow them to take effect. Cao Xinyu, Vice-chairman of China Chamber of Commerce for Import & Export of Textiles, said export growth was "very normal on the global perspective" and would stabilise in the longer term. *(FT, 26.02.05, 16.03.05 & 23.03.05)*

Textile Gains for India

Investment worth Rs 140,000 crore (approximately US$32mn) is likely to be made in the textiles sector in India, following the dismantling of the multi-fibre agreement (MFA). This was stated in a study prepared by Associated Chamber of Commerce of India.

However, to make use of this opportunity, India has to deal with the dominance of the small-scale industries in this sector, low productivity levels and labour laws. The country has barely four percent of the global textiles market and less than three percent share of apparel.

As per the report, both China and Pakistan can pose a major threat to Indian exports. In order to face competition, the report suggests that India must promote foreign direct investment (FDI) in textiles, abolish all indirect taxes, and amend labour laws to help free outsourcing. *(FE, 03.01.05)*

DNA Check for Textile Imports

Quota dismantling does not mean an easy and unchecked access to the US for textile goods. The US is developing a DNA marker system to trace a fabric's origin. This is to check illegal textile imports and ensure compliance with international trade law.

According to the US Department of Agriculture (USDA), "The complexity of today's international cotton, textile, and garment processing trade makes it difficult to establish the country of origin for tariff payment purposes. Having access to DNA-based identification technology would help protect cotton fibre, textiles and garments from counterfeiting and fraud."

The USDA has sanctioned US$ 270,000 to develop the technology, which will be used to deter counterfeiting of US cotton products. The project has been pushed by the American textile industry. *(ET, 15.01.05)*

Wrong to Seek Limits

The new tone set by the EU against China in the area of trade in textiles is regrettable. China has fortunately agreed not to put restrictions on its (textiles) exports onus. The EU should not ask China to do so; it would neither be in the interest of EU nor China.

Sweden has been at the forefront of advocating a liberal European trade regime. Together with other like-minded members of the Union, Sweden has continuously and consistently opposed restrictions to trade, such as excessive use of safeguards and anti-dumping measures.

The Swedish Government believes that free trade, (including China), is beneficial to the people of Europe. Trade should also work in the service of development.

We will continue to work with our allies within Europe to stall the forces that are continuously lobbying for protection. Those in Europe working for free trade need to work together. Any efforts to persuade China 'voluntarily' to restrict its trade would not only hurt the European consumers, but would also run contrary to the idea of "partnership and responsibility" that the EU and China should share in the global economy.

(FT, 03.03.05)

Textile Quotas Benefit Consumers

The Swedish Minister of Trade and Industry, Thomas Ostros does a disservice to public opinion by trotting out the old chestnut of consumer benefits. Recent comparisons of import prices for clothing into the EU-25 show a fall of 30.6 percent between the first nine months of 2000 and the corresponding period of 2004. The fall in consumer prices (clothing and footwear), however, was only 0.5 percent.

Sweden dropped textiles and clothing (T&C) quotas in August 1991. Consumer prices for clothing rose over the next four years by 1.9, 1.6, -0.3 and 5.3 percent respectively. Sweden then re-imposed quotas as an obligation when it joined the EU in January 1995. Over the next four years consumer prices for clothing in Sweden rose by 0.4, -0.3, 3.0 and -1.4 percent respectively.

I respect the Swedish Government's commitment to free trade. May I urge the Minister to promote with equal alacrity a genuine access to closed third markets for EU textiles and clothing (T&C) exports in the run-up to the WTO Ministerial in Hong Kong.

William H Lakin
Director-General
European Apparel & Textile Organisation (Euratex)
Brussels, Belgium *(FT, 04.03.05)*

Without a Successful Farm Deal, We will Not Conclude the Doha Round

__Supachai Panitchpakdi__, Director General of the WTO since September 2002, has recently been nominated by the UN Secretary-General as the man best fitted to head the UNCTAD, for a term of four years, beginning from September 2005. In an interview he explains what lies ahead for world trade talks. Excerpts are reproduced.

Is the proliferation of Free Trade Agreements (FTAs) and Regional Trade Agreements (RTAs) a sign of the failure of multilateralism, and, hence, of the WTO as its engine?

Multilateralism hasn't failed. For more than half a century, it has provided stability and a strong platform for growth and development. The DDA is taking longer than anticipated, but we are progressing and governments are dedicated towards achieving an ambitious agreement by the end of 2006. Trade ministers are politicians, and politicians like to get agreements; I speak from experience.

When it comes to coverage, sectoral and geographical, the multilateral trading system is universal, and bilateral or regional deals – which, by definition, are discriminatory – are not. You will not, for example, cover the reduction of agricultural subsidies in a regional or bilateral negotiation. Nor will the poorest countries have their interests addressed.

In one of your recent articles, you had pointed to how India's role in the WTO has changed from being reactive and defensive, to being more pro-active. Is it not a fact that this greater voice of developing countries is at the root of the developed world's unhappiness with the WTO?

Some unhappiness where a dispute settlement case goes against a country happens in developing countries, too. I have seen the highest levels of commitment from the US, the EU, Canada and Japan during the Doha negotiations. Without the dedication of US trade representative Bob Zoellick and the EU Trade Commissioner Pascal Lamy, we would not have reached the framework agreement in July. Enhanced participation, by India and other developing countries, has been good for all WTO members, because when governments feel a sense of ownership in the negotiations, there is greater commitment to the process.

Is agriculture still a stumbling block to the successful completion of the DDA?

Agriculture is central to the DDA and without a successful deal on it we will not conclude the round. But we have made significant progress. There is a commitment to reduce trade-distorting domestic support by 20 percent on the very first day of implementation and an agreement to eliminate all forms of export subsidies by a date to be agreed. But much remains to be done on subsidies and market access.

In recent months, the focus has been on some highly technical issues, like converting non-*ad valorem* duties to their equivalent rate. This is necessary work. But the time has come for politicians to re-engage in the process, and this is now taking place.

The decline in tariff barriers has gone almost hand-in-hand with a rise in non-tariff barriers (NTBs). Given that NTBs are so much more difficult to tackle, and the dispute settlement mechanism is so slow, are developing countries on a losing wicket?

If your premise were correct, we would not have seen a 16-fold increase in world trade since 1948, or trade growth of more than eight percent last year and 4.5 percent in the year 2004. Yes, NTBs have risen and they remain an object of difficult discussions in the DDA. But the dispute settlement system does provide for a way to address these, if they breach WTO rules. The mechanism isn't always slow. In many cases, we have seen disputes resolved before the panel was even established.

On services, what are the prospects of getting anywhere on Mode 4? And can the backlash against outsourcing be pre-empted under General Agreement on Trade in Services (GATS)?

I would like to see more, and better, services offers across all modes and sectors. We have 45 members who have not made initial offers – not including the 31 LDC members who are not required to submit offers – and this is not helpful. Our deadline for revised offers is May 31, but this will not be relevant if many members still refrain from initial submissions. A strong services agreement will help alleviate many of the concerns that countries have raised. It will also ensure greater balance across the DDA negotiating groups.

How do you see companies walk the fine divide between complying with GATS and their own domestic concerns, especially in the area of public health?

With respect to GATS, public health and all other public services are exempt from commitments. Governments are within their rights to keep such sectors out of the negotiations, to provide subsidies to their domestic care providers, or to limit competition from foreign suppliers. They are free to regulate public health and all other public services in whatever way they see fit. Foreign companies have to abide by all domestic laws and nothing in GATS affects that.

A framework deal doesn't mean much when no headway has been made on modalities. What kind of time frame do you expect?

I disagree, once again, with the premise. It's true we have much work to do and not much time to do it, but the agreements reached already on farm subsidies are significant. The agreement to eliminate all forms of export subsidies is unprecedented and the 20 percent down-payment on cutting trade-distorting domestic support more so, when the total cuts in domestic support agreed in the entire Uruguay Round were 20 percent! We have also agreed on a tiered formula for tariff cuts. When you consider our members argued for four and half years on the type of formula, it is a useful step.

The July Package has sharpened the negotiators' focus and brought the agreement closer. Members have agreed to seek to achieve modalities on agriculture and non-agricultural market access by the Hong Kong ministerial conference in December, with an eye towards concluding the round by the end of 2006. *(FE, 28.03.05)*

Korean Victory in Shipping Spat

South Korea claimed victory in a shipping dispute with the EU, after the WTO rejected Brussels' complaint that Seoul was illegally subsidising the industry. The WTO ruled that the corporate restructuring that took place in South Korea after the 1997 Asian financial crisis, which included debt forgiveness and debt-for-equity swaps, did not amount to illegal state aid.

Yet, it did not altogether dismiss the EU's contention regarding illegal export support and has given three months to withdraw those supports. "We uphold the (EU's) claim that Korea has provided prohibited export subsidies in the form of the individual Korean Export-Import Bank (Kexim) transaction," the WTO said.

The EC expressed regret over WTO's decision for not considering loans and refund guarantees granted by state-owned banks as subsidies. It said it would review the ruling before deciding whether to appeal or not.

The EU took South Korea to the WTO in 2002, claiming that South Korean shipbuilding received soft loans and debt write-off from government-backed banks that helped save them from bankruptcy in the wake of the 1997 financial crisis. *(FT, 09.03.05)*

EU to Lift Sanctions

As a sign of thawing in transatlantic relations, the EU cleared the way for lifting of trade sanctions imposed against the US. The EU imposed sanctions in a dispute over the US corporate tax subsidy, deemed illegal by the WTO.

The EC also said it would not automatically re-impose the sanctions if the US fails to comply fully with the organisation's ruling. Anthony Gooch, the EC's spokesman in Washington, said that Peter Mandelson, the EU Trade Commissioner, was seeking to "avoid escalating confrontation".

Despite this gesture, the US is angry with the EU for continuing to pursue the dispute in the WTO, even after the US Congress passed an overhaul of US tax rules last October, in response to the original WTO ruling. *(FT, 22.01.05)*

Appeal against Internet Gambling

The US notified in January the WTO about its decision to appeal against its ruling that US officials violate trade rules when they try to thwart cross border Internet gambling. It would appeal, noting that GATS excludes sporting, a designation meant to cover gambling.

In November 2004, the WTO said that the US violated international trade rules by allowing credits cards to be used for domestic gambling, but not for online gambling. This difference of opinion has the potential to blow up into a major dispute, pitting the US against a host of countries with Internet casinos.

Several such casinos are based on the tiny Caribbean island of Antigua, and in 2003, Antigua took the case to the WTO. Owners of these casinos want to conduct business without US law enforcement interference. *(FE, 17.01.05)*

Patch up over Byrd Amendment

Despite WTO declaring the Byrd Amendment non-compliant in 2002, the US was not taking any measures to amend the same to make it WTO compliant. The 'continued dumping and subsidy offset act' (Byrd Amendment) directs the US Government to distribute the collected anti-dumping and anti-subsidy duties to the US companies that brought the cases.

Indonesia, together with 10 other countries including India, the EU, Australia, Brazil, Canada, Chile and Japan had asked the US to repeal the Act as it went against the letter and spirit of the WTO law.

Indonesia, however, seems to have changed its mind after bilateral discussions with the US. It will not request authorisation from the WTO to suspend concessions or other obligations to the US. If it decides to request authorisation, then it will provide the US advance notice and will consult it making such a request. *(FE, 17.01.05)*

Canadians Claim Compensation

About 500 cattlemen, mostly from the Canadian province of Alberta, have filed 121 claims under the North American Free Trade Agreement (NAFTA) against the US. They are seeking at least C$325mn (US$264.28mn) in compensation from US taxpayers for the May 2003 decision to halt imports of Canadian beef and cattle after the mad-cow disease turned up in Alberta.

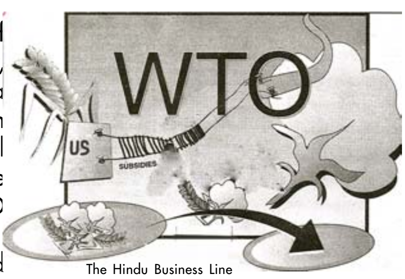
The case spotlights NAFTA's little-known Chapter 11, which is intended to protect companies from having factories or land seized by foreign governments, or from laws that unfairly favour a nation's own businesses.

The cattlemen's claims are based on a clause that says companies from other NAFTA countries are entitled to the most favourable treatment that US companies would receive in similar circumstances. The provision is designed to prevent countries from arbitrarily tossing impediments in front of foreign competitors, and to encourage businesses to invest and compete across borders. *(The Seattle Times, 23.02.05)*

WTO Rules against US on Cotton Subsidies

The WTO Appellate Body upheld a ruling declaring that US subsidies to cotton farmers broke trade rules, depressed world prices and hurt Brazilian producers. Defeat for the US could lead to similar cases being brought for other products. The US will now have to bring its subsidies into line with the rules, although that could take time.

According to general coordinator of trade disputes at Brazil's foreign ministry, Roberto Carlos de Azevedo, there was a maximum period of 15 months during which the US has to change its subsidies to fall into line with the findings of the WTO. He was confident the US would fulfil the WTO findings.



The Hindu Business Line

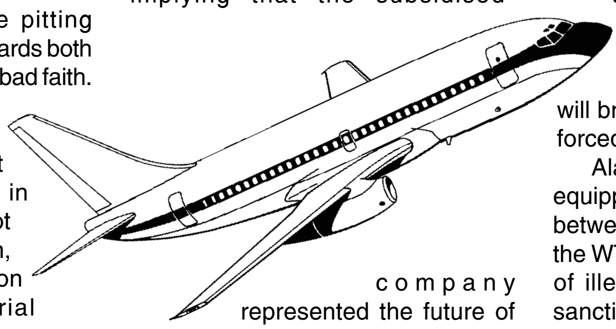
African nations welcomed the ruling and hope that this would give them the upper hand in negotiations aimed at cutting developed countries' subsidies on cotton. "It (the ruling) strengthens the hand in the development content of the cotton issue – the illegality of the US subsidies – and is very consistent with the main political front we are pushing in these (Doha round) negotiations on the cotton initiative," said Mukhisa Kituyi, Kenya's trade minister.

Trade experts and development campaigners said the decision was likely to intensify pressure on the US and the EU to cut farm subsidies in the current round of global trade talks, the central demand of developing nations.

(BL & FE, 05.03.05 & ET, 14.03.05)

Why the Airbus-Boeing Case could Wreck the WTO, and How to Stop It

*– Jeffrey E. Garten**



On March 19, US Deputy Secretary of State, Robert Zoellick, and EU Trade Commissioner, Peter Mandelson, had a heated one-hour telephone call. The subject: the trade dispute pitting Boeing against Airbus. Afterwards both sides accused one another of bad faith. Within days tempers had cooled, but it was clear that this is becoming the nastiest transatlantic trade dispute in years, one that could jar not only the global trading system, but also political cooperation among the major industrial nations as well.

The spat has outgrown the WTO, which did not yet exist when the United States and EU first addressed the charges of unfair trade practices in the aerospace industry back in 1992. Since then, both Airbus and Boeing have outsourced work to Asia and Latin America, transforming themselves into international, rather than continental, manufacturing networks. This case is now global, rather than transatlantic, raising the stakes.

When Airbus surpassed Boeing in global sales and market share two years ago, it became Europe's most important "national champion," and has been cited as a model for other state-sponsored champions from biotech to energy. Though American leaders don't speak of government-backed "champions," they are no less firmly behind Boeing. That's why this dispute requires an extraordinary solution, one outside the normal bounds of the WTO.

In the heat of the presidential campaign in October 2004, the Bush administration filed a WTO suit calling for an end to Airbus subsidies. The EU counter-sued, saying Boeing, too, had received illegal government support. In January 2005, on the eve of George W Bush's trip to Europe, where he hoped to mend the transatlantic Iraq rift, the two sides agreed to try to settle the case amicably, outside the WTO, by April 11, 2005. The period of calm was brief.

The next day, Airbus Chief Executive Officer, (CEO) Noel Forgeard, trumpeted his plan to apply for subsidies for new planes. Within a week, French President Jacques Chirac, unveiling a new Airbus plane in Toulouse, hailed the giant's success as a model "in other fields, in energy, in transport and medicine," implying that the subsidised company represented the future of European industrial policy.

The dynamics of the Airbus-Boeing competition make an "out of court" settlement unlikely. High-tech manufacturing teaches critical skills, provides jobs and produces valuable research and profitable exports, making both Washington and Brussels reluctant to weaken support for the aerospace giants. Boeing is already in precarious shape, racked by scandals related to ethics and hiring Pentagon insiders.

Worse, Airbus has announced its intention to make refuelling tankers and passenger aircraft in the United States, challenging Boeing on its home turf. Fact is, Boeing's survival may depend on the elimination of subsidies to Airbus – and perhaps even more help from Uncle Sam.

For its part, Europe is obsessed with building a culture of greater innovation, and to many European leaders, Airbus is exhibit A of how to fashion a successful industrial policy to do so. In fact, given the glacial pace of reform in the EU, it may be the only major exhibit. And while Airbus is faring well now, EU officials are also concerned that a strengthening euro will undercut overseas sales. It's no wonder that they have tied cuts in their subsidies to reductions in US subsidies - a *quid pro quo* that the EU probably believes Washington cannot deliver. The two companies are also competing for critical markets in Asia, particularly China and Japan.

No question, this conflict is the fiercest, biggest and most politically charged commercial dispute in the world. And so it is no surprise that Zoellick and Mandelson came to verbal blows. Of course, there is still a slight chance that a bilateral agreement will be reached, if not by April 11, 2005 then in the following weeks. But it is also possible that those talks will break down and the WTO will be forced to take the case.

Alas! The trade organisation is not equipped to handle so large a dispute between its leading powers. Odds are the WTO would find both parties guilty of illegal subsidies and would levy sanctions on both. Washington and Brussels would likely ignore the verdict, badly damaging the credibility of the WTO. That would disrupt the Doha Round of global trade talks, and could undermine the US-EU efforts to work together on issues from Iraq to foreign aid.

There is a way out. The two parties could agree to binding arbitration by a distinguished third party from Asia or Latin America, and a new framework for the talks. First, the 1992 bilateral agreement would become a global one, including Japan and China. Outsourcing has become big business; the new accord should recognise that reality.

Second, the goal should be the gradual elimination of all non-defence subsidies, because Boeing and Airbus no longer need taxpayer support.

Third, the new deal should contain provisions for calculating the size and impact of subsidies, using independent audits and international accounting standards. That would bring the agreement in line with post-Enron principles of good governance.

Will any of this happen? Probably not, for the parties are dug in to their trenches. But watch the next rounds: how Washington and Brussels handle this case in the next few weeks will speak volumes about the capacity of the United States and Europe to handle their toughest problems in a cooperative way.

(Dean of the Yale School of Management, USA & former Under Secretary of Commerce for International Trade in the first Clinton administration; excerpts from Newsweek International, 27.03.05)*

Deal over Trade Secrets

International Business Machines (IBM) has agreed to pay Compuware US$400mn over four years to settle claims that it stole trade secrets from the Detroit-based software company. Compuware claimed that IBM had used information obtained from former employees to build software that competes with its main products.

Compuware, the smaller company, asked the court to prevent IBM from selling the software and sought damages of at least US$500mn. IBM denied any wrongdoing. Both sides claimed that the settlement vindicated their position.

"The key to the settlement is that IBM is free to distribute our products at the price we choose," said a Compuware spokesman. The two sides have also entered into a patent cross-licence agreement. *(FT, 23.03.05)*

Firm Stand against EFTA Demands

Southern African countries have taken a firm stand against EFTA (a group of Switzerland, Norway, Iceland and Liechtenstein) demands on intellectual property rights in free trade agreement. Such demands would have gone beyond the obligations under the WTO Trade Related Aspects of Intellectual Property Rights (TRIPs) Agreement.

South African Trade Minister, Mandisi Mpahlwa, said that the demand of EFTA countries to include provisions on intellectual property rights relating to medicines and agriculture in the free trade agreement with Southern African Customs Union (SACU) has been rejected.

Countries like the SACU states(South Africa, Botswana, Namibia, Lesotho and Swaziland) face huge challenges to achieve food security and optimal healthcare for their population. Therefore, they need to keep sufficient freedom to adjust their intellectual property system to their needs. *(Ip-health, 04.03.05)*

Global Piracy Losses

According to a study by the International Intellectual Property Alliance (IIPA), global losses due to copyright piracy were US$25-30bn in 2004. China tops the list with US$2.5bn and Russia at US$1.7bn.

China has been subject to monitoring under Section 306 of the US Trade Act since 1997. Now, IIPA has recommended that the US must request consultations with China in the WTO.

IIPA is a coalition of six trade associations representing US copyright-based industries. It is making bilateral and multilateral efforts to open up foreign markets closed by piracy and other market access barriers. *(FE, 12.02.05)*

IPR Debate Reshaped

Intellectual, Yes and Property, No! Brazil's President, Luiz Inacio Lula da Silva has reshaped the debate on intellectual property rights (IPRs) to reflect the needs of poor nations. In two years, he has forced the UN to change its global patent system, irked Microsoft by scorning its proprietary software and annoyed recording studios by putting the music of his dreadlocked culture minister online for free.

In January 2005, he told the boss of Swiss pharmaceutical giant Novartis that Brazil will continue to challenge patent restrictions on AIDS drugs and other expensive medicines. "Respect for intellectual property is fundamental, but ensuring access to medicines for the population is even more important," he said.

Brazil is now at the forefront of what may be a global shift in how knowledge is produced and distributed. It has spurred a debate about what inventions should get patents, becoming intellectual property. *(ET, 04.02.05)*

Rewrite Copyright Law

A group of large software companies has written to the US Congress to rewrite copyright law so that alleged Internet pirates can be more easily targeted for lawsuits. The Business Software Alliance, having Microsoft among others, fears a revenue-sapping future in which software programmes are traded as frequently and readily on peer-to-peer networks as MP3 music files are today.

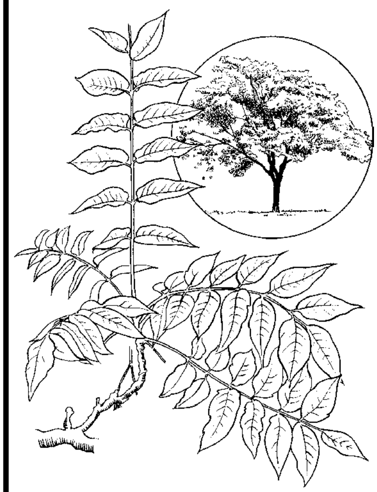
The Alliance came out with a white paper suggesting tightening of rules under which patents are issued, to allow both proposed and issued patents to be challenged more easily.

On the other hand, Richard Stallman, chairman of Free Software Foundation said that software patents are detrimental to the interest of both software development and developers and could, in fact, retard innovation and meaningful usage.

(FE, 17.01.05 & BL, 11.02.05)

Bitter-Sweet Victory

India has won a 10-year long battle at the European Patent Office (EPO) against the grant of patent on the use of *neem* as a fungicide, citing it as a traditional knowledge available with farmers and the scientific community. The EPO had granted the patent to the US Department of Agriculture and multinational W R Grace in 1995.



The initial patent was revoked in 2000 after India appealed against it. The multinational, however, went in for an appeal against the patent revocation, which has been rejected after India presented further evidence to support that use of *neem* in varied forms is part of traditional Indian knowledge and not a novel product.

Caroline Lucas, Southeast England's European member of Parliament and a member of the Environment and Consumer Protection Committee of the European Parliament said: "This decision represents a killer blow against bio-piracy by accepting that traditional knowledge and use of a plant's properties are sufficient grounds for rejecting a patent application."

"It (the EPO decision) establishes the principle that patents must not be granted to companies seeking to exploit traditional knowledge as just another commodity, and IPRs should not be used to plunder the developing world's traditional practices for commercial profit," she added.

(ET, 10.03.05)

DuPont Settles Pollution Case

A US judge has approved a US$107.6mn settlement of a class-action lawsuit against DuPont. Residents of a Washington suburb alleged that a chemical used in making a non-stick substance contaminated their water supplies.

Under the agreement, blood tests will be conducted on residents with wells, and current and former customers of six area water districts to determine who is eligible to receive damages. DuPont has denied any wrongdoing, but said that it decided to settle the case because of the time and expense of litigation.

Ultimately, DuPont could be forced to spend another US$235mn on a programme to monitor the health of residents who were exposed to the chemical, according to the terms of the agreement.

(FE, 02.03.05)

US Closes Tuna Market

The US market is closed to tuna caught by Latin American fishing boats in the Pacific Ocean due to a 2004 judicial order aimed at protecting dolphins. The region's fishers, however, said the measure is an "ecological mask" for what they consider protectionist interests.

US-based Earth Island Institute (EII) appealed to the US state department to relax the standards for "dolphin safe" labelling to include net fishing, if observers certified that no dolphin has been injured or killed during the catch.

"The nets used by the Mexican and Venezuelan tuna fleets have protective panels to reduce the risk of trapping dolphins, and they follow other provisions set by the Inter-American Tropical Tuna Commission (IATTC)," said Ricardo Molinet, Director of the Venezuelan Tuna Fishing Association.

Venezuela's Foundation for Responsible Tuna Fishing blames entities like EII for underestimating scientific evidence, the impact of the IATTC accords and the statistics on reduced harm to dolphins, in order to become an agency for degrading tuna prices. *(Tierramérica, 15.03.05)*

Action over Illegal Logging

The Group of Eight industrialised nations agreed to take action on illegal logging. This problem costs governments and legal timber companies billions of dollars a year. "Illegal logging by highly organised criminal gangs is a very serious problem right across the developing world," said Margaret Beckett, UK's Environment Secretary.

The proposed action stopped short of a ban sought by some on public procurement of supplies that could not be proved legal. The US is believed to have opposed such a ban. Instead, it agreed to "encourage, adopt or extend public timber procurement policies that favour legal timber".

The Timber Trade Federation said there had been wide agreements between the governments and development organisations on the issue. The illegal timber market is estimated to be worth US$15bn a year, a tenth of the global timber trade.

(FT, 19.03.04)

Kyoto Protocol becomes Operative

Kyoto Protocol came into effect on February 16, 2005. It requires industrial countries as a whole to reduce carbon dioxide gas emissions by 5.2 percent before 2012, compared with their 1990 levels, with targets set individually for each nation.

US and Australia are the major industrial countries, which rejected the Protocol. Together they account for 30 percent of global greenhouse-gas pollution. The treaty, now supported by 141 countries, was reached in 1997.

In a related development, EU Trade Commissioner, Peter Mandelson, has rejected calls for US exports to face increased border taxes to compensate EU firms for any transitional costs of their greenhouse-gas emissions.

According to Caroline Lucas, Green Party member of the European Parliament: "While the benefits of limiting global warming will certainly outweigh the transitional costs of investing in cleaner technologies and practices, some EU industry sectors may feel at a competitive disadvantage relative to corporations in non-Kyoto-complaint countries, since the latter are avoiding these costs at the expense of global warming." *(FE, 17.02.05)*

Threat to Kyoto Protocol

Amidst celebrations, there are signs that key provisions of the Kyoto Protocol may never work properly. Chief among these is the clean development mechanism, which allows developed countries offset some of their own greenhouse-gas emissions by financing projects that cut those in developing countries.

The Protocol placed reduction targets only on rich countries. But poorer nations are rapidly industrialising, shifting the balance of carbon dioxide output. Persuading developing countries to sign up to emissions reduction is difficult.

The Pew Centre on Global Climate Change, a US-based research organisation, found that China was the second-biggest emitter in 2000, responsible for 14.8 percent of the world's emissions against the US's 20.6 percent and the EU's 14 percent. *(FT, 15.02.05)*

Global Warming is Man-made

Leading US climate researchers released "the most compelling evidence yet" that human activities are responsible for global warming. They said their work should "wipe out" claims that warming is due to non-human factors, such as natural climatic fluctuations.

Tim Barnett from the Scripps Institution of Oceanography in California, said that previous studies had looked for evidence in the atmosphere. "But atmosphere is the worst place to look for a global warming signal. Ninety percent of the energy from global warming has gone into the oceans and the oceans show its fingerprint much better than the atmosphere," he added.

The scientists from Scripps suggested long-term summer water supplies would be reduced in places, such as western China and the Andes that depend on rivers fed by melting snows and glaciers.

(FT, 19.02.05)

Suit against Wal-Mart

Wal-Mart, the world's largest retailer, is to pay US$11mn to settle charges that it allowed the use of illegal immigrants to clean its stores. The settlement follows a series of federal and state probes in the US regarding the use of undocumented workers by sub-contractors employed by Wal-Mart since 1998.

For a company that recorded profits of more than US$10bn in 2004, the size of the penalty is of less importance than its symbolic weight. Wal-Mart stressed that the case reflected inadequate internal controls and it had taken steps to improve its monitoring of sub-contractors.

Lee Scott, Chief Executive Officer of Wal-Mart, has launched a nationwide campaign to improve the company's image on labour issues, running advertisements in national newspapers and launching a website to address criticisms. *(FT, 20.03.05)*

Want to Go to Canada?

With Winter Olympics coming over in 2010, Canada is all set to generate a different kind of demand. Thousands of Indian construction workers might see a windfall, even as the five-year countdown began in the Canadian province of British Columbia.

Over the next five years, millions of dollars are expected to flow into construction of sports complexes, games villages and other related infrastructure at Vancouver and Whistler, the venues for the 2010 Winter Olympics. Moreover, construction work related to the 2007 Canada Winter Games has already started, putting pressure on the country's labour market.

Curtis Panke, Director of the Ontario-based Global Placement Services, said Canada faced a huge shortage of construction workers, including electricians, plumbers, carpenters and welders. He added that India could supply over 30,000 workers, or a third of the total expected demand in 2005 and 2006. *(ET, 23.02.05)*

Decline in Global Unemployment

The global unemployment rate has declined from 6.3 percent (185.2mn) to 6.1 percent (184.7mn) in 2004. According to Annual Global Employment Trends of the International Labour Organisation, the decline, though small, was significant, as it was the second time in the past decade that there was a yearly decline in total unemployment.

The report said that while the robust economic growth rate of five percent in 2004 played a big role in these positive trends, employment generation still remains a major challenge for policy makers.

According to International Business Owners' Survey, business owners worldwide are in a fix that there is no dearth of people wanting to work, but shortage of skills is hampering business expansion. *(FE, 15.02.05 & 23.03.05)*

Brain Drain Threatens Economy

More than half of known graduates from some of the world's poorest nations are living abroad, which is threatening the countries' long-term economic development. This was mentioned in a report entitled 'Trends in International Migration', prepared by the Organisation for Economic Cooperation and Development (OECD).

Guyana is the biggest net exporter of skilled staff with 83 percent of its known graduates living in OECD countries. Jamaica follows with 82 percent. Caribbean islands and East African countries (Kenya, Tanzania, and Uganda) are the most affected.

Though the emigration of skilled people is leading to brain drain in their own countries, another phenomenon is that emigration has led to increased remittances for these countries. Economic migrants from Latin America and the Caribbean sent home US$45.8bn last year, 20 percent more than in 2003, which is contributing significantly to the region's economic prospects.

(FT, 22.03.05 & 23.03.05)

Loss of highly skilled workers
Percent of highly-skilled workforce emigrating to OECD countries*

Guyana	83.0	Mauritius	53.2
Jamaica	81.9	Mozambique	47.1
Haiti	78.5	Ghana	45.1
Trinidad and Tobago	76.0	Tanzania	41.7
Fiji	61.9	Uganda	36.4
Angola	53.7	Kenya	35.9
Cyprus	53.3	Burundi	34.3

* Excludes those abroad outside OECD
Source: OECD

US Proposal for Immigration Reform

US President George W Bush has vowed to push for changes in US immigration laws by calling for a Guest Worker programme. He called for legislation to allow around eight million illegal immigrants in the US to gain legal work permits, permitting them to remain in the country for upto six years.

However, some of his party members are against this proposal and take a tougher approach to illegal immigration, as well as some forms of legal immigration. Despite the fact that the wave of immigrants, mostly from Latin America and Asia, is likely to drive earnings of telecom providers, retailers, banks and housing companies in the US.

Speaking in the same context, Bill Gates, the chief of Microsoft, said at the WEF in Davos, Switzerland, "The tough US visa regime has caused a severe decline in foreign computer science students and is threatening to undermine America's position in the global software industry. This has resulted due to tougher immigration rules introduced in the wake of the terrorist attacks of September 11, 2001". *(FT, 20.01.05, 31.01.05 & ET 22.01.05)*

Trafficking Affects US Sanctions

India may face US economic sanctions for neglecting effective action to stop trafficking in children and women by June 2005. India is already on the watch list for being downgraded to Tier 3 (worst category), under the US Victims of Trafficking & Violence Protection Act.

If downgraded further, the US Government will vote against loans to India from international financial institutions and also suspend bilateral assistance. The impact of sanctions may not be severe, as other donor nations may not join the US.

In another case, a member of the European Parliament proposed a ban on import of products stemming from child labour to the 25-member EU. India is estimated to have about 16 percent (40 million) of the total child labourers in the world.

(FE, 22.03.05 & ET, 23.03.05)

Chirac Urges New Taxes

French President Jacques Chirac made an impassioned plea for new international taxes to fund a big increase in aid for the developing world. Speaking to world leaders at the WEF in Davos, Switzerland, he proposed taxes on:

- international financial transactions;
- capital flows to and from countries with bank secrecy;
- aviation and shipping fuel; and
- flight tickets. *(FT, 27.01.05)*

Mammoth Need for Infrastructure

Developing countries in East Asia need to spend US$1,000bn over the next five years to improve infrastructure. 80 percent of that spending is needed in China, according to a report prepared by the Asian Development Bank, the World Bank and the Japan Bank for International Cooperation.

It said better infrastructure is vital to boost growth, reduce poverty, attract investment and connect rural and urban areas, which are key to narrowing the gap between the rich and the poor. *(FT, 17.03.05)*

Tsunami's Effect on Poverty

Nearly two million people could fall into poverty as a result of the tsunami that killed more than 150,000 people around the Indian Ocean. This was according to the Asian Development Bank (ADB). While the overall effect on most economies would be minimal, its initial study had showed that the weakest in society would bear the economic brunt of the disaster.

"Poverty is potentially the most important effect of this natural disaster. One million people could fall below the poverty line in Indonesia alone. The number of poor in India could rise by 645,000 and by 250,000 in Sri Lanka. In the Maldives, more than 50 percent of the population could fall into poverty," the report said.

Economies of Sri Lanka and the Maldives would likely be the worst affected by the tsunami, but other countries should be able to absorb the impact and even get a boost from reconstruction in rural areas that were hit hardest by the giant waves.

(FE, 14.01.05)

MDGs not on Track

On a scale of zero to ten, global efforts to reduce hunger scored only three, according to the Global Governance Initiative Annual Report, 2005. Efforts to diminish poverty earned a rating of four. Actual achievements were compared to with international goals.

The low scores reflect the fact that the world is not on track to meet the milestones set by the UN MDGs. If current trends continue, there will still be about 600 million hungry people in 2015, far short of the target.

Only South and East Asia are projected to reduce the incidence of poverty substantially by 2015. Poverty reduction in Latin America and the Caribbean, the Near East, and North America will be minimal, if current trends continue. In sub-Saharan Africa, the poverty rate is expected to persist at a staggering 45 percent.

The report calls on governments to increase investment in clean water, education, and health care. It also highlights:

- improving governance;
- fair trade between developing country farmers and industrialised nations;
- reduction in debt burden of heavily indebted poor countries; and
- safety nets for poor households.

(CI-trade, 18.02.05)

'Dismal Science' to Happiness

Economics, known as the dismal science, has become increasingly interested in the question of happiness. Daniel Kahneman, the Princeton psychology professor who shared the Nobel Prize for Economics, and Alan Krueger, an economics professor at Princeton, have been working on a "national well-being account".

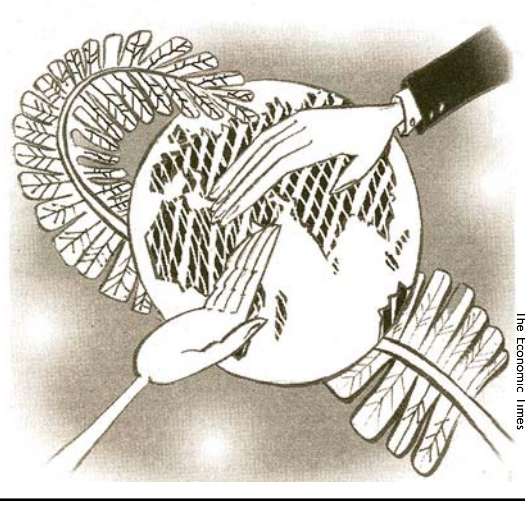
It aims at giving a more accurate picture of how happy people are than the one conveyed by standard satisfaction questionnaires. "Happiness economics" is not yet in the textbooks, but has edged closer to the mainstream, as the link between rising incomes and happiness has broken down. An accurate measure of well-being has the potential for widespread application in business and government. *(FT, 10.01.05)*

'Quick Win' Interventions

Donors and recipients of aid must abandon a defeatist mindset, if the world is to have a chance of fulfilling the promise to halve extreme poverty by 2015. This was according to the United Nations most comprehensive development report in two decades.

A three-year study, headed by Jeffrey Sachs, the US-based economist, argued that with enough money and coordination, the Millennium Development Goals (MDGs), adopted by world leaders in 2000, are achievable. The UN hopes that the report, taken together with a UN study last year on security challenges, can form the basis of a global bargain between the rich and the poor countries, at a summit of world leaders in September 2005.

In return for agreeing enhanced security measures sought by the rich countries, the developing countries would receive a clearer commitment of help to escape extreme poverty. As a first measure, the UN millennium project identifies a series of "quick win" interventions, with a proven and immediate effect. Beyond that, a massive increase is needed in public investment in infrastructure and "very specific investments that spell the practical difference between life and death."



The Economic Times

"We agree that the MDGs cannot be achieved with 'business as usual' on reform," said James Wolfensohn, President of the World Bank. "The report's appeal is needed, given the depth of the development challenges in many countries, especially in sub-Saharan Africa," he added.

(FT, 18.01.05)

Call for Change in Donor Behaviour

A blunt message calling for a "radical change in the way donors behave and deliver assistance" to African countries was given in the high-profile report by the UK-sponsored Commission for Africa. It argued for a doubling and possibly tripling of aid to Africa from existing levels, removal of rich-country trade barriers, a shift in policy towards capacity-building and early talks on a treaty to control arms sales.

Tony Blair, UK Prime Minister, who set up the Commission a yerar ago, launched the report in London in March. The initiative has been compared with the Brandt Commission on north-south relations, chaired by former German chancellor Willy Brandt, which produced two acclaimed reports in the early 1980s. It is hoped the Commission for Africa will exert greater influence on government policies.

Commission members and officials will lobby governments and international bodies in preparation for the UK's presidency of the EU in the second half of 2005 and the July summit of the Group of Eight (G-8) leading industrialised nations in Scotland, where Blair wants Africa to top the agenda.

The 460-page report, Our Common Interest, sets out to be blisteringly honest in highlighting corruption and misgovernment in Africa and criticising developed countries over trade policies, reluctance to lift debt burdens and self-serving approaches to aid.

It warns against "storing up troubles for the future" through the spread of diseases and the rapid growth of African slum cities, which it says are becoming "a powder keg of potential instability and discontent." It attacks donors for "not paying what they promised" to combat HIV/Aids.

The report argues that any change must start with better governance and a better record in peace and security. But the main demands are directed at donor nations, in a deliberate effort to avoid appearing to steal the show from African countries' own initiatives through the New Partnership for Africa's Development (NEPAD).

MAIN PROPOSALS

- Doubling of aid to Africa to US$50bn a year by 2010, further possible US$25bn increase
- Infrastructure spending, US$20bn a year, half funded by donors
- Immediate launch of UK-proposed International Finance Facility to boost aid flows through borrowing
- Extension of debt relief, with 100 percent cancellation of multilateral debt where needed to achieve UN development targets
- Negotiations on an Arms Trade Treaty by end 2006
- Commitments by G-8 countries on repatriating proceeds of corruption, reporting back in 2006
- Extension of the UK-promoted Extractive Industries Transparency Initiative to other sectors such as forestry and fisheries
- Permanent experts' panel on links between resource exploitation and conflict
- US$4bn fund to cushion African countries against economic shocks and natural disasters
- End to subsidies for cotton and sugar producers in rich countries
- Commitment by rich countries at WTO meeting in December to end all export subsidies and trade-distorting support by 2010
- US$550mn facility over seven years from donors and private sectors to improve investment climate

Describing Africa as suffering "a tsunami every month", the report calls for an extra US$25bn of aid annually by the end of the decade, followed by a second-stage increase of another US$25bn.

It calls for a reorientation of aid towards infrastructure, which would take up the largest share of the extra inflow – US$10bn a year in the next five years, rising to US$20bn a year in the following five. The bulk of the rest would be split between health and education, with a new emphasis on strengthening higher education, including the creation of Indian-style institutes of technology. It also includes proposals for promoting private sector investment.

The report puts new funding needs for public investment at US$75bn a year overall, suggesting that half could be found in the next three to five years, with two-thirds of this coming from donors.

In the main, the report breaks little new ground, but adds weight to arguments already made by some donors and African and international organisations. It backs calls for wider debt relief for low-income countries – implicitly suggesting it should include Nigeria, sub-Saharan Africa's biggest debtor – and urgent steps to wipe out debts with multilateral lenders. This follows the UK's move to pay its share of debts owed to soft-loan arms of the World Bank and African Development Bank.

The central proposal for doubling aid corresponds to the plan that Gordon Brown, UK Finance Minister, has been pushing for more than two years – an International Finance Facility (IFF) to bring forward payments by issuing bonds that would be repaid from future aid commitments. The report urges the immediate launch of the IFF, although the plan for off-budget borrowing is still surrounded by doubts and strong reservations from the US and Canada.

Some of the report's toughest language is aimed at 'indefensible' trade barriers by rich countries, which it says have been a wilful obstacle to African export growth. It attacks the US$350bn spent annually on farm subsidies, mainly by the EU, the US and Japan – 16 times the volume of aid going to Africa.

There are calls for tougher anti-corruption policies and a focus on measures by developed countries to counter the payment of bribes. The G-8 should give clear commitments to repatriate illicitly acquired funds.

"The UK is not exempt by any means from these recommendations," said Myles Wickstead, head of the Commission's London-based Secretariat. Observers point to Nigeria's attempts to recover US$2bn of funds that passed through British banks, allegedly sent by the family of former dictator Sani Abacha, and delays in enacting new UK corruption legislation. *(FT, 11.03.05)*

Need for a Global New Year's Resolution

*– Jeffrey D Sachs**

It is time for New Year's resolutions, and this year's are obvious. When the millennium opened, world leaders pledged to seek peace, the end of poverty, and a cleaner environment. Since then, the world has seen countless acts of violence, terrorism, famine, and environmental degradation. This year, we can begin to change direction.

Knowledge, scientific advance, travel and global communications give us many opportunities to find solutions for the world's great problems. When a new disease called Severe Acute Respiratory Syndrome (SARS) hit China last year, the World Health Organisation coordinated the actions of dozens of governments, and the crisis was quickly brought under control, at least for now.

When Bill Gates donated US$1bn to bring vaccines to poor children, he made it possible to protect tens of millions of young people from preventable diseases. When an agricultural research unit called the World Agro-forestry Centre discovered that a certain tree could help African farmers grow more food, they introduced a new and valuable approach to overcoming Africa's chronic food crisis.

Unfortunately, such examples of international cooperation are as rare as they are impressive. With our knowledge, science and technology, the horrendous living conditions of the world's poorest people could be dramatically improved. Millions of people could be spared malaria, HIV/AIDS, hunger, and life in slums. The problem is not that we lack good solutions. The problem is that we fail to cooperate globally to put those solutions into practice.

UN Secretary-General Kofi Annan has honoured me by making me his special adviser on the Millennium Development Goals (MDGs) and asking me to lead a group of scholars and development experts in identifying practical steps to reach the goals by the target date in 2015. This effort, known as the UN Millennium Project, will issue its report to Secretary-General Annan. Our study, Investing in Development: A Practical Plan to Achieve the MDGs, will be available for free around the world at *www.unmillenniumproject.org.*

What we learned is easily summarised. For every major problem – hunger, illiteracy, malnutrition, malaria, AIDS, drought, and so forth – there are practical solutions that are proven and affordable. These investments, in turn, would strengthen the private sector and economic growth. Yet, they require global partnership between the rich and the poor countries of the world. Most importantly, the world's richest countries need to do much more to help the poorest countries make use of modern science and technology to solve these great problems.

The US, for example, currently spends around US$450bn each year on its military, but less than US$15bn to help the world's poorest countries fight disease, educate their children, and protect the environment. This is a mistake, because military approaches alone cannot make US safe. Only shared prosperity can truly make the planet secure. The US should be investing much more in peaceful economic development.

Germany, Japan, and several other rich countries are also doing much less than they should – and much less than they promised the poor countries that they would do. In 2002, all donor countries committed to "make concrete efforts" to reach 0.7 percent of national income in development aid to poor countries. Germany, Japan, and the US, among others, remain far below this commitment.

This year will offer many opportunities for citizens around the world to insist that their leaders keep their Millennium promises. After our report is issued in January, Annan will issue a report to the world in the spring, identifying the practical steps that should be taken this year.

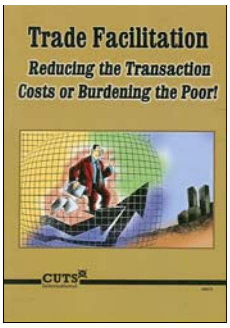
British Prime Minister Tony Blair has promised that he will make the fight against poverty and long-term climate change the two priorities of the summit. In September, the world's leaders will reconvene at the UN to decide on their actions during the coming decade.

The rich and powerful nations often declare their leadership in the world. The US claims that it helps the world fight poverty, but instead spends its money on weapons. Germany and Japan say that they want a permanent seat on the UN Security Council, but neither has yet followed through on its own pledges to help the world's poorest people. The world's poorest countries will ask themselves why they should vote for Germany and Japan to have permanent seats on the UN Security Council if they can't keep their promises.

Nothing would be wiser for the world's rich countries than to fulfil their pledges to the world's poor, hungry and disease-ridden people. Therein, lies the path to sustained peace. This year is the year that words can become reality, and that the world can begin to fulfil its hopes for our new millennium. Let us make our leaders aware that we aspire to shared peace and prosperity. Let us pledge that the rich and powerful should take real actions to help the poor, the weak, and the suffering.

(Professor of Economics and Director of the Earth Institute at Columbia University, USA; excerpts from an article in ET, 03.01.05)*

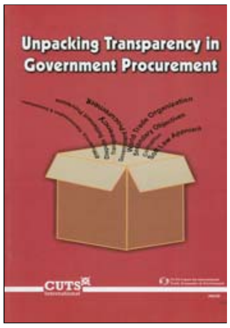
Trade Facilitation – Reducing the Transaction Cost or Burdening the Poor!



Trade facilitation has been on the WTO's agenda as one of the four Singapore issues along with competition policy, investment and transparency in government procurement. Three issues were dropped and only trade facilitation was included in the July Package to be negotiated. Trade facilitation measures are welfare enhancing and a multilateral agreement on these measures will bring significant gains to world trade by reducing the transaction costs on exports of developing countries, thus making them competitive. CUTS had undertaken two projects under a programme titled: International Working Group on the Doha Agenda (IWOGDA) to analyse the contours of possible international agreements on all the four issues. In the first phase of the programme, analyses were done on competition policy and investment, whereas the second phase dealt with trade facilitation and transparency in government procurement.

The purpose of the programme is to bring together the diverse viewpoints and concerns on the issue of definition of these facilitations; on Article V, VIII and X; on dispute settlement; technical assistance and capacity building. Five case studies of developing countries have been incorporated to analyse whether trade facilitation measures reduce transaction costs. This report is an attempt to analyse and present the contentious, but fundamental, issues pertaining to these facilitations in order to promote better understanding of these issues. It also aims to initiate discussions among the international trade community and act as a road map for future negotiations. *(Price: Rs.350/US$50)*

Unpacking Transparency in Government Procurement – Rethinking WTO Government Procurement Agreements



The share of government procurement in national public finances is significant. During the 1996 Singapore Ministerial, member states established a Working Group on Transparency in Government Procurement (TGP).

For these reasons and given the need to promote understanding and awareness of TGP issues, CUTS-CITEE embarked upon a research project on two of the Singapore issues, namely Transparency in Government Procurement and Trade Facilitation (TGP and TF), called IWOGDA II (International Working Group on the Doha Agenda II). The first part of this programme had dealt with Investment and Competition Policy and resulted in the publication of the report "Putting our Fears on the Table". The second part set about to bring together experts on Transparency in Government Procurement and Trade Facilitation, in order to inform about the issues and stimulate debate.

Although much has been written on the topic, awareness of these issues (TGP and TF) has been traditionally low in developing countries, not only among the civil society but also among policy-makers and trade negotiators. The IWOGDA programme is a response to an urgent need to promote understanding on a larger scale. The papers produced form the basis for this publication, which has been complemented by a synthesis report from Ron Watermeyer. This publication will be useful to civil society representatives seeking to understand the issue, as well as to policy makers. *(Price: Rs.350/US$50)*

Newsletters

Policy Watch (Oct-Dec 04)

Policy Watch, the quarterly newsletter of CUTS Centre for Competition, Investment & Economic Regulation (C-CIER), covers various issues related to the state of infrastructure, trade and economics, corporate governance, and e-governance.

This particular issue throws light on institutional independence as an important pre-requisite to achieve the desired effectiveness and efficiency. In the issue, various dimensions of regional development in India are captured as a 'Special Topic'. A question that has also been extensively discussed is whether provision of free power helps poor farmers.

(Subscription: Rs 150/US$30 per annum)

ReguLetter (Oct-Dec 04)

It has been generally observed throughout various parts of the world that business lobbies have expressed resentment over adoption of competition law. The cover story of the current edition of ReguLetter, the quarterly flagship newsletter of CUTS Centre for Competition, Investment & Economic Regulation (C-CIER), turns the above observation on its head to show that an effective competition law can benefit business as well, by protecting their interests too. In the section on competition law, the current edition focuses on Turkish competition regime.

The newsletter also carries its usual sections on macro/micro issues, sectoral regulation, restructuring, and corporate affairs.

(Subscription: Rs 150/US$30 per annum)

SOURCES: ET: The Economic Times; BS: Business Standard; BL: The Hindu Business Line; FT: Financial Times; FE: The Financial Express; TH: The Hindu

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