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**RESPONDING TO THE GLOBALISATION CHALLENGE:
A PERSPECTIVE FROM THE SOUTH**
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A. INTRODUCTION AND BACKGROUND

A1. Introduction

Globalisation has been the subject of a rapidly increasing number of speeches, articles and studies. Although the term may mean different things to different people who talk or read about it, it is mostly widely used in reference to the rapid reduction of economic barriers among countries. The breaking of such barriers, however, is more aptly described as "liberalisation." Although globalisation is so closely associated in common use with liberalisation, in fact this association is not strictly appropriate. Whilst the main proponents of globalisation (the corporations and governments of developed countries) often advocate aggressively for the liberalisation of trade, finance and investment in the developing countries, they themselves continue to strongly protect sectors or aspects of their economies (for example, agriculture, textiles, and the international movement of labour) in which they do not have a comparative advantage. Moreover, they have moved decisively to introduce tough intellectual property rights laws around the world, which are highly protectionist devices preventing technology access and transfer to the developing world.

Globalisation is thus not an inexorable process linked to liberalisation, but one which is human-made. Indeed, its most important aspect is the globalisation of policy making. Rules made by global institutions or agreements now determine a significant and growing part of national policies that once came under the sole jurisdiction of national governments. Since the global institutions and agreements that are effective in having their policies or rules implemented are dominated by developed nations, they by and large have control over the rules and processes that shape the particular forms of globalisation that prevail in the present world. Not surprisingly, these nations (and particularly their corporations) benefit from the globalisation process.

Developing countries at an earlier stage were willing to give globalisation an opportunity to prove itself, since the proponents had claimed that it would benefit all parties (including of course the developing world). But many years and promises later, the claimed benefits of globalisation seem to have passed by most developing countries, who instead find that they face many problems, costs, risks and challenges, whilst now doubting whether the benefits will ever materialise. From being early believers, many developing countries have become doubters. From being rather passive recipients of the process, they now aspire to play a rightful role to participate in reshaping the globalisation process. Since this process is not inevitable nor does it run along according to some objective and unchangeable iron law, but is human made, it is possible for people in developing countries, who after all form the vast majority of

humanity, to play a role in shaping the globalisation force that in turn has such a significant influence on their lives.

In recent years the disillusionment of political leaders and officials of many developing countries with the kind of globalisation taking place has been increasingly voiced. They also voiced frustration at their inability to adequately participate in decision-making in global institutions due to the undemocratic systems in these institutions. They have also expressed their commitment for their countries to act more effectively to respond to the challenges of globalisation, especially in co-ordinating at negotiating fora in which policies relating to globalisation are being taken.

In December 1999, Ministers and officials of developing countries taking part in the World Trade Organisation's Ministerial Conference in Seattle made it clear they were not prepared to sign on to a Ministerial Declaration of the meeting when they had not been invited to participate in the closed-door "informal" meetings that were negotiating parts of the Declaration. This was a significant factor causing the meeting to close without a Declaration. In April 2000, the Group of 77 (the largest association of developing countries that operates within the UN system) held its first Summit-level meeting in Havana. In a Declaration and a separate Programme of Action which the heads of states and governments issued, large portions expressed concerns about the lack of benefits for developing countries from the globalisation process as well as mounting problems arising from globalisation, such as the devastating costs of financial instability and the imbalances and effects of the WTO agreements. The Programme of Action also contained a large section on globalisation issues, including several decisions and commitments by the leaders to actively respond to the problems thrown up by globalisation. At the United Nations' Millennium Assembly in September 2000, many political heads of developing countries articulated their frustrations with the negative effects and inequalities arising from globalisation, and the need for greater participation by developing countries in the governance of global institutions and processes.

These recent events mark a turning point in the role of the South in analysing and participating in events and developments shaping the processes and rules of globalisation and global governance. There is now a need for developing countries to follow up from these statements and prepare a more systematic response, individually and collectively, to the challenges of globalisation and of the inequitable system of global governance.

This paper presents an analysis of some significant aspects of globalisation, from a perspective of the South, taking as its standpoint the interests and needs of developing countries. It reviews some of the major problems facing developing countries, particularly in the areas of trade and finance. It also looks at some institutional issues, such as the need for more effective participation of developing countries in the Bretton Woods institutions and the WTO, the need for strengthening the UN system and for building better capacity in the South to deal with globalisation.

The paper takes as its main point of reference the South Summit of the G77, which was a historic event not only because it gathered the leaders of the G77 countries for the first time, but also because the interaction among the political leaders generated a new spirit of willingness to confront the global inequities made more sharp by globalisation, and to take on the challenges of globalisation. This spirit was also reflected in the South Summit Declaration and the Havana Programme of Action.

The paper refers in particular to the section of the Programme of Action that deals with globalisation. In that section are four major commitments and decisions. Three of

these are dealt with in this paper: (1) Responding to globalisation and promoting effective participation of developing countries in international economic policy decision making; (2) Revitalising the role of the UN system in the context of globalisation; and (3) Utilising institutions of the South to meet the challenges of globalisation. The paper was unable to deal with the fourth theme (preserving and promoting cultural diversity).

For each of the three themes, the paper provides a brief analysis of the problems and issues, and provides proposals on how these issues could be approached. Before discussing these three themes, the paper sets the background by briefly describing the G77 Summit and the Programme of Action, as well as providing some points on the broader aspects of the globalisation process.

A2. The G77 Summit and the Havana Programme of Action

The first Summit of the Group of 77 was held in Havana, Cuba, on 10-14 April 2000. It was a historic meeting: for the first time it brought together the heads of states and governments and other high-level officials of the G77 countries. The Summit resulted in a "Declaration of the South Summit", as well as the "Havana Programme of Action". Both documents were the result of several months of drafting and negotiations in the preparatory phase before the Summit, and at the Summit itself. Ambassadors and diplomats, senior officials from capitals, Foreign Ministers and heads of governments and states participated at various stages in the drafting, revisions and approval processes of the two documents.

The Declaration and the Programme of Action (POA) are valuable and important documents, for they articulate the common standpoints and perspectives of leaders of the South on critical international issues at the start of the new Millennium. Just as importantly, the documents also put forward clear proposals and policies on how the South should face up to the many serious problems and challenges facing humanity. Together, the documents represent the views of the official South as to the status of the developing countries in the world, the demands they are making and the actions they are proposing to take themselves in order to make effective the demands and to realise their aspirations. The Summit and the outcome (in the form of these documents) have thus been highly significant, providing critical guidelines in analysing the problems facing the South at the dawn of the new Millennium and in putting forward many decisions, plans and proposals for addressing the problems.

In both the documents, the issue of globalisation figures prominently.

In the Declaration, para 11 deals with globalisation in a broad way, whilst paras 12-31 deal more specifically with economic issues (including global financial instability, trade and WTO, ODA, external debt, and the role of transnational corporations) related to globalisation.

In the POA, globalisation is one of the four main themes covered (the others being knowledge and technology, South-South cooperation and North-South relations). Further, globalisation issues are also embedded in the other three themes. Under the globalisation section, there are 12 paras putting forward analyses, affirming principles and expressing concerns; and four subsequent sections containing commitments by the Heads to specific decisions and actions. These sections relate to the following topics:

- (1) Responding to globalisation and promoting developing countries' participation in global economic policy decision-making;
- (2) Revitalising and strengthening the role of the UN system in development and international cooperation in the context of globalisation;
- (3) Preserving and promoting cultural diversity especially in the context of globalisation; and
- (4) Utilising institutions of the South to meet the challenges of globalisation.

The perspectives put forward and the commitments for decisions and action contain valuable materials for follow up activities. Subsequent sections of this paper attempt to outline some details of several of the issues raised in the POA (for themes 1, 2 and 4 above) and to provide suggestions for follow-up actions.

A3. Globalisation as the result of policy choices rather than an "inevitable" process

Before going into the subject matter of the component aspects of globalisation, it is useful to define and analyse some of its broad aspects. It is often being stated that globalisation is an "inevitable process" that is driven by objective factors such as modern technological development, and is therefore beyond the control of anyone or any country. According to this theory, each country can only try to adapt its policies and structures to accommodate to globalisation. If it does not try to adapt, or if it adapts inadequately, the country faces being left behind or swept away.

It may be true that small or poor countries do not possess the power or influence individually to shape the forces of technological change taking place in the developed economies. It is also true that in the past two decades there has been an increasingly strong trend towards economic liberalisation, privatisation, budget austerity and a much reduced role for the state in economic and social affairs. This trend started in the major developed countries, and has spread to most developing countries.

However, technological and social trends are not "inevitable" forces that emerge without human intervention. Instead, the particular type of globalisation process that has taken (and is taking) place is to a large extent the result of policy choices. If the present form of globalisation is inappropriate in some ways (for example, it may not facilitate development in many smaller or poorer developing countries), then some aspects of the globalisation process can be "re-shaped" to make it more suitable, or at least less damaging. If it is beyond the capacity of a single country to sufficiently influence the globalisation process, it may be more possible for several countries, acting in unison, to pursue the task of transforming policies at global or regional level (and also national level) and in so doing to re-shape the globalisation process or trend (and even in changing its direction). The role of human intervention is thus a pivotal factor, whether in creating, generating, or changing the globalisation process.

It is important to take this "proactive approach" to globalisation, firstly because it corresponds to the reality of the dynamics of globalisation, and secondly, it provides the framework for possible intervention and influencing of the process by developing countries, including following up on the G77 Summit's Declaration and POA.

Globalisation is usually associated at its core with another phenomenon, the liberalisation process. Liberalisation has broken down economic barriers between countries in the areas of trade in goods and services, financial flows (especially short-term flows) and foreign direct investment (FDI). This has been the subject of analysis in several studies (e.g. UNCTAD 1996a, Nayyar 1997, Khor 2000). The liberalisation process has been accelerated through specific events and mechanisms. For example, the GATT trade rounds facilitated trade liberalisation; and the collapse of the post-war fixed-exchange rate system in 1972 as well as financial deregulation in developed countries facilitated financial liberalisation.

However, globalisation is not synonymous with liberalisation. In some areas where it is in the interest of the North to retain or increase protectionist policies, then protectionism (rather than liberalisation) is in place or even heightened. Thus, whilst goods and capital have been liberalised to cross borders, two other factors of production (technology and labour) have not. Instead, strict intellectual property rights laws are being instituted across the world, hindering the transfer of technology to (and access to technology in) the South. The TRIPS Agreement in the WTO is a protectionist device to tighten technological monopoly of TNCs and prevent new industrial rivals from emerging from the South. Similarly, there has not been any liberalisation in the flows of labour from South to North as the North has refused to negotiate on this seriously at the WTO or elsewhere. Even in the area of goods, agriculture and textiles remain heavily protected sectors in the North, even as the developed countries preach the virtues of trade liberalisation to the South. There are also non-tariff barriers (such as anti-dumping measures) put up by the North to protect their domestic sectors.

The highly selective nature of what is liberalised and what remains protected demonstrates that liberalisation is not an "inevitable process" and that globalisation in turn is neither inevitable nor to be identified with liberalisation. Instead, globalisation is the result of policy choices. The processes of decision-making in global economic policies have been dominated by the North. The specific policies chosen by the North have shaped the international economic systems in ways that have been to their benefit, and often at the expense of the South. In terms of global trends and realities, the North's position (though it would not state it in this way), has been "liberalisation if it suits me, protectionism if it suits me."

The most important aspect of globalisation is the **globalisation of policy-making**. (This is dealt with in greater detail in Khor 2000). Domestic policies which in the past were under the jurisdiction of national governments are now increasingly made by international financial institutions, or through international or regional trade agreements, or by donor governments.

These externally-determined policies have expanded from the area of fiscal and monetary policies to issues of economic structure and ownership; and from the economic to the social sphere (health, education etc), and to the political sphere (governance, public administration, judiciary, corruption, electoral process, civil society). The expansion corresponds to the rapid increase of issues in conditionalities for loan rescheduling and for aid.

The expansion of the mandate of the multilateral trading system as it transformed from GATT to WTO also changed the scope of trade rules, expanding from trade in manufactures to trade in agriculture, services, IPRs and investment measures. Attempts are being made by developed countries to bring more non-trade issues into the WTO. Some regional trade arrangements (and even bilateral trade agreements) cover even more areas than WTO. Previously trade agreements covered only "border

issues" of tariffs and non-tariff barriers to traded goods. However, trade agreements now include policies at the heart of domestic economic and social structures.

Thus at the core of the globalisation process is the effective dissemination of policies (favoured by the North) to the many countries of the South through the policy conditionalities set by the IMF and World Bank and by bilateral aid agencies; and through the trade agreements of the WTO and regional trade bodies as well as bilateral arrangements. The dissemination of the specific policies is effective because of points of leverage that are used against the South: i.e. the need of indebted developing countries to reschedule external debt to avoid default (and thus their having to accept loan conditionalities); and the threat of trade sanctions faced by developing countries if they do not implement their obligations laid out in the WTO agreements.

Meanwhile, due to their lack of bargaining power, developing countries have generally not been able to make effective their requests or demands, for example for reforms to the global trade or financial systems to make them more equitable.

If developing countries could improve their analysis of what are the global policies that would be in their interest, and increase their cooperation and coordination among themselves, they could be in a better position to put forward proposals to reshape the global economic system in areas such as trade, debt, finance, resource flows, investment and technology transfer. The question, what kind of globalisation and what kind of international relations or international cooperation should be developed in the next century, could then be an area of real debate and serious, balanced negotiations.

The aspects of globalisation that should be addressed by developing countries as a matter of priority include the following:

- The unequal process of decision-making in global economic affairs and in specific institutions and fora.
- The inappropriateness of policies imposed on developing countries through loan and aid conditionality, resulting in continuing debt, retardation of economic growth and reduced social development.
- The instability induced by free mobility and sudden shifts in direction of short term capital.
- The narrowing of policy options required for development as a result of rules and pressures faced in the WTO that curb the ability of developing countries to subsidise local industries and farms.

A more detailed account of the globalisation process as it affects developing countries is given in Khor (2000), *Globalisation and the South: Some Critical Issues*.

B. RESPONDING TO GLOBALISATION AND INCREASING THE SOUTH'S PARTICIPATION IN POLICY DECISIONS

B1. GENERAL

The first theme of the commitments of the Heads in relation to globalisation is as follows: **"To respond to globalisation with a view to making it beneficial for all countries and peoples, and to actively promote effective participation of**

developing countries in the international economic policy decision making in the context of the globalising world economy." [POA Part II para 12 (1)]

Under this first theme are ten points for concrete action. Below, information and proposals are given for several of these points. The specific commitment will be referred to, and then information and suggestions provided. Reference will also be made to the relevant parts of the Declaration.

B2. REVIEW AND REFORM THE WTO REGIME

(i) General

A major decision for action in the POA is to: **"Intensify efforts to review and reform the WTO regime with a view to promoting a multilateral trading system that is fair, equitable and rules-based, and that operates in a non-discriminatory, inclusive and transparent manner, and in a way that provides benefits for all countries, especially developing countries. This will involve among other things, improving market access for goods and services of particular interest to developing countries, resolving issues relating to the implementation of WTO agreements, fully implementing special and differential treatment, facilitating accession to the WTO, and providing technical assistance. Invite member States to consult and make efforts as necessary for coordination of the position of developing countries prior to UNCTAD and WTO meetings, including through Ministerial Meetings."**

The need to review and reform the WTO regime has become increasingly evident to political leaders, policy makers and NGOs in developing countries in recent years. As the South Summit Declaration puts it: " We underline the urgent need to redress the imbalances in the present WTO Agreements" (para 20). It also states: "We advocate the restoration of confidence in the multilateral trading system, which should contribute to the economic growth and development of the countries of the South" (para 17), which strongly implies that there has been an erosion of the confidence that the political leaders of the G77 countries have in the WTO to contribute to development in the South.

The statement of the POA above aptly articulates the aspiration of the South for a fair and equitable multilateral trading system which benefits all (especially the weaker members, i.e. the developing countries) and lists some of the measures needed to correct the present problems.

The Declaration and POA are a reflection of a growing awareness that the Uruguay Round that gave birth to the WTO: (i) has not produced a balanced result between North and South, (ii) that much of the expected benefits to developing countries have not materialised, and (iii) that developing countries have made obligations in the Agreements, many of which are difficult to implement and moreover will cause adverse economic and social effects when implemented. These three major problems have to be corrected in order to "rebalance" the WTO and make progress towards a fair trading system that can contribute to development in countries of the South. Moreover, there is also a need to reform the decision-making process so that all developing countries are able to participate fully in the discussions and negotiations at the WTO. Also, the

question of "new issues" that the developed countries are attempting to introduce into the WTO through a new Round has to be seriously considered by developing countries. These are discussed below.

(ii) Need to Correct North-South Imbalances

The WTO Agreements contain many imbalances that work against the interests of the South. These imbalances have been spelt out in some detail in the book by B.L. Das, "The WTO Agreements: Deficiencies, Imbalances and Required Changes" (1998). Among the imbalances are the following:

- Subsidies prevalent in developed countries have been made non-actionable (i.e. they are allowed), whilst subsidies mostly used by developing countries for development objectives have been made actionable (i.e. they are not allowed and can be disciplined by a trade sanction);
- Under the Agriculture Agreement, countries that have maintained high levels of tariffs and other market access constraints, high domestic support and export subsidies are allowed to continue with a large part of these practices (i.e. the levels have to be reduced only slightly) whilst countries that were not using these measures (or had only low levels) are prohibited from having or raising them in future. Most developed countries fall under the first category whilst many developing countries fall under the second category.
- In the services agreement, there is an imbalance between the liberalisation of capital and that of labour. The movement of labour (which would benefit developing countries) is still restricted.
- In the TRIPS Agreement, the protection of the rights of IPR holders are provided for but there is hardly an provision specifically for the rights of the users of intellectual property. Most of the owners of IPRs are in the North whilst users of technology are mainly in the South.
- Obligations on the South are mainly legally binding and can be disciplined through the dispute settlement system, whilst many obligations that the North have towards the South (such as technology transfer) are not operational or subject to the WTO's enforcement mechanisms. Moreover, the special and differential treatment principle that is meant to benefit developing countries is in most cases inoperable as the clauses are only on a "best endeavour" basis.

The correction of imbalances between North and South should be high on the agenda of the present and next stage of WTO negotiations.

(iii) Expected Market Access Benefits to South have not materialised; therefore the South should demand the full implementation of the North's market access commitments.

When developing countries signed on to the Uruguay Round, they had expected to gain many benefits through increased market access and export sales to the developed countries. A major cause of the disillusionment of the South with the WTO is

that the expected benefits have not materialised. Developed countries have continued to keep their markets protected in sectors which are of most interest to developing countries, especially textiles and clothing and agriculture. Also, non-tariff barriers have also been used in attempts to block developing countries' products.

The disillusionment with the lack of sincerity of the Northern partners, and demands for the implementation of their commitments (in spirit especially), was expressed in the South Summit Declaration (para 20) as follows: **"We underline the urgent need to redress the imbalances in the present WTO Agreements, and in particular, with regard to the right of developing countries to promote their exports, which have been curtailed by the abuse of such protectionist measures as anti-dumping actions and countervailing duties, as well as tariff peaks and escalation. Meaningful and expedited liberalisation of the textiles sector, which is of particular interest to developing countries, is another important market access issue which should be addressed by the multilateral trading system as a matter of priority. We also call for the mandated negotiations on agriculture in accordance with the provisions of article 20 of the Agreement on Agriculture. In agriculture the objectives should be to incorporate the sector within normal WTO rules."**

The developing countries therefore should together demand the full implementation by developed countries of their commitments to increase market access to developing countries in order to restore the latter's confidence in the trading system. Among the measures which the South should rightfully demand are the following:

(a) No gains yet in textiles; need to accelerate liberalisation in North

Developing countries for the past quarter-century have been subsidizing developed countries by allowing the latter to impose quotas on textiles and clothing. The 10-year phasing out of this special treatment under the Agreement on Textiles and Clothing was supposed to be the Uruguay Round's greatest benefit to the South. However, after six years, there has not been liberalisation on a proportionally phased or progressive basis (in value terms), due to the developed countries' choice to "endload" the implementation. Most products chosen for "liberalisation" so far have not been actually restrained in the past.

As revealed by the Chairman of the International Textiles and Clothing Bureau (ITCB) (which comprises 24 countries) in a statement at the WTO, the situation as at June 2000 was as follows: Although 33% of trade in the sector had been "integrated" by the restraining countries in a narrow technical sense, this comprised mainly imports of products which were not under restriction. This has resulted in the elimination of only a few quota restrictions (13 out of 750 by the US; 14 out of 219 by EU; and 29 out of 295 by Canada), leaving the great bulk of restrictions still in place. Developing countries have not received meaningful increases in their access possibilities. (Hong Kong, China, 2000: p2).

Proposal: The ITCB has made concrete proposals to rectify this. At least 50% of import of products that were under specific quota limits should be liberalised by the start of the next stage of implementation on 1 January 2002. This is certainly not unreasonable since by then 70% of the transitional period of the Agreement would have passed. Also, the provisions of growth-on-growth should be applied so as to contribute to meaningful increases in access possibilities in developing countries.

(Hong Kong, China 2000: p3). These and other ITCB proposals should be fully supported by developing countries, which should make strong demands that the ATC should be fully implemented progressively in spirit and fact, and not merely in law. Indeed, whether there is a real improvement in the developed countries' policies in this sector in the immediate future is one of the key tests of their sincerity in wanting to build a balanced multilateral trading system. Any attempts by them to get additional concessions from developing countries (as a condition for meaningful liberalisation of quota restrictions), and such an attempt has been reported, should be firmly rejected.

(b) Need to counter increased use of non-tariff barriers

Whilst meaningful increase in market access by the North for the South has not materialised, the developed countries have meanwhile increased their use of non-tariff protectionist measures to block products of developing countries. A significant part of these have been applied to textile and clothing products.

Among the measures reported by the ITCB are: (i) a large number of unjustified safeguard actions for new restrictions; (ii) changes in rules of origin; (iii) unduly cumbersome customs and administrative procedures; and (iv) anti-dumping actions, targeting particularly products that were already under quota restrictions. (Hong Kong, China 2000: p2).

Proposal: Developing countries should compile a comprehensive report giving details of all the various types of unjustified restrictive trade measures, and the increasing trend of developed countries resorting to them. Regular monitoring and updates of the use of these measures should also be conducted. Measures to curb or prevent such abuses should be suggested, including amendments to current agreements, such as the WTO Agreement on Anti-Dumping. These proposals should be an important part of the developing countries' platform for future negotiations at the WTO.

(c) North should eliminate agriculture protection and subsidies

Another major disappointment for developing countries is that there has been little progress in the developed countries in reducing their high protection and subsidisation in the agriculture sector. Many developing countries have a comparative advantage in agriculture and this is an area of high potential for increased exports. They had thus expected the Uruguay Round to result in benefits for them in expanded agriculture exports to the developed countries.

The reality is that many years after the Agreement on Agriculture came into force, the developed countries have continued to maintain high protection and subsidies, thus preventing the potential gains for developing countries to be realised.

- High tariffs in selected items of potential interest to the South have had to be reduced only slightly. In the first year of the agreement, there were tariff peaks at very high rates in the United States (for example, sugar 244 per cent, peanuts 174 per cent); the EU (beef 213 per cent, wheat 168 per cent); Japan (wheat 353 per cent), and Canada (butter 360 per cent, eggs 236 per cent) (Das, 1998:

59). According to the Agreement, developed countries need to reduce their tariffs by only 36 per cent on average to the end of 2000, and thus the rates for some products remain prohibitively high.

- Although the Agreement was supposed to result in decreases in domestic support in agriculture, in fact the overall value of such support has not fallen but increased. The Agreement obliges developed countries to reduce the Aggregate Measurement of Support (AMS), which is a measure of domestic support, by 24% during 1995-2000 from the average annual level of the base period of 1986-88. However, two categories of subsidies are exempted from being included in the AMS. Although the major developed countries did reduce their AMS, they also increased their exempted subsidies significantly, thus offsetting the AMS reduction, and resulting instead in an increase in total domestic support. According to OECD data, the Producer Subsidy Equivalent (PSE) for all developed countries rose from US\$247 billion in the base period to US\$274 billion in 1998. (In the EC it rose from US\$99.6 billion to US\$129.8 billion, and in the US from US\$41.4 billion to US\$46.9 billion). (B.L. Das 2000: p2-3). An even more comprehensive coverage of domestic support in agriculture calculated by the OECD is the Total Support Estimate (TSE). The TSE for the 24 OECD countries rose from US\$275.6 billion (annual average for base period 1986-88) to US\$326 billion in 1999. (OECD 2000).

Thus, as Das (2000) points out: "It is frustrating to find that though the major developed countries have technically fulfilled their obligation of reduction of domestic subsidy, they have in reality increased the quantum of the subsidy. And it has been done by a very clever use of the provisions of the agreement, which shows that the provisions themselves are faulty. It also perhaps shows that their pronouncements in the WTO about liberalisation and reduction of subsidies in agriculture is not backed by political will." What is even more ironic, is that in contrast, most developing countries had previously little or no domestic or export subsidies. They are now barred by the Agriculture Agreement from having them or raising them in future (Das, 1998: 62). There is a great imbalance and injustice in this odd situation, where developed countries with very high domestic support are able maintain a large part of their subsidies (and in fact, due to loopholes in the Agreement, to raise their level) whilst developing countries with low or no subsidies are prohibited from raising their level.

- Regarding export subsidies, the Agreement also commits developed countries to reduce the budget outlay by 36% and the total quantity of export covered by the subsidy by 21%. The base level is the average annual level for 1986-90 and the reduction is to be done in 1995 to 2000. Thus even in the year 2000 the level of export subsidies is allowed to continue to be as high as 64% of the base level. (Das 2000: p3).

Proposal: In the on-going WTO agriculture negotiations, developing countries should insist that that the tariff peaks in agriculture in developed countries be brought down substantially and rapidly and that the rate of reduction and time frame be finalised. Domestic subsidies in developed countries should also be drastically reduced, and these should also include categories not covered by the AMS. Similarly, export subsidies in developed countries should be rapidly reduced and eliminated. (These proposals have also been made by several developing countries in the WTO agriculture negotiations. For example, see Cuba et al 2000, WTO document G/AG/NG/W/37). At the same time, developing countries should be

allowed greater flexibility than now allowed; this may require revisions to the Agreement.

(d) North should also reduce industrial tariff peaks and tariff escalation

Exports of industrial products of developing countries are also still hampered by tariff peaks and tariff escalation in the industrial sector in developed countries.

Proposal: These tariff peaks and escalation should also be brought down, to enable developing countries to expand their manufactured exports.

(iv) Need to Review Existing WTO Agreements to Counter Adverse Effects on Developing Countries ("Implementation Problems").

It is now well known that many developing countries did not adequately understand the implications for their economies and societies when they signed on to the many Uruguay Round agreements. Now that the obligations have to be implemented, the developing countries are much more aware of the possible and real negative effects that some of these Agreements will have. The problems of implementation that have accumulated over the past many years after the Uruguay Round agreements were signed, have increased the understanding of developing countries' officials and public on the implications and effects of these Agreements on their countries.

Surely it was not the intention, when the WTO was being set up, to have a multilateral trading system that produces negative effects on the majority of its members. Thus, developing countries must insist on a review of the rules of the WTO, and that changes be made to those rules wherever necessary, in order to prevent the negative consequences.

The need for reviewing the Uruguay Round agreements, and "distress" over the failure to assist developing countries integrate into the trading system was stated in the POA (Part II para 7) as follows: **"As a number of underlying principles governing globalization and trade liberalization have been formalized in the agreements emanating from the Uruguay Round of multilateral trade negotiations, there is a need to address those aspects which have clearly operated to the disadvantage of developing countries and immediately implement fully the provisions for special and differential treatment in favor of developing countries. We are distressed that since the Ministerial Meeting in Marrakech held in 1994 establishing the WTO, little has been done to develop an effective program of concrete measures to assist the integration of these countries into the multilateral trading system."**

The POA [Part II, para 12 (1)] also made a decision to **"reform the WTO regime with a view to promoting a multilateral trading system that is fair, equitable and rules-based...and in a way that provides benefits for all countries, especially developing countries."**

The operational implication of the POA is that the WTO should be reformed to make the trading system fair and equitable and provide benefits for developing countries, rather than generate problems.

One of the central problems in the present WTO regime for developing countries is that unlike the previous GATT rules which dealt with policies "at the border" (tariffs and other trade barriers), under the WTO Agreements, the mandate of the multilateral trading system has expanded enormously beyond simply trade or "border" issues, and now includes obligations on Members that impact on issues of a domestic nature, including domestic economic and social policies and structures. For example, many developing countries had been providing **subsidies** to their domestic industrial or agriculture sectors as a method of facilitating their growth. Such subsidies are now forbidden or severely curbed under the WTO rules. Developing countries had also attempted to boost the local sectors and obtain domestic economic spin-offs from industrialisation through **investment measures** such as requiring that a minimum amount of components used in specific industries or projects be obtained from local sources. Measures such as "local content policy" that discriminate against imports are now prohibited under the TRIMS Agreement.

Also, the TRIPS Agreement obliges developing countries to establish **domestic IPR laws** with high standards equivalent to those of developed countries. This will hinder technology transfer as local firms will be prevented from copying modern technologies (a method of technology upgrading that the now developed countries used when they were at the stage of developing). TRIPS will also raise the cost for developing countries of buying or paying for technology, as well as increase the prices of medicines. Moreover, the **services** agreement includes obligations to liberalise not only trade but also foreign investment in the services sectors in developing countries. Thus, for the first time, the rules of the multilateral trading system are applying pressures on developing countries to liberalise investment and not only trade. This has effects on the domestic structure and policies of services, which in some developing countries has already emerged as the most important sector in terms of employment or GDP contribution.

A major result of developing countries having to undertake their WTO obligations is that these can have negative implications for the viability of a significant part of their domestic enterprises and local farms. The loss of competitiveness of the local sectors and enterprises arises from reductions in tariffs on imports (in manufacturing and agriculture), rules prohibiting or constraining government subsidies or other measures that assist and provide encouragement to local firms and farms, and the liberalisation of foreign investment in services. Those local firms and farms that are unable to withstand the competition from foreign imports or foreign firms establishing themselves in the country may lose their market shares or even close, thus adding to unemployment. Since export capacity and opportunities are limited for many developing countries, they are unable to relocate the retrenched workers or farmers to new production facilities, and thus there would be net unemployment or loss of livelihoods in these countries.

In the preparation for the WTO's third Ministerial Conference (held in Seattle in November/December 1999), many developing countries submitted papers at the WTO pointing out problems they faced in implementing various Agreements, and put forward proposals to redress these problems. A summary of these proposals of the developing countries was placed in a draft Ministerial Text prepared by the WTO General Council Chairman dated 19 October 1999 (document JOB(99)/5868/Rev.1). They have been placed in a Section entitled "Implementation Concerns" in two paragraphs: para 21 listing down proposals for "immediate action" (i.e. proposed for adoption by a Ministerial Declaration at the Seattle meeting itself); and para 22 listing down issues and proposals to be reviewed within one year of the date of the Declaration.

Despite the strong advocacy by many developing countries, the response of the developed countries before and at the Seattle meeting to these proposals was not encouraging. Because of the breakdown of the talks at Seattle, there was no Declaration and there was no possibility of these proposals being adopted. However paras 21 and 22 of the draft Ministerial Text have remained a very important reference set of proposals signifying the demands of developing countries stating the problems they face and their proposals for redressing these problems.

In the year since the Seattle meeting, developing countries have continued to press for their set of demands on "implementation issues" to be resolved. At the WTO, a decision was made to address these issues at a series of special meetings of the General Council to deal specifically with implementation issues. Although several meetings have been held, and developing countries have repeated their positions, their representatives have been frustrated by the lack of positive response from the developed countries. (See Fayza Aboulnaga 2000, Martin Khor 2000a).

Developed countries seem to be taking a "legalistic" and narrow contractual approach to the implementation problems faced by developing countries. According to them, the agreements are contractual and binding, and if developing countries want any changes to accommodate their problems, they have to offer additional concessions (such as further market opening, or agree to the expansion of the WTO's mandate into new areas) in order that developed countries can consider their requests. Such an attitude would mean the acceptance of the present imbalances, and the rejection of attempts to correct such imbalances, which would be contrary to the spirit of a fair and balanced multilateral trading system that is of benefit to all Members. Moreover, should developing countries give in to the demands to offer more concessions and to allow new issues into the WTO, this would tilt the multilateral trading system towards much greater imbalance against the developing countries, thus making the situation far worse.

Proposals:

(a) Proposals on Implementation Issues

It is imperative that developing countries maintain the strongest position possible that the existing WTO agreements have to be amended appropriately to take into account the problems facing them which have been made more evident during the implementation process. The present period provides an important window of opportunity to review the Agreements and to amend them. If the opportunity is not successfully taken now, it might be a long time before there is another chance to correct the present imbalances.

In insisting on changes to "rebalance" the WTO system, a good starting point would be those proposals put forward by developing countries in paras 21 and 22 of the draft Ministerial Text of 19 October 1999. These proposals cover changes required to the agreements on anti-dumping, subsidies, safeguards, sanitary and phytosanitary measures, technical barriers to trade, textiles, trade-related investment measures, TRIPS, Article VII of GATT 1994, rules of origin, balance of payments provision of GATT 1994, agriculture, services and special and differential treatment.

Among the significant proposals are the following:

- The subsidies agreement should be amended to include as non-actionable subsidies, measures implemented by developing countries for legitimate development goals, such as regional growth, technology research and development funding, production diversification, environmentally sound production methods, and manufacture of high technology and value added goods.
- Regarding anti-dumping, no investigation shall be initiated for 365 days from the date of finalisation of a previous investigation for the same product. Provisions shall be improved to prevent arbitrary or primarily protectionist methods. A moratorium shall be applied by importing countries on anti-dumping actions in textiles until two years after the entire textiles and clothing sector is integrated into the GATT.
- On the TRIMS Agreement, the transition period for developing countries shall be extended until such time that their development needs demand. Developing countries shall also have another opportunity to notify existing TRIMS measures which they can then maintain till the end of the new transition period. Developing countries shall be exempted from disciplines on domestic content requirement. Provisions should be included in the Agreement to provide developing countries the necessary flexibility to implement development policies.
- On the TRIPS Agreement, essential drugs (as listed by the WHO) shall be added to the list of exceptions to patentability. Additional protection for geographical indications shall be extended for products other than wines and spirits. Article 27.3(b) be amended to take into account the Convention on Biological Diversity and the International Undertaking on Plant Genetic Resources; the amendments should clarify that all living organisms and their parts cannot be patented and that those natural processes that produce living organisms should not be patentable. The amendments should ensure protection of innovations of indigenous and local farming communities, and continuation of traditional farming practices including the right to use, exchange and save seeds and promote food security. Articles 7 and 8 should be operationalised to provide for technology transfer on fair and mutually advantageous terms.
- On the Agriculture Agreement, developing countries with predominantly rural agrarian economies shall have sufficient flexibility to adequately address their non-trade concerns such as food security and rural employment. The Marrakesh Ministerial Decision on least developed and net food importing developing countries shall be revised to ensure its effectiveness.
- On the Services Agreement, developed countries shall fully implement commitments undertaken by them in Mode 4 (movement of natural persons).
- On special and differential treatment, all S&D provisions shall be converted into concrete commitments, especially to address supply side constraints faced by developing countries. Preferential treatment by developed countries in favour of developing countries shall be implemented in a generalised, non-discriminatory and non-reciprocal manner.

In addition to the developing countries' proposals of para 21 and 22, it would also be useful to refer to the set of concrete proposals in B.L. Das's book, "Some suggestions for improvements in the WTO Agreements." (1999).

(b) Proposals on Guidelines to Services and Agriculture Negotiations

In relation to the "built-in agenda" of services and agriculture negotiations, now going on, B.L. Das (2000) has also suggested that developing countries put forward sets of proposals on the modalities and guidelines that will guide the negotiations. The rationale for the developing countries' proposed guidelines is that both the agreements are imbalanced against the developing countries, and thus the main aim of any negotiations should be to correct the imbalances, and this principle should be reflected in the guidelines that will influence the entire span of the negotiations.

The proposed guidelines that developing countries could put forward for the **services negotiations**, as suggested by Das, are as follows:

- The developing countries should not be expected to undertake further obligations for liberalisation in services.
- The developing countries should select the services sectors and transactions which are of export interest to them. Negotiations should aim at liberalisation in those sectors/transactions by the developed countries.
- The developed countries should take concrete steps to encourage the import of services from the developing countries. Some examples of such steps are: providing incentives to their domestic firms for importing services from the developing countries and reserving a portion of their import of services for the government use for import from the developing countries. Negotiations should aim at identifying more such measures and to work out the modalities of their operation in the developed countries.
- Negotiations should be undertaken and completed within a specified time frame for liberalising the movement of labour from the developing countries to the developed countries.

After these initial modalities/guidelines are fully acted upon, further modalities/guidelines should be prepared.

The proposed guidelines that developing countries could put forward for the **agriculture negotiations**, as suggested by Das, is as follows:

- The tariff peaks in agriculture in the developed countries should be reduced substantially. The extent of reduction and the period over which the target of reduction is to be fulfilled should be finalised.
- The domestic subsidy in agriculture in the developed countries should be eliminated or substantially reduced over a short course of time. Similarly, the export subsidy in agriculture in the developed countries should be eliminated over a short course of time. The period within which it is to be done should be finalised.

- There should be a decision that food production in the developing countries for domestic consumption as well as the protection of small farmers and household farmers in developing countries will be excluded from the disciplines of the Agriculture Agreement on market access and domestic subsidy. Negotiations should take place to determine the method of implementing the decision.
- There should be a decision that the Special Safeguard mechanism can be utilised by the developing countries, whether or not they have taken to tariffication.
- There should be an agreement on effectively and directly assisting the net food importing developing countries. The mechanisms and method should be finalised.

B3. ENSURE SMALL ECONOMIES CAN PARTICIPATE MORE EFFECTIVELY IN THE TRADING SYSTEM.

(i) General

One of the commitments in the POA states: **"Work within all relevant fora to ensure the establishment of a work programme for small economies to enhance their capacity to participate more effectively in the international trading system."**

The POA has identified that small economies in particular (and presumably developing countries in general) are lacking in capacity to effectively participate in the trading system.

There are two main types of problems hindering effective participation: the pressures on developing countries to liberalise their imports, thus affecting local industries; the lack of export capacity or opportunities of the developing countries. These problems result in imbalances, including in trade deficits which add on to the existing external debt burden. Below is an examination of these issues, and some proposals to deal with them.

(ii) The pressures for rapid import liberalisation and the need instead to properly sequence and time import liberalisation

The operational principles and rules in the WTO place tremendous pressures on small economies and developing countries to open up their economies rapidly to imports. This is augmented by the conditionalities of the IMF, World Bank, regional development banks and bilateral aid donors that have put rapid reductions in import duties and elimination or phasing out of other import barriers as part of the conditions for debt rescheduling, new loans and aid.

According to the orthodox theory, trade protection has negative effects, whilst trade liberalisation brings benefits. Whilst there can be negative effects they are only temporary. Cheaper imports will generate greater efficiency in local firms that are forced to compete to survive; inefficient firms can close, freeing resources to move to more efficient sectors, including for exports, that can generate new jobs and higher revenues. Overall, the economy will gain.

This theory is however being challenged by empirical evidence that there is no straightforward correlation between trade liberalisation and overall economic performance such as GDP growth. For example, a UNCTAD study of 41 least developed countries found “no clear and systematic association since the early 1980s between trade liberalization and devaluation, on the one hand, and the growth and diversification of output and growth of output and exports of LDCs on the other. In fact, trade liberalization has been accompanied by deindustrialization in many LDCs, and where export expanded it was not always accompanied by the expansion of supply capacity”. (Shafaeddin (1994).

It is also challenged by an emerging view that several other factors (including competitiveness of local firms or farms, overcoming supply-side constraints in producing for exports, and the existence of export opportunities or adequate market access) have to be present before trade openness can work for the good of developing countries and small economies. If such factors are not present yet, then the priority is to work for the establishment of these factors first, before an overly hasty liberalisation of imports.

(iii) Lack of export demand, market access and supply capacity

A developing country may be able to control how fast to liberalize its imports but cannot determine by itself or in the short term that its exports should also grow rapidly. Most developing countries still depend on a few commodities which comprise the bulk of their exports. The prices of and demand for the exported commodities is beyond the control of the exporting countries. Recently there has been a decline in the prices of commodities. Due to the emergence of substitutes, the demand of many commodities has also not been on the increase. This combination of factors has adversely affected the export prospects of many developing countries in their traditional export sectors.

The potential of a country to export, to be realised, also requires having or developing the physical infrastructure, and the human and enterprise capacity for producing competitively for the local market and also for the export market. This is a long-term process and not easily achieved. Thus, it is unrealistic to expect that a developing country can, in a short period, shift its resources from uncompetitive domestic industries that are threatened by the fast pace of import liberalisation to globally competitive export markets.

Even in the theoretical and analytical literature there is no consensus on how a developing country can build the conditions and factors to be able to successfully participate in the world market as exporters beyond the commodity sector.

It is rare for a developing country to be able to become a world-class exporter of modern industrial products based on its own locally-owned enterprises. South Korea is one of the few such examples, and it followed the Japanese model. However, Japan and South Korea were able to develop in a pre-WTO environment. With the present WTO rules prohibiting or severely constraining the use of subsidies for local industries, prohibiting investment measures favouring the use of local components, and prohibiting the copying of technology (as well as raising the cost of accessing technology), it would be even much more difficult for another developing country to achieve the already rare feat of establishing local companies that can compete successfully in the world market for modern industrial products.

A few other developing countries have succeeded in developing export industries based on foreign direct investment. The foreign companies based in these countries could make use of their own technology and marketing channels (often buying inputs and selling the finished product to their own associate or parent companies) to export. However, most of the industries are labour-intensive rather than high-technology, and the host countries have to work hard to remain competitive as the foreign companies could easily shift their operations to other countries that have lower costs. Moreover, although a few developing countries have managed to attract enough FDI for it to make a significant contribution to employment generation, GDP growth and export growth, it is precisely because only such a few countries have succeeded in attracting substantial FDI that it has this impact on those countries. If the total FDI that went to developing countries had been more evenly spread out among many more countries, then the role of FDI in each host country would be less significant. Put another way, there is not sufficient quantity of FDI in the world, that if it were spread evenly, would make a significant contribution to job absorption or export promotion in developing countries on average.

In other words, most developing countries would have to rely on their own domestic capital, and their own enterprises, farms and production units, to generate jobs, livelihoods, growth as well as exports (if that country is to succeed as an exporter). As a rule, developing countries would thus have to go through the painful process of building their own enterprises and industries, through mobilisation and efficient use of savings; through investment in health, education and skills development; through development of management and marketing skills; and through accessing and upgrading of technology. And to break through into the export market, there also has to be establishment of regional and international marketing channels, brand development, etc. or the formation of strategic alliances with bigger companies. For a country to go through this successfully may not be an impossible task, but it is a very difficult task requiring planning, discipline and hard work at every stage, with many risks and no guarantee of success.

Even then, successful export performance in developing countries also depends on whether there is market access for the country's potential exports, especially in developed countries. Herein lies a major problem beyond the control of a developing country, for as is well known there are many tariff and non-tariff barriers in the North to the potential exports of developing countries. Unless these barriers are removed, the South's export potential will not be realized. As an UNCTAD note on *TDR.99* put it: "Developing countries have been striving hard, often at considerable cost, to integrate more closely into the world economy. But protectionism in the developed countries has prevented them from fully exploiting their existing or potential competitive advantage. In low-technology industries alone, developing countries are missing out on an additional \$700 billion in annual export earnings as a result of trade barriers. This represents at least four times the average annual private foreign capital inflows in the 1990s (including FDI)" (UNCTAD, 1999b).

(iv) The adverse consequences of wrongly planned trade liberalisation and the need for proper planning

For a successful trade policy, a country has to "calibrate" and aim for balance between the two major aspects of trade, i.e. imports and exports. Whilst the rate of import liberalisation (and thus an increase in imports) can be influenced in the short term through removal or lowering of import barriers, the rate of export growth depends on several factors, some shorter term and many longer term, with many factors also depending on the international market rather than the country.

The country should make multi-prong efforts to promote exports that would contribute to net economic growth. However it should also guard that import liberalisation does not move so far ahead of export growth that serious imbalances occur in the economy. If import liberalisation proceeds whilst the conditions for successful export growth are not yet in place, there can be adverse results, such as increases in the trade deficit and balance of payments difficulties, which then adds to the level of external debt and greater debt servicing burden, leading to retardation of economic growth and increased unemployment.

In the recent experience of many developing countries, trade liberalization can (and often does) cause imports to surge without a corresponding (or correspondingly large) surge in exports. UNCTAD's Trade and Development Report 1999 found that for developing countries (excluding China) the average trade deficit in the 1990s was higher than in the 1970s by 3 percentage points of GDP while the average growth rate was lower by 2 percentage points. Inappropriate trade liberalisation contributed to this negative phenomenon. "It (trade liberalization) led to a sharp increase in their import propensity, but exports failed to keep pace, particularly where liberalization was a response to the failure to establish competitive industries behind high barriers."

(v) Proposals

(a) Conduct studies to draw lessons from positive and negative trade experiences

There is a need for developing countries and small economies to review their experiences, both positive and negative, of their performance and participation in the international trading system. Just as in the case of macro-economic policy, there should not be a "one-size-fits-all" approach to trade policy. Appropriate lessons should be drawn from the conditions for successful trade performance in some developing countries, as well as developed countries (especially during their past stages of development), and the implications of these lessons can be applied to the case of other developing countries that have not been so successful. The lessons should include how the successful countries dealt with the timing, sequencing and rate of import liberalisation (including different categories of imports); how they increased their exports (including diversification of export products, building up production, technology and labour-skills capacity, and marketing channels, etc); and the linkages between import policy and export policy; and between trade policy and production policy (in industry, services, agriculture, etc).

Lessons should also be drawn from the experiences of countries with less successful trade policies. On the side of imports, which were the factors that led to import liberalisation (including its timing, rate and its product scope), and what effects did it have on the domestic firms and farms (in terms of improving their

competitiveness, or of rendering them less viable), and on jobs? On the side of exports, what were the factors (domestic and external) that constrained export performance and growth? If imbalances developed between import and export performances, what were the effects on the trade balance, the balance of payments and on the debt situation? Could the situation have been different and more positive if conditions and factors had been different, and in which ways?

(b) Need to be cautious of "big-bang" import liberalisation; a more sophisticated and well-timed policy is required.

Given the experience of many developing countries that have had negative experiences, an important conclusion is that trade liberalization should not be pursued automatically, rapidly, as an end in itself, or in a "big bang" manner. Rather, what is important is the quality, timing, sequencing and scope of liberalization (especially import liberalization), and how the process is accompanied by (or preceded by) other factors such as the strengthening of local enterprises and farms, human resource and technological development, as well as the build-up of export capacity and markets.

A logical conclusion must be that if conditions for success are not present yet in a country, then to proceed with import liberalization (or liberalisation of services, including investments) can lead to specific negative results or even a general situation of persistent recession.

Therefore, developing countries need adequate policy space and freedom, to be able to choose between different options in relation to their trade policies. Developing countries must have the scope and flexibility to make strategic choices in trade policies and related policies in the area of finance, investment and technology, in order to make decisions on the rate and scope of liberalization and combine this appropriately with the defence of local firms and farms. For example, a country may decide that competition from imports could catalyse local enterprises to become more efficient, and at the same time the pressure on the local firms should be applied on a progressive basis, so that they have the time to upgrade their standards gradually within a realistic time-table. At the same time, assistance can be given to these firms to enable them to be more competitive. Thus, the rate of liberalisation may be planned in accordance with the improving standard of local firms; whilst the choice of products to be liberalised may partly depend on the stage at which local firms in different sectors are ready to compete. Moreover, a choice may be made to liberalise the import of products used as components in export-oriented industries in order to cheapen the cost of production and thus aid in the growth of competitive export-oriented firms.

At present, many developing countries do not have sufficient space, as they are under pressure from loan and aid conditionality to pursue rapid import liberalisation; and they are also under the pressure of WTO obligations to do likewise. The conditions and obligations may also make it difficult if not impossible to provide assistance to local firms to become more competitive.

(c) Need for changes in conditionality on trade policy

It therefore follows that policy conditionalities of the IMF, World Bank, regional banks and bilateral aid agencies, that promote unrealistic import policies in developing countries should be reviewed.

(d) Need for major reorientation of WTO approach to and rules on liberalisation: moving the aim from avoiding "trade distorting" measures to avoiding "development distorting measures and rules."

Similarly, the WTO's approach to trade liberalisation, including in terms of its operational principles, should be reviewed. Given the recent evidence that there is no direct or automatic link between import liberalisation and growth, and in light of the export difficulties facing many developing countries, a more realistic approach should be adopted by WTO Members. It should be reaffirmed that the ultimate objectives of the multilateral trading system are increased living standards, full employment, economic growth, and sustainable development (as stated in the preamble to the Marrakesh Agreement establishing the WTO) and that reduction of tariffs and other trade barriers are only a contributory means to these objectives (as also stated in the same preamble). Since the developing countries form the majority of the WTO membership, the development of these countries should be the first and foremost concern of the WTO. Since it is by no means certain that liberalization under all conditions will contribute to growth, income or development in each developing country, there should be sufficient flexibility in WTO rules to enable each developing country to determine the scope, rate and timing of liberalisation according to its own plan, judgment and schedule.

The test of a rule, proposal or policy being considered in the WTO should not be whether that is "trade distorting" (meaning, that it constitutes a barrier against an imported good or service, or even against foreign investment), but whether it is "development distorting." A measure that may be considered "trade distorting" may actually be required to serve a development objective. Thus, prohibiting such a measure or policy on the ground that it is "trade distorting" would in fact produce a result that is "development distorting." Since development is the ultimate objective, whilst reduction of trade barriers is only a means, the need to avoid development distortions should have primacy over the avoidance of trade distortion. In other words, it is preferable to have or to allow measures that are development-friendly or development-required even though they could be trade-distorting, rather than to have multilateral rules that discipline countries to remove measures that are trade-distorting but in the process in effect prohibit measures that are development-friendly or development-required. So-called "trade distortions" could in some circumstances constitute a necessary condition for meeting development objectives. From this perspective, the prevention of development distorting rules, measures, policies and approaches should be the overriding concern of the WTO.

The re-orientation of the WTO towards this perspective and approach is essential if there is to be progress towards a fair and balanced multilateral trading system with more benefits rather than costs for developing countries. Such a reorientation would make the rules and judgment of future proposals more in line with empirical reality and practical necessities.

Taking this approach, the goal for developing countries would be to attain "appropriate liberalisation" rather than to come under the pressure of attaining "maximum liberalisation." There should be a slow down to the pressures applied to

developing countries for further liberalisation, whether in trade in industrial or agricultural products, or in services, or in investment. For many developing countries, such pressures began with structural adjustment policies under the IMF and World Bank, and have continued through the WTO. After all, the developed countries continue after so many years to maintain such high protection in agriculture, textiles and some industrial products (and argue that they need more time to adjust). It is thus hypocritical for the same countries, and for international agencies, to prescribe "big-bang liberalisation" as the best (or the only suitable) medicine for developing countries. Instead, developing countries should not be subjected to more pressures to continuously liberalize on the ground that it is automatically good for them.

The rules of WTO should be reviewed to screen out those that are "development distorting", and a decision could be made that, at the least, developing countries be exempted from being obliged to follow rules or measures that prevent them from meeting their development objectives. These exemptions can be on the basis of special and differential treatment.

(e) Need for developed countries to increase market access for developing countries' products

The South Summit Declaration and the Havana POA both refer to the need for better market access for developing countries' products to developed countries. For developing countries to be able to participate more meaningfully in the trading system, the developed countries have to do much more to open their markets for imports coming from developing countries, such as in agriculture, textiles and industrial products (where there are now high tariffs). Moreover, they should stop taking protectionist measures such as anti-dumping measures. As mentioned above, developing countries could potentially tap into the market for low-technology products alone in the North that could add US\$700 billion to their annual export earnings, if the North were to remove their trade barriers, according to UNCTAD estimates.

(f) Need for positive measures to boost the export supply capacity of small economies and developing countries

Developing countries, especially the small economies and LDCs, face several types of supply and marketing constraints in improving their export performance. This spans the range of stages, including formulating appropriate export strategies (including choice of products and markets), providing incentives, training, credit and technology assistance to enterprises, product design and production techniques, and marketing, as well as the government's role in providing general health, housing and education facilities to citizens so that there would be skilled labour. The policies and assistance would also be of different categories, targeting different categories of producers, for example, foreign and local enterprises.

There are already several international and regional agencies that have programmes assisting developing countries to improve their export capacity. These include International Trade Centre, UNCTAD, UNIDO and the multilateral and regional development banks. However, given the continuing weaknesses and deficiencies of many developing countries, these efforts are insufficient. It would be useful for developing countries, perhaps through the G77, to compile information on

the programmes being conducted by the various agencies and assess their effects. A study can also be considered on the elements for a successful export strategy and export-supply capacity building programme for developing countries, taking into account the recent experiences of developing countries; on the present weaknesses; and on how to overcome the obstacles.

(g) Need for reform to the decision-making system and to improve developing countries' participation in the trading system

Many developing countries are still unable to fully or adequately participate in the WTO decision-making processes. This is partly due to the lack of financial and manpower resources, analytical and negotiating capacity, as well as the administrative means to determine the best ways to implement WTO commitments at national level, or to negotiate at the WTO for the changes to rules or to implementation procedures. To improve the situation, financial assistance would be useful. Technical assistance could also be beneficial, if it is of the appropriate type, as some of the advice on policy or on implementation by the "technical advisors" may be misleading. More importantly, developing countries need to develop more effective ways of sharing information among themselves, and to collaborate on analysis and formulating joint positions, wherever possible, in order to increase their negotiating capacity and strength.

Although lack of capacity and coordination are part of the weaknesses of developing countries, they also face a more difficult obstacle to effective participation in decision-making at the WTO. This is the decision-making procedures and practices in the WTO itself, which can be untransparent and undemocratic, especially during the preparations for, and during, Ministerial Conferences. At the Singapore Ministerial (1996) and again at Seattle (1999), only a few developing countries were chosen (by the Secretariat or by the Chairperson of the conference) to participate in closed-door informal negotiating meetings, whilst the majority of countries were not invited. The so-called "Green Room process" has gravely disillusioned Ministers and officials of developing countries, and it was a major reason for the collapse of the Seattle Conference.

Thus, there is a need for serious reform of the system and culture of decision-making in the WTO. The reform process itself should be conducted in a manner whereby all members can fully participate. The reform should aim at a result whereby WTO meetings are run on the basis of full transparency and participation, where each member is given the right to be present and to make proposals. Even if some system of group representation is considered, all members should be allowed to be present at meetings and have participation rights. The WTO secretariat should also be impartial and seen to be impartial. The system should reflect the fact that the majority of members are now from developing countries, which have as great a stake or more in a truly fair and balanced multilateral system as the developed countries, and therefore the system must be able to provide the developing countries with adequate means with which to voice their interests and exercise their rights.

B4. OPPOSE DISGUISED PROTECTIONIST MEASURES AND ATTEMPTED LINKAGES TO THE TRADE SYSTEM

(i) General

One of the decisions of the South Summit POA is: **"Oppose application of all disguised protectionist measures such as labour standards and the attempts to further widen the environmental windows currently existing under the rules. We pledge to work together to ensure that linkages which act to curb the comparative advantage of developing countries are eschewed in WTO."**

This decision is very timely, as pressures for potential protectionist measures that link non-trade issues to the WTO are building up among trade policy makers in developed countries. The non-trade issues include labour standards and environment standards, as well as other "new issues" such as investment, competition and government procurement. In this section, labour and environment issues are considered. In the next section, the other issues are dealt with in the context of the proposals for a "New Round."

(ii) Labour Standards and Labour Issues

The linking of "labour standards" to the multilateral trading system had first been proposed by the major developed countries before and at the Singapore Ministerial Conference of the WTO in 1996. There was a consensus among developing countries that this should be rejected, because of the potential of the issue to be used for protectionist purposes and to erode the competitiveness of developing countries' exports. After strong resistance by developing countries at Singapore, the WTO Ministerial decided that labour standards should not be an issue in the WTO but that the appropriate venue for the issue was the ILO. However, before and at the Seattle Ministerial (1999), labour standards re-emerged as a major issue that developed countries, especially the USA, advocated to be included in a new Round of negotiations. This insistence, especially by the US President, Bill Clinton, who made a public statement that labour standards should be linked to trade sanctions in the WTO, was one of the main reasons for the collapse of the Seattle talks.

In the year since Seattle, both the US and the EU have made it clear that introducing the issue in some way in the WTO is still a high priority for them. Indeed, whilst the labour issue had originally started with "labour standards" (and with only five internationally-recognised ILO-endorsed standards), it has now extended to other aspects. In a paper tabled at the WTO just prior to the Seattle conference in November 1999, the US listed other aspects, including employment and social security, for discussion. In the US Congress Bill, the Growth and Opportunity Act for Africa, conditions for eligibility for African countries that would like to take advantage of the privileges of the Act, include adherence to minimum wages. This reveals the intention of one of the major countries to include not only the original "labour standards" but a much more treatment or linkage of labour issues in general to trade and the trading system.

Developing countries fear that the objectives of the developed countries mainly protectionist in nature, i.e. to protect jobs in the North by reducing the low-cost incentive that attracts TNCs to developing countries. They argue that low labour

costs in their countries are a function not of deliberate exploitation of workers but of the general low standard of living and the lower level of development, and that the low cost is a legitimate comparative advantage.

There is of course justification for public interest groups to be concerned about the social consequences of globalisation and liberalisation and to campaign to change the nature and effects of the present globalisation trends. However the issue is whether labour issues (and other social issues or clauses) in trade agreements is an appropriate route.

There is merit in the argument that labour standards or the "social clause" should not be introduced in the WTO. This is because:

Such an issue when placed in the WTO context would be linked to the dispute settlement system and the remedy of trade penalties and sanctions. (As mentioned above, the US President, Bill Clinton, stated to the media during the Seattle WTO meeting that he favoured backing labour standards with trade sanctions). In other venues, there is the option (which many would argue is more appropriate) of linking the improving of labour standards to positive incentives rather than punitive measures.

Even though most advocates (such as some trade unions) only demand minimum labour standards such as the right of association for workers, there is no certainty that the issue will be so confined in the future. Once the concept of social issues and rights enters the WTO system, it can in future be expanded within the particular issue (eg an extension to social security and wage levels within the issue of labour standards, as has already happened in the cases of the US proposal at WTO and the US Act for Africa mentioned above) and extended to other issues (such as the rights of children, women, disabled, human rights in general, the right to education, health, nutrition, etc).

It is possible or even likely that once rights and social issues enter WTO, the GATT concepts of dumping and subsidies, and the relief of countervailing duties, will sought to be applied. Thus, countries with low social standards would be deemed to be practising "social dumping" (or unfairly subsidising its products by avoiding to meet social costs) and importing countries could be enabled to impose countervailing duties.

Developing countries are likely to bear the costs of loss of competitiveness. Although there undoubtedly is a significant degree of exploitation of labour by unscrupulous employers in many developing countries, the low social conditions in the poorer countries are largely related to the low level of development and the lack of resources (although the wastage and mismanagement of resources also do contribute significantly). Lower social standards are thus linked to (though not entirely caused by) lower levels of development. It is very possible that the operationalising of linkage between social standards and trade measures in the WTO system would lead to additional pressures being placed on developing countries and that many of their products would become higher cost and uncompetitive or face trade penalties or both.

It is possible that the firms and products eventually affected are not confined to those involving trade and exports but also the firms (most of them small and locally owned) that cater to the local market. By not being able to remain competitive, some may close.

It is also possible that the erosion of competitiveness and the higher costs (perhaps beyond what would normally prevail in countries at the existing stage of development) would cause loss of jobs, closure of firms and farms and reduced investment; or movement of some workers to more poorly paid jobs.

Moreover, the inclusion of labour standards would open the door to a much wider range of issues relating to social standards, social rights and human rights. Many new "conditionalities" would be introduced not only on trade at the border but production, investment, etc within the domestic economy. The issues will be so complex and complicated that they will tie the WTO system up in knots, and occupy the time and energy of diplomats and policy makers, not to mention the NGOs and social organisations, in an enterprise that is fraught with controversies, dangers and with no clear benefits guaranteed.

Proposal:

Developing countries should be prepared for even more intense pressures from developed countries to include labour issues in the WTO system, perhaps starting with apparently minor aspects such as a joint WTO-ILO forum or working group. Even such apparently minor aspects are likely to be the precedent-setting first steps towards further future integration of labour issues into the trade rules. Developing countries should therefore be united in facing the challenge and in rejecting the linkage, however small initially, of these issues to the trade system.

The efforts of NGOs and social organisations that are really concerned about the plight of exploited labour in developing countries could be directed towards the sources of the social problems within and outside the WTO. For example, to offset problems caused by the WTO, those concerned about human rights and the right of ordinary people to livelihoods and adequate incomes could examine and campaign for changes to aspects of the existing agreements (such as Agriculture, TRIPs, TRIMS, services) that affect farmers' rights and livelihoods, the viability of small farms, food security, the cost of medicines caused by drug patenting, etc. They could also try to prevent new agreements (such as investment, procurement, industrial tariffs) that would affect the viability of local firms, the livelihood of workers and the people's right to development. And to counter problems whose sources are beyond the WTO, there can be intensified campaigns for debt relief, reforms to the IMF and structural adjustment programmes, a pro-employment macroeconomic policy (rather than priority to restrictive monetary policy), improved human rights and against exploitative child labour and poor working conditions, etc. But the notion that linking social rights to a trade sanctions regime, though tempting at first sight, is likely to be counterproductive in results.

(iii) "Trade and Environment" and Environmental Standards

The situation regarding the issue of the environment in the WTO is different from the issue of labour as "trade and environment" is already an accepted issue within the WTO, due to a Ministerial decision at Marrakech in 1994. Issues linking trade and environment are already being discussed at the WTO's Committee on Trade and Environment.

That are links between trade and environment cannot and should not be denied. Trade can contribute to environmentally harmful activities. Ecological damage, by

making production unsustainable, can also have negative effects on long-term production and trade prospects. In some circumstances trade (for example, trade in environmentally sound technology products) can assist in improving the environment.

What is of concern or relevance in looking at "linkages" is the advocacy of the use of trade measures and sanctions on environmental grounds. Some environment groups and animal rights groups believe that national governments should be given the right to unilaterally impose import bans on products on the grounds that the process of production is destructive to animal life, and that WTO rules should be amended to enable these unilateral actions.

Some groups, and some developed country Members of WTO, go further and have advocated the a set of concepts linking trade measures in the WTO to the environment. These concepts are processes and production methods (PPMs), internalisation of environmental costs, and eco-dumping. The three concepts are inter-related. When discussed in the WTO context, the implication is that if a country has lower environmental standards in an industry or sector, the cost of that country's product is not internalised and the prices are thus too low (being unfairly subsidised by the low standard) and thus that country is practising "eco-dumping." As a result, an importing country would have the right to impose trade penalties, such as levying countervailing duties, on the goods.

This set of ideas poses complex questions relating to concepts, estimations and practical application, particularly as they relate to the international setting and to the WTO. Developing countries are likely to find themselves as a great disadvantage within the negotiating context of the WTO should the subject (which has already been discussed in the Committee on Trade and Environment) come up for negotiations.

One of the main issues is whether all countries should be expected to adhere to the same standard, or whether standards should be allowed to correspond to the different levels of development. The application of a single standard would be inequitable as poorer countries that can ill afford high standards would have their products made uncompetitive. The global burden of adjustment to a more ecological world would be skewed inequitably towards the developing countries.

This is counter to the principle of "common but differentiated responsibility" of the UNCED or Earth Summit in which it was agreed that the developed countries, which take the greater share of blame for the ecological crisis and have more means to counter it, should correspondingly bear the greater responsibility for the global costs of adjustment.

Given the unequal bargaining strengths of North and South in the WTO, the complex issues relating to PPMs, cost internalisation, trade related environment measures etc. should not be negotiated within the WTO but if at all discussed, the venue should be the United Nations (for example in the framework of the Commission on Sustainable Development) in which the broader perspective of environment and development and of the UNCED can be brought to bear.

Unilateral trade measures taken by an importing country against a product on grounds of its production method or process are also fraught with dangers of protectionism and the penalising of developing countries. However tempting the route of unilateral import bans may be for the environmental cause, it is an

inappropriate route as it will lead to many consequences and could eventually even be counter-productive.

Policies and measures to resolve environmental problems (and there are many genuine such problems that have reached the crisis stage) should be negotiated in international environmental fora and agreements. These measures can include (and have included) trade measures.

The relationship between the WTO and its rules and the multilateral environment agreements (MEAs) is the subject of debate in the WTO. On one hand there is the fear (of developing countries) that a system of blanket and automatic approval by the WTO of trade measures adopted by a "MEA" (for example by an amendment to Article XX to enable ex-ante approval of MEA measures) could lead to abuse and protectionism. A sticking point here is what constitutes a "multilateral environment agreement" as it may include not only truly international agreements convened by the UN and open to all members and enjoying near-universal consensus, but also agreements drafted by a few countries which then invite others to join (and would then also enjoy exemption under the proposed amended WTO rules).

The fear of protectionist abuse explains the reluctance of developing countries to amend Article XX, which in their opinion is already flexible enough to enable exceptions to accommodate environmental objectives.

On the other hand there is the genuine fear of environmental groups (and also developing country and some developed country Members of WTO) that negotiations in new MEAs can be (and are being) undermined by the proposition of some countries that WTO rules prohibit trade measures for environmental purposes, or that WTO "free-trade principles" must take precedence over environmental objectives. Such arguments were for example used by a few countries in the negotiations for an International Biosafety Protocol. Such arguments are false, as the WTO allows for trade measures agreed to in MEAs through the present Article XX (although not in the ex-ante manner proposed by some countries). The use of the WTO name by a few countries to turn away the proposals by the overwhelming majority of delegations to establish checks on the trade in genetically modified organisms and products (through a prior informed consent procedure) gave the impression that commercial interests were placed before global ecological and safety concerns and understandably generated outrage among most delegations as well as environmental and social organisations. Negative actions like this, that blatantly use the slogan of "free trade" to undermine vital health and environmental concerns, are part of the reasons for the erosion of public confidence in "free trade" and the WTO system. Thus governments should not wrongly make use of "free trade" or "WTO rules" to counter international agreements that deal with genuine environmental problems, otherwise the credibility of the trading system itself will be eroded even further.

For many NGOs (especially of the South) as well as developing country WTO members, an important "trade and environment" issue is the effect of the TRIPS Agreement in hindering access to environmentally sound technologies and products. There can be "synergy" between liberalisation, environment and development objectives if TRIPS is amended to enable exemptions for environmentally sound technology. Also, Article 27.3b of TRIPS opens the road to patenting of life forms. Adverse effects include facilitation of the appropriation of traditional knowledge on the use of biological resources by corporations who claim to meet the patent test; promotion of environmentally harmful technologies; and promotion of technologies that are against the interests of small farmers (such as

the "terminator technology" or "suicide seeds" or seeds engineered not to reproduce themselves so that farmers are prevented from saving seeds).

These are examples of some issues that can and should be taken up in trade and environment reviews of various Agreements.

Proposal:

Discussions within the WTO entailing the environmental effects of WTO rules can be beneficial, provided the environment is viewed within the context of sustainable development and the critical component of development is given adequate weightage.

The Committee on Trade and Environment should orientate its work to the more complex but appropriate concept and principles of sustainable development. But there should not be any move to initiate an "environment agreement" in the WTO that involves concepts such as PPMs and eco-dumping.

Developing countries should thus play an active role in the WTO Committee on Trade and Environment and continue to bring up issues of interest to them there. However they should not accept the linking of environmental standards (and the related issues of PPMs and eco-dumping) to trade measures.

B5. RESPONSE TOWARDS THE PROPOSED "NEW WTO ROUND" AND THE PROPOSED NEW ISSUES

(i) General

There is a renewed attempt by developed countries to launch a New WTO Round in 2001, at a Ministerial Conference that is scheduled to be held towards the end of the year. The "campaign" by these countries is most likely going to become very intense, and they are also being aided by the WTO Secretariat, whose Director General has been visiting many developing countries, campaigning for a new Round (as a WTO press release in November 2000 put it). If a New Round as envisaged is launched, it would undoubtedly be the most important expansion of the globalisation process in the next several years. Therefore, developing countries are facing the most serious choice and decision, in assessing what position they should take on the issue of a New Round.

(ii) Responses of developing countries to a New Round

In 1999, when a New Round was proposed, there was no unanimity in the response of developing countries. A few developing countries supported a new Round, being of the view that further liberalisation would be in their favour. Some developing countries did not warmly support the Round but neither did they oppose the idea, as they felt that their concerns (such as meaningful agriculture liberalisation in the North) could find a better chance of success if developed countries were given something in return. The Round was seen by them as a means of getting the

developed countries to remain interested in an engagement so that developing countries' concerns could remain on the table. Some of these countries also believed that setting multilateral rules (for example, in investment) would provide them with a better bargaining position than if they were subjected to bilateral or regional pressures from developed countries on the same issue.

However, many developing countries were opposed to the concept of a new Round as advocated by major trade countries such as the EU, Japan and Canada. In the concept of the developed countries, a new Round would create negotiations towards new Agreements in new areas, including multilateral investment rules, multilateral rules for competition policy and transparency in government procurement; a new round of industrial tariff cuts; the introduction of labour issues; and negotiations on selected environment issues. In the preparations for the Seattle meeting and at Seattle itself, several developing countries made it clear they were against either a comprehensive New Round or the inclusion of the "new issues" as subjects of negotiations within the WTO.

Due to the failure at Seattle to finalise a Declaration, the attempts to launch a New Round failed, but once again there are strong pressures, especially from the EU, to start a Round. Many developing countries are still opposed to the launching of a such a new Round. There are at least three main reasons for this opposition:

- (1) The WTO should focus in the next few years on reviewing problems of implementing the existing agreements and making the necessary changes in the agreements. These will be enormous tasks. They will not be properly carried out if there is a proliferation of new issues in a new round of negotiations. The extremely limited human, technical and financial resources of developing countries and their diplomats and policy-makers would be diverted away from the review process to defending their interests in the negotiations on new issues. The limited time of the WTO would also be mainly devoted to the new issues.
- (2) The proposed new issues would also have the most serious adverse consequences for the South's future development. Issues such as investment rules, competition policy and government procurement are strictly not trade issues and it has been argued that they do not belong in the WTO. There is a suspicion on the part of many developing countries that these issues are sought to be placed there by the developed countries to take advantage of the enforcement capability (the dispute settlement system) of the WTO, so that disciplines can be effectively put on developing countries to open their economies to the goods, services and companies of the developed countries. Other issues relate to labour, social and environment standards. Almost all developing countries have argued that these issues should also not enter the WTO as they could be made use of as protectionist devices against the products and services of developing countries.
- (3) A Round with the proposed new issues at its heart would expand the mandate of the WTO to incorporate these non-trade issues. Taking on board the new issues would overload the multilateral trading system further and add to the existing systemic stresses and tensions. The WTO would be even more split, on North-South lines, and this would threaten the goodwill, functioning and even survival of the system.

In Section B4, labour and environment issues have already been discussed. Below is a brief analysis of the implications of four other proposed new issues of the New Round for the developing countries.

(iii) Multilateral Investment Rules

Developed countries would like a new agreement in the WTO for multilateral rules on investment, that give new and expanded rights to foreign investors, making it easier for them to enter countries and to operate freely. Attempts to establish a high-standards multilateral agreement on investment (MAI) failed at the OECD. The effort has now shifted to having an agreement at the WTO. Under such rules, pressures would be mounted on WTO member states to liberalise investment flows and grant "national treatment" to foreign investors and firms. Governments would lose a large part of their present rights to regulate the operations of foreign investors. Restrictions on the free flow of capital into and out of the country could be prohibited or constrained. Moreover, the "performance requirements" that host governments now place on foreign companies (such as technology transfer, the use of local professionals) would come under pressure. There could also be a proposal to prohibit or discipline the use of investment incentives to attract foreign investments.

The recent proposal by the European Union on investment negotiations in the WTO is a watered down version of the "MAI" (multilateral agreement on investment) that the developed countries had negotiated (but failed to conclude) in the OECD. The original OECD-MAI model had defined foreign investment to include both short-term flows and foreign direct investment; giving rights to foreign investors to enter any country (i.e. "pre-establishment rights"), own 100 percent equity, and be automatically given "national treatment." Due mainly to public protests, the MAI negotiations collapsed, and the EU has taken a lead in getting negotiations for an investment agreement started at the WTO.

Implicitly acknowledging that an MAI replica would not be politically acceptable either to many developing countries nor to civil society worldwide, the EU has put in the diluted version, in which countries could still have options on the degree of liberalisation and "national treatment" to offer in a "positive list" on a sector-by-sector basis, and only for direct foreign investment. However, this can be seen as a tactical move to make their proposal more acceptable. Once such a watered-down version enters the WTO, there will likely be increasing pressures to get the developing countries to liberalise rapidly and to offer national treatment.

The entrance in principle of investment policy per se in the WTO would greatly expand the mandate of the WTO, and further narrow the development policy options of developing countries in an area as crucial as investment. Developing countries would find it increasingly difficult to defend the viability of (or to give preferences to) local investors, firms or farmers, all of which constitute much smaller units than the transnational companies and will thus find it difficult to withstand competition from the latter. The domestic enterprises would face the threat of having their products wiped out by competition from the bigger foreign firms, or of being taken over by them.

(iv) Trade and Competition

Another agreement being sought in a New Round would cover multilateral rules on competition. The EU has advocated an approach to competition in the WTO that would look unfavourably on domestic laws or practices in developing countries that favour local firms, on the ground that this is against free competition. The EU argues that what it considers to be the core principles of the WTO (national treatment and non-discrimination) should be applied through the WTO on competition policy.

Through an agreement on competition in the WTO, it would be compulsory for developing countries to establish domestic competition policies and laws of a certain type. Distinctions that favour local firms and investors would be called into question. For example, if there are policies that give importing or distribution rights (or more favourable rights) to local firms (including government agencies or enterprises), or if there are practices among local firms that give them superior marketing channels, these are likely to be called into question and disciplines may be imposed on them.

The developed countries are arguing that policies or practices that give an advantage to local firms create a barrier to foreign products or firms, which should be allowed to compete on equal terms as locals, in the name of free competition. Such pro-local practices and policies likely are to be targeted for phasing out or elimination in negotiations for a competition agreement.

At present, many developing countries would argue that giving favourable treatment to locals is pro-competitive, in that the smaller local firms are given some advantages to withstand the might of foreign giants, which otherwise would monopolise the local market. Providing the giant international firms equal rights would overwhelm the local enterprises which are small and medium sized in global terms.

However, such arguments will be contested by the developed countries, which will insist that their giant firms be provided a "level playing field" to compete "equally" with the smaller local firms. They would like their interpretation of "competition" (which ironically could help facilitate foreign monopolisation of developing country markets) to be enshrined in WTO law and operationalised through a new Round.

In the discussions at the WTO's Competition Working Group, developing countries have raised issues which are more relevant to them, including the restrictive practices of transnational companies, and the abuse of anti-dumping measures by the US and other developed countries (that are anti-competitive in that they prevent the competitive exports of developing countries from having access to their markets). However, such relevant and legitimate concerns under the topic of "competition" have not been welcomed. Given the relatively weaker negotiating position of the South, it is more likely that the interpretation of developed countries could prevail. An agreement on competition in the WTO would likely be another instrument for enabling foreign firms to take over more of the markets of developing countries.

(v) The Issue of Government Procurement

On the issue of government procurement, the developed countries want to introduce a process in the WTO whereby their companies will have free access to the lucrative business of providing supplies to and implementing projects of the public sector in the developing countries.

At present, government procurement expenditure is outside the scope of the WTO's multilateral rules. (Members may voluntarily join the plurilateral agreement on

government procurement but very few developing countries have done so). Thus, governments are now able to have their own rules on procurement and projects, and most developing countries give preferences to local firms, suppliers and contractors.

The aim of the developed countries is to bring government spending policies, decisions and procedures under WTO disciplines, and apply the "national treatment" principle. Preferences for local citizens and firm would be ruled illegal in government tenders and awards for supplies, projects and procurement probably also for privatisation exercises. Foreign firms would have at least equal opportunities as locals. Foreign firms that are not satisfied with the decisions on awards could most likely be able to request their own governments to take the matter to a dispute panel.

In some developing countries, the value of government procurement expenditure is higher than the import bill. Thus, integrating government procurement into the WTO system would tremendously enlarge the scope of the WTO and its rules. It would obviously also prevent the use of an important policy instrument for promoting local sectors and also reduce the effectiveness of government spending as a macroeconomic instrument.

As most developing countries would object to having their public-sector spending mechanism and policies changed so drastically, the developed countries have a two-stage plan for bringing this issue under the WTO's multilateral rules: firstly, to have an initial agreement limited to achieving greater "transparency" in government procurement; secondly, to have a broader agreement that would cover the aspects of liberalisation, market access for foreign firms, and the national treatment principle. Thus, Phase One would inject the procurement issue into the WTO multilateral system and Phase Two would seek to "fully integrate" government procurement into the WTO system. This strategy was revealed in the presentations and papers of the US and EU during the preparations of the 1996 Singapore Ministerial.

In the preparations for the WTO Seattle Conference, the United States had tried to have an agreement on "transparency in government procurement" signed in Seattle itself. With some other Members, it put forward a draft of elements of a transparency agreement, in the form of an agreement. An analysis of that draft showed it contained several elements that went beyond 'transparency.'

In their present attempts to launch a new Round in 2001, one of the priorities of the developed countries is to get an agreement on transparency signed at the 2001 Ministerial Meeting or else a decision to negotiate such an agreement.

Many developing countries have insisted that a transparency agreement, if there is one, should not be a step towards further negotiations aimed at liberalization and national treatment in the procurement business. However it can be expected that should there be a multilateral agreement on transparency in government procurement, there will be intense pressures by the developed countries in future to extend it to market access and national treatment issues, for example on the ground that these are "core principles" of the WTO. By agreeing to a transparency agreement, developing countries would be putting themselves on the road to a full-scale procurement agreement incorporating liberalisation and national treatment.

At stake for developing countries is the right of governments to reserve some of its business for local firms. A full procurement agreement would remove from developing countries a very important instrument for assisting local firms, national development, macroeconomic objectives and socio-economic objectives.

However despite such important issues at stake, there has been little analysis from a development point of view of the implications of the integration of government procurement in the WTO's multilateral system. Until the full implications are studied by each country, developing countries should be extremely cautious about agreeing even to a transparency agreement. After all, transparency or for that matter government procurement are not directly trade issues although like so many other subjects they of course may have a relationship to trade.

(vi) A New Round of Industrial Tariff Cuts

Another economic issue which is being incorporated in a New Round is "industrial tariffs." This would entail another round of negotiations to further reduce duties on manufactured products. Since the tariffs in this sector are generally lower in the developed countries, a new round of tariff cuts would mainly entail new commitments by the developing countries.

Most developing countries have already significantly reduced their tariffs on industrial products in recent years. Many did this under the structural adjustment programmes. An influential study by the UN Economic Commission for Africa on the effects of structural adjustment policies in 1991 warned that: "External trade liberalisation for underdeveloped economies can have some serious side effects. For one, it can lead to dumping of cheap products from outside such as clothes, shoes, creams, etc. This undermines the local industries that produce or those that would have started to produce these products as they cannot compete with similar but much cheaper products from abroad. So African infant industries fail to take-off under extensive trade liberalisation."

In recent years, many African and Latin American countries have suffered from "de-industrialisation", a process in which local industries and enterprises have been closed or taken over as they are made uncompetitive by rival imported products.

A further round of cuts in industrial tariffs, as proposed by the developed countries, would render the industrial sector and industrial enterprises of many developing countries even more unviable. The future of industrialisation, especially that based on the survival and development of local enterprises, is at stake in the South.

Therefore, there should not be another formal round of negotiations to further cut developing countries' tariffs. If anything, the next stage of negotiations should only involve the reduction of "tariff peaks" (high tariffs) and "tariff escalation" (the practice of imposing no or low tariffs on raw materials but progressively higher tariffs on products that are processed or manufactured from the same raw materials) of the developed countries. The developed countries should commit themselves to reducing their tariff peaks and tariff escalation, and not use the promise of this as a carrot to draw in the developing countries to cut the latter's industrial tariffs in a new Round.

(vii) Proposal

As mentioned above, there is no agreement among developing countries on their position towards a new Round. It is important that developing countries exchange their views frankly and seriously on this important topic as early as possible, so that each of them can take an informed position as negotiations start in earnest in 2001.

From the analysis presented above of the new issues that form the heart of the proposed New Round (as envisaged by the major trading countries that are its proponents), the acceptance of such a Round would mean the starting of negotiations for new agreements in the WTO. Given the previous historical record of negotiations, especially the Uruguay Round and after; and the present balance of negotiating power in the WTO, it is likely that the demands and interpretations of the developed countries would have much greater advantage and weight than those of the developing countries, and thus there would probably be new agreements on investment, competition, transparency in government procurement (followed by the increasing integration of procurement practices themselves into the WTO system). If this were to happen, then the WTO would become even much more heavily imbalanced at the expense at developing countries, and added to the serious set of problems they already face will be yet more sets of disciplines that will further constrain their development options and prospects.

Although the developing countries are on the brink of a disastrous situation, few of them fully understand the dangers they are facing at the level of high policy makers and political leaders. It is imperative that they be alerted as soon as possible to the full implications of what is at stake, so that they can be involved in the decisions that their delegations will make, explicitly, implicitly or by default (ie those that remain silent are taken to have "joined the consensus").

The next phase of the WTO's history should be focused on correcting the present imbalances, resolving the problems of implementation facing developing countries, opening the markets of developed countries for products from developing countries, and establishing democratic decision-making processes, in order to bring the multilateral trading system in line with the needs and interests of developing countries that form the majority of the membership. It would be incorrect and unfair for developed countries to argue that the demands of developing countries can only be met through a new round in which they are asked to give even more and heavier concessions, for this would be asking the weak and poor to "pay twice" without their having any confidence that they would even get anything concrete in return.

Although the pressures from the developed countries for a New Round will be very intense, developing countries will be able to resist if they were to realise it is of utmost importance to their future to do so, if there is knowledge of the issues, political will, and some significant degree of unity among them. Therefore, organisations of the South, such as the G77 and the regional organisations of developing countries, should give the highest priority to planning meetings, workshops and coordinating sessions, where they can build the capacity of their member countries to monitor and study the issues, exchange views and positions, and take an active part in the negotiating process individually, as regional groupings, and if possible together as a group.

B6. ADDRESSING THE PROBLEM OF COMMODITIES

One of the decisions of the POA is: **"Urge UNCTAD to assist in collaboration with Common Fund for Commodities developing countries and upon request, in handling commodities in an integrated manner with attention on improving their prices, developing their processing, transportation and availability of capital and**

technology for production. We also urge UNIDO to continue its assistance to developing countries to enable them to diversify their economies."

Instability of demand for and the trend of declining prices in the export commodities of developing countries has been a long-standing problem. In the 1970s and 1980s, UNCTAD had been very active in helping developing countries face this problem, and organised specific commodity agreements as well as a Common Fund for Commodities. The agreements, which were established with the cooperation of both producer and consumer countries, had some positive effects. However, most of the developed countries pulled out of many of agreements, and at present there are only very few remaining commodity agreements.

For a majority of developing countries, the commodity problem remains their single most important issue in international trade. It is thus a matter of great regret that international cooperation in this key area has failed.

The effects of falling commodity prices have been devastating for many countries. According to UN data, the terms of trade of non-fuel commodities *vis-à-vis* manufactures fell from 147 in 1980 to 100 in 1985 to 80 in 1990 and 71 in 1992. This sharp 52 per cent fall in the terms of trade between 1980 and 1992 had catastrophic effects. A paper by the secretariat of the United Nations Conference on Environment and Development (UNCED) in 1991 showed that for sub-Saharan Africa, a 28 per cent fall in the terms of trade between 1980 and 1989 led to an income loss of \$16 billion in 1989 alone. In the four years 1986-1989, sub-Saharan Africa suffered a \$56 billion income loss, or 15-16 per cent of GDP in 1987-1989. The UNCED study also showed that for 15 middle-income highly indebted countries, there was a combined terms-of-trade decline of 28 per cent between 1980 and 1989, causing an average of \$45 billion loss per year in the 1986-1989 period, or 5-6 per cent of GDP (Khor, 1993).

The UN Secretariat used to produce annual data on the terms of trade between commodities and manufactures, and the effects on income, which could thus be used as one of the important components in the calculation of net resource transfers to or from developing countries. The data provided by the UN Secretariat above are very useful in explaining the acute problems and extremely high losses of income of developing countries, and the reality of the net transfer of resources from them to commodity importers, mainly the developed countries. The data have shown that income losses from falling terms of trade probably constitute the largest single mechanism by which real economic resources are transferred from South to North. These losses adversely affect the sustainable development prospects of the South as they contribute to the debt problem and to persistent poverty in many communities. Unfortunately, it appears that such data on income losses resulting from terms of trade decline are no longer published by the UN. It would be useful for such data to be provided again.

Other information (from UNCTAD) show that in the 1990s, the general level of commodity prices fell even more in relation to manufactures, and many commodity-dependent developing countries have continued to suffer deteriorating terms of trade. According to the *Trade and Development Report, 1999 (TDR.99; UNCTAD, 1999a: 85)*, oil and non-oil primary commodity prices fell by 16.4 and 33.8 per cent respectively from the end of 1996 to February 1999, resulting in a cumulative terms-of-trade loss of more than 4.5 per cent of income during 1997-1998 for developing countries. "Income losses were greater in the 1990s than in the 1980s not only because of larger terms-of-trade losses, but also because of the increased share of trade in GDP." Moreover, the prices of some key manufactured products exported by developing countries have also declined. For example, the Republic of Korea

experienced a 25 per cent fall in the terms of trade of its manufactured exports between 1995 and 1997 due to a glut in the world market (UNCTAD, 1999a: 87).

The world trading system has not been working beneficially for many developing countries because their main way of participating in the system has been to export commodities, whose prices have been declining. Many Southern countries have lost their self-reliance in terms of producing their own food, as lands were converted to farm export crops that in many cases yielded unsatisfactory results in terms of instability of prices and demand.

The commodities situation may worsen for developing countries should major consumer countries (in the North) develop laboratory substitutes for natural commodities through the use of biotechnology. There would be more displacement of the South's export commodities.

Proposals

- The commodity problem has been the major trade problem for many developing countries, especially the poorer among them. In recent years, the urgency that had previously been attached to this issue appears to have faded. This complacency should be reversed as the problem has not only remained but become more acute, and if not resolved, it would further marginalise the role of developing countries in the trade system. Institutions and groupings of developing countries should therefore place high priority in advocating for a serious addressing of this issue, and enlist the help of UNCTAD and other agencies, to of trend decline in commodity prices and in the South's terms of trade should be seriously addressed through an international conference or convention, or other institutional mechanisms. It is imperative that such huge income losses incurred by poor countries be stemmed.
- The UN Secretariat should resume compiling and publishing data and analyses on an annual basis on the terms of trade between commodities and manufactures, and the effects of movements in the terms of trade on the incomes of different categories and regions of developing countries, as well as the effects on net international transfer of resources from and to developing countries.
- The assistance of UNCTAD and the Common Fund could be sought to review the experience of commodity agreements and look into the possibility or desirability of reviving commodity agreements. The revitalisation of the Common Fund or other methods of cooperation should also be explored. One possibility is to initiate a new round of commodity agreements aimed at rationalizing the supply of raw materials (to take into account the need to reduce depletion of non-renewable natural resources) while ensuring fair and sufficiently high prices (to reflect ecological and social values of the resources).
- Although international cooperation is the most preferred method of improving the commodity situation, and attempts should be made to revive it, this may be not feasible at present. In the absence of joint producer-consumer cooperation, producers of export commodities could take their own initiative to rationalize

their global supply so as to better match global demand. The recent sharp increase in the price of oil as a result of better coordination among producing countries is a good reminder of the benefits that producers can derive from greater cooperation among themselves.

- UNCTAD, UNIDO and other agencies could be approached to assist commodity-producing developing countries to improve their capacity for increasing the value of their commodities by going up the value chain through processing and manufacturing as well as marketing. At the same time, developing countries should press developed countries to reduce tariff escalation and allow better market access for processed and commodity-based manufactured products, and thus help commodity producers reap better benefits from the trading system.
- UNCTAD and UNIDO should monitor and analyze the implications of biotechnology for developing-country commodities. Measures should be taken if impact assessments show significant negative effects on incomes and livelihoods in the South. Signatory members of the Biosafety Protocol under the UN Convention on Biological Diversity should exercise the protocol's mandate to consider the social implications of developments in biotechnology especially on developing countries.

B7. REFORM OF THE INTERNATIONAL FINANCIAL ARCHITECTURE

(i) General

A major concern voiced by Leaders of G77 countries in the South Summit Declaration and the Havana POA is the speculative nature and instability of the global financial system and its negative effects on the developing countries.

Thus, an important part of the POA is the decision by the Leaders, to: "**Work towards reform of the international financial architecture that addresses issues of financing for development and stability of the international financial system including the need for regulation of hedge funds and highly leveraged institutions and strengthening of the early warning system to provide for improved response capabilities to help countries deal with the emergencies and spread of financial crises.**"

Another related decision in the POA is to: "**Pursue efforts to harmonize the South's position on monetary and financial matters and in this context welcomes the decision adopted by the Twenty-sixth meeting of the Chairmen/Coordinators of G-77 Chapters held in Geneva, from 6 to 7 April 1999, to convene annual co-ordinating meetings between the Chairmen of the G-77 and G-24 prior to the IMF/World bank spring and autumn sessions.**"

These are among the strongest commitments or decisions regarding globalisation in the POA and reflect the serious concerns of the political leaders of the South about the potential of the present financial system to wreak damage or destruction on developing countries, even the strongest among them.

The South Summit was held in the aftermath of the most devastating financial crisis that started in mid-1997 had led to deep recession in many East Asian countries

and had spread to Russia and Brazil and other parts of the developing world. The financial crisis was marked by very sharp and sudden depreciation of the local currencies, and a turnaround of capital flows from high inflows to sudden and very large outflows. It caused some of the highest-growth economies of the developing world to go to the brink of external debt default and to seek IMF emergency funding. It also led to a few years of deep recession, an increase in unemployment, loss of income and other social problems; a large number of corporate bankruptcies and a high level of non-performing loans in the domestic banking system.

A central feature of the Asian crisis had been the role of financial liberalisation and deregulation that facilitated excessive short-term borrowing by local firms and that enabled international funds and players to manipulate and speculate on currencies and stock markets in the region. The prevailing mainstream view that liberalisation was beneficial and had little dangers had been promoted by the IMF, World Bank and developed countries that wanted market access for their financial institutions to the emerging markets.

When the crisis struck, the IMF made it worse by misdiagnosing the cause and promoting even further financial liberalisation as part of conditionality, as well as a policy package (including high interest, tight money policies, budget austerity, and ill-planned closure of local financial institutions) that converted a financial-debt problem into a structural economic recession. The IMF had also denied that hedge funds and other highly leveraged institutions had played a destabilising role, and it took the near collapse of the Long Term Capital Management (LTCM) hedge fund in October 1998 to expose the extremely high leverage and market power of these speculative funds.

This latest round of crisis followed earlier financial crises in the developing world, the most striking being the Mexico crisis in the mid-1990s. It confirmed that currency crises, volatile capital flows and often an external debt crunch as a result, are part of a deep systemic problem that characterises the present global financial system.

(ii) Developments regarding reform of the financial architecture

As the crisis emerged, calls were made by leaders of some developing countries for measures by the international community to reform the international currency and financial system. Prominent among these was the call by the Malaysian Prime Minister, Dr Mahathir Mohamed for a prohibition on speculative currency trading, regulation of hedge funds and other highly-leveraged financial institutions, and a return to a system where currencies are more stable and even fixed (as previously). As financial crisis spread and seemed at one stage to threaten the stability of the whole global system, the financial authorities of some developed countries had also expressed concern, and the then US Treasury Secretary Robert Rubin stated there was a need for a "new international financial architecture."

However, as the threat to the global financial system seemed to recede, the interest shown by some of the developed countries for global financial reform has also faded. Consequently, although discussions have been going on in various fora such as the G7, the Group of 20 and the Financial Stability Forum, there has been little concrete progress in the past few years for any significant reform of the financial architecture to deal with the systemic weaknesses and problems. Instead, the onus has been put mainly on developing countries to improve their macroeconomic performance, increase public-sector transparency, provide better financial data, and have better surveillance of their banking institutions.

In contrast, there has been little progress towards reforms in the global financial system in order to prevent future crises, reduce instability and volatility, place disciplines on speculative activities of major market institutions and players, or to have a better international framework to manage and deal with crises when they happen, in ways beneficial to debtor developing countries.

A good survey of the current situation is provided by UNCTAD's Chief Economist Yilmaz Akyuz (see Akyuz 2000). He concludes that "despite a proliferation of meetings and communiqués as well as a multiplication of groups and fora, there remains a reluctance to accommodate the concerns of developing countries regarding international financial reform."

An adequate reform of the global system would require at least the following:

(a) requirements for greater transparency of the international financial markets, how it operates, who the major players are and what are their activities;

(b) international regulation to discipline at least the manipulative aspects of financial speculation in currency and stock markets and cross-border financial trade;

(c) greater transparency and regulation of the activities and operations of hedge funds, other highly leveraged financial institutions, investment banks, pension funds and other investment funds and offshore financial centres;

(d) better regulation in the source countries (ie countries providing funds) of their financial institutions and their international operations;

(e) consideration of other measures to reduce speculation, such as a currency transaction tax (CTT).

(f) in the event of a financial crisis, a system of debt standstill and orderly debt workout, whereby an outward stampede by creditors/investors is prevented, and a fair sharing of costs is worked out between the debtor country and creditors.

(g) a system of financing for a country facing difficulties (to prevent a crisis) and for a country already in crisis.

(h) a review of the conditionalities attached to loans or debt rescheduling, since the existing set of conditions may be inappropriate, and the working out of what constitutes more appropriate sets of conditions to suit different situations.

(i) attempts towards greater stability in exchange rates (including among the major currencies), and more openness in considering what are appropriate currency systems for developing countries.

(j) an international framework that is more sympathetic towards capital controls (inflows and outflows) instituted by countries as a normal part of their financial policy options in light to volatile capital flows and in the absence of adequate international regulation or reform.

(k) a better system of international financial governance, including greater participation of developing countries in decisions of the IMF and World Bank.

(l) a more adequate system of financing for development.

Some of these issues have been raised at various fora by some developing countries, but this has so far not produced much effect. There has been considerable resistance especially by major financial countries.

Regarding standards and transparency, Akyuz (2000) points out: "Action in the international community has so far concentrated on setting standards for and improving the timeliness and quality of information concerning key macroeconomic variables, and transparency of public sector activities including fiscal, monetary and financial policies. Less progress has been made regarding financial reporting of banks and other financial firms, and almost none in the case of highly leveraged institutions and offshore markets."

On financial regulation: (a) The official position is to formulate global standards to be applied by national authorities, rather than have a global regulatory authority. IMF surveillance has been extended to financial sector issues to ensure developing countries adopt such standards. (b) New capital rules have also been proposed by the Basle Committee in June 1999, including provision for risk weights for exposure to sovereign entities based on external assessment by rating agencies. Such an approach is contentious, as private rating agencies cannot be trusted (based on past record) and also developing countries may face an increase in spreads and reduced lending. (c) Despite the widespread view that hedge funds and highly leveraged institutions should be more strictly supervised and regulated, there has been little progress so far.

On managing the capital account, the IMF has slowed down its previous process to have capital account convertibility adopted as a principle for members, and for IMF to have jurisdiction over capital account convertibility, with mandate to discipline developing country members on this. The slowdown is due to the latest round of financial crises. However the IMF has yet to show adequate flexibility in pronouncing the legitimacy of countries making use of capital controls as a tool of financial stability and macroeconomic objectives. Although the new IMF managing director made a statement in Bangkok in June 2000 that in some situations capital controls may be appropriate, he also said a few days later in Jakarta that this measure would be inappropriate for Indonesia. There is need for greater acceptability of capital controls as part of the policy instruments of developing countries.

On the exchange rate system, there is little progress on proposals made by some for greater stability of the exchange rates of the three major currencies (US, Japan, Europe), through target zones. Meanwhile there is continuing strong debate (and confusion) on what regime developing countries should follow: (a) free float, (b) locking in to a major currency (through a Currency Board system or the adoption of the dollar as the national currency), or (c) pegged or fixed exchange rate. According to Akyuz (2000): "There now appears to be a growing consensus that better management of exchange rates in developing countries requires targeting real exchange rates in combination with the control and regulation of destabilising capital flows. This is often seen to offer a viable alternative to free floating or to a complete ceding of monetary authority to a foreign Central Bank." This seems in support of the Malaysian-type system of regulation of capital flows; however instead of "targeting exchange rates", Malaysia has fixed its exchange rate to the US dollar. This is a rather unique system. The operations of and rationale of the Malaysian system (fixed exchange rate with selective capital controls and de-internationalising of the local currency) should be studied, with reflections, for a global audience.

On surveillance of national policies, it would appear the IMF is to increase its surveillance and discipline of developing and debtor countries. However it is equally important for surveillance of the policies of the developed countries and to ensure that their policies do not have destabilising effects on developing countries or the world economy. So far there is a no mechanism for this.

On provision of liquidity, there is need for international liquidity to countries to pre-empt large currency swings, or to prevent a debt crisis. But so far the IMF's assistance has come only to countries after currency collapse. New measures by the IMF (eg Supplemental Reserve Facility, Contingency Credit Line) have so far been inadequate.

Once a country falls into a situation of near debt default, there is no adequate mechanism to help it manage the crisis systematically. A system of temporary debt standstill and orderly debt workout (along the lines of Chapter 11 of the US Bankruptcy Code) can prevent a huge outflow of funds by creditors and investors, and enable a system of reorganisation of the debtor's assets and liabilities, extension of maturities, debt-equity conversion and debt write-off, with equitable sharing of costs between debtor and creditors and among creditors, whilst allowing the debtor to have access to working capital to carry out its operations. Elements of such a scheme have been discussed, and some in the context only of voluntary mechanisms. However, to be effective, such a system needs to be established through the international system. So far there has been no agreement or progress on this.

On a currency transaction tax (CTT), there has been a growing NGO campaign in support of this. It would involve a small tax (eg. 0.25 percent) on all international currency transactions. The tax would be small enough not to deter trade and FDI, but would be a strong disincentive for short term speculative activities. At the UN General Assembly Special Session to review the Social Summit after five years, held in Geneva in June/July 2000 Canada supported the study of such a tax, together with developing countries, and some European countries. However, even a study of such a tax was opposed by the US. The final report of the UNGASS has however given the UN Secretariat a mandate to study the feasibility of a currency tax. NGOs have come out very strongly to advocate for such a currency tax.

There are thus many issues on which much work has to be done in building a new global financial architecture. In the absence of adequate global reforms, developing countries have to devise their own national and regional mechanisms for prevention and management of financial crises.

Proposals

(a) Strengthen the coordination of the South in negotiations on financial issues

Developing countries should collaborate more to come forward with a common platform to advocate for reforms to the present global financial system, and pursue their positions in a campaign for a new financial architecture that can take account of the concerns to prevent financial crises, and to manage them well if they occur. Since the political leaders of the developing countries have already committed

themselves to pursue the "harmonisation of the South's position on monetary and financial matters", the G77 could act on this by strengthening its own capacity, for example by establishing a task force or working group. The G77 decision referred to of April 1999 to convene meetings between the Chairs of G77 and G24 prior to IMF/World Bank meetings is an excellent start to better coordination. The meetings can be an opportunity to establish a work programme of exchange of information, monitoring of events and developments, research and the formulation of suggestions and proposals. This could perhaps evolve into formulating common or "harmonised" positions on monetary and financial issues, which countries of the South can make use of in various negotiating fora.

(b) G77-G24 Report on Developing Countries' position on NIFA

The G77 and G24 in collaboration could **produce a report** of what in their opinion would constitute a new international financial architecture (NIFA) appropriate to the needs and interests of developing countries. This study would have to monitor the developments on this issue in various fora and arenas, and put forward its own proposals, with the rationale for each. The report could constitute the basis of positions that developing countries, as a group or individually, could advocate at the various relevant fora, including the UN Financing for Development high-level event and its process, the IMF, the Financial Stability Forum, etc.

(c) Elements of a new international financial architecture

In considering the elements of a new financial architecture, it is proposed that the following points be taken into account:

Two sets of actions are urgently required at international level for the interests of developing countries.

The **first set of proposals** involves the need to **avoid new policies or agreements** that would "lock in" further financial liberalisation. The following are proposed:

- The IMF stop pursuing the goal of amending its articles of association to give it the mandate over capital account convertibility as this would enable the IMF to discipline developing countries to open up their capital account and markets;
- The OECD countries should stop altogether any attempt to revive their proposed multilateral agreement on investment, which would have given extreme freedom of mobility for all types of capital flows;
- There should not be an investment agreement in the WTO as this would put intense pressures on developing countries for compulsory financial liberalisation;
- There should be a review of the financial services agreement in the WTO to take into account the new knowledge and lessons learned from the negative effects of financial liberalisation resulting from the latest round of the financial crisis. There should also not be any pressures put on developing countries for further liberalisation of their financial markets. Developing countries should collaborate to prevent such pressures.

The **second set of proposals** relate to **international policies and measures** that need to be put in place, including:

- Measures and guidelines to help countries prevent debt and financial crises.
- Once a crisis has broken out, measures to manage the crisis effectively, including debt standstill arrangements and a debt workout system that fairly shares the cost and burden between creditors and debtors. An international bankruptcy court along the lines of chapter 11 of the US bankruptcy law should be set up to implement this.
- A framework that allows and encourages countries (especially developing countries that are more vulnerable than rich countries) to establish systems of control over the inflow and outflow of funds, especially of the speculative variety;
- Governments of countries which are the sources of internationally mobile funds should be obliged to discipline and regulate their financial institutions and players to prevent them from causing volatility and speculation abroad;
- International regulation is needed for activities of hedge funds, investment banks and other highly leveraged institutions, offshore centres, the currency markets and the derivatives trade;
- A international system of stable currencies (including possibly a return to fixed exchange rates or of rates that move only within a narrow band) should be considered;
- A change in the set of conditionalities ("structural adjustment policies") that accompany IMF-World Bank loans so that recipient countries can have options to choose among appropriate financial, monetary, fiscal, macroeconomic, trade, ownership and other economic and social policies.

(NOTE: A more detailed discussion of many of the above points are in Khor 2000, *Globalisation and the South*, p51).

(d) Reform of the decision-making system in international financial institutions to allow effective participation by developing countries

A most important component of the reform of the global financial system is a reform of the decision-making system in international financial institutions such as the IMF and the World Bank, as well as other institutions such as the Financial Stability Forum. The "one-dollar-one-vote system" in the Bretton Woods institutions prevents developing countries from having fair representation in the policies and processes of these institutions that so much determine the shape of their economies and societies. Such a decision-making system does not belong to a modern world which is supposed to be guided by principles of democracy and participation. The quota system that in turn determines the voting rights was established in the immediate post-War era; since then, the world economy has changed and at the least the quota distribution should more accurately reflect the changes in the relative economic weight or strength of countries. However, even a change in this manner this may not be adequate to enable effective representation of the borrowing countries; and thus a fair, representational and democratic system of voting rights and decision-making, enabling a just balance between borrowers and lenders, should be urgently worked out.

The need for a reform in decision-making is now felt to be all the more urgent because of the decline in the credibility of the appropriateness of the IMF's structural adjustment policies, imposed on East Asian borrowing countries, during

the recent financial crisis. It is now widely believed that there was undue influence by some of the major shareholder countries on the IMF secretariat in the drawing up of some of the conditions of the loans to reflect their own interests (rather than the interest of the borrowing countries or of the IMF); and the IMF has also been widely criticised for choosing the wrong policies that helped to deepen the crisis. The crisis of credibility of the Bretton Woods institutions may explain the recent vocal calls for reforms not only to their policies but also their decision-making systems.

At the Asia-Pacific regional preparatory meeting for the UN Financing for Development event, held in Jakarta in August 2000, several experts stressed the need for changing the system of power in the IMF and World Bank that allows domination by a few countries. According to Ariel Buira, formerly Deputy Governor of Bank Mexico and currently the Mexican Ambassador to Greece, in these institutions there is a heavy concentration of power in a few countries, due to the system of quotas, and it is important to develop a system of wider participation that takes into account all members of the international community. At the same expert panel he spoke in, Aziz Ali Mohammed who represented the Group of 24, said the distribution of voting power is one key issue that should be on the table in the debate on the international financial architecture, but was not. "This distribution derives from a totally arbitrary formula designed to perpetuate the dominance of developed countries," he said. He added that a very few countries exert influence on the IMF's Executive Board and staff, and that the proximity of the IMF to the US Treasury creates an undue influence, which should not be determined on the basis of geography.

Several government representatives during the meeting also spoke strongly of the need to reform the power distribution in the IFIs. The President of ECOSOC, Ambassador Wibisono of Indonesia, stated: "We must be mindful that the decision-making structures of the Bretton Woods institutions also need to be reviewed and made more inclusive and democratic. Broadening the decision-making process would help foster stability in the system." A delegate from China said many fora and agencies are now deliberating on global financial reform and the rules of the game as well as standards are being formulated. She added: "But the participation of developing countries is partial or even sometimes excluded. Developing countries are asked to follow the standards and rules, yet we are left out of the negotiations setting these rules. This is unacceptable to us as developing countries; this situation should be redressed; the full participation of developing countries is demanded." A delegate from Korea agreed that reforming the international financial institutions should be at the heart of international efforts to build a new international financial architecture. "The IFIs must operate according to the changing economic climate," he said. "the quota system should be adjusted to reflect the demands of member countries. This will strengthen the accountability of the organisation." (*For a more detailed account of the Jakarta meeting, see Khor 2000b and Khor 2000c*).

Especially since there is now a strong demand coming from various sectors (experts, governments of developing countries, the NGO community worldwide), **developing countries should demand for reforms in the IMF, World Bank and other financial institutions, and especially in the voting and quota systems.** The future development prospects of many developing countries (especially those that depend on these institutions for continuing loans) depend significantly on the Bretton Woods institutions having better policies on lending and conditionality, and there is a stronger possibility of this happening if developing countries have a fairer representation in decision-making. **The G77 and G24 could organise the drafting of a report proposing changes which are in the interests of developing countries, and this could be the basis for advocating for the needed reform.**

(e) Consider the relationship between trade and financial systems

The relationship between the trading system and the financial system, and the implications that one has for the other, should be also an important subject for study and consideration. A study of such a relationship and the implications should be advocated by developing countries, and also be considered as part of the proposed G77-G24 report on the financial system reforms. For example a review can be made of the appropriateness (or impact) of trade policies on the financial situation of developing countries, including how trade liberalisation can in some cases cause or contribute to or worsen a financial crisis. For example when a country liberalises its imports when its local sectors are not yet prepared to compete whilst at the same time it is unable to earn more export revenue, the country's trade and BOP deficits may worsen significantly, adding to debt pressures. The need to reconsider the rules of WTO in order to take into account the effects they have on the balance of payments of many developing countries is also an important issue to consider (See *Akyuz 2000b on this point*).

(f) Regional financial arrangements

In the absence of such international measures, developing countries may look towards regional or South-South financial arrangements to strengthen themselves to prevent and manage financial crises, to protect themselves against future speculative attacks, or to meet the need for emergency loans, perhaps with conditions different from the set prescribed by the Bretton Woods institutions. Options to review for such regional arrangements include a regional monetary fund; currency swap arrangements to be applied when a country comes under speculative attacks; and a regional currency. The consideration of these and other options was adopted by the UN Asia-Pacific regional consultative meeting on Financing for Development in Jakarta in August 2000. An interesting suggestion included in the Report of the meeting was that "the proposal for the establishment of an Asian Monetary Fund needed to be pursued; such an institution could be an important step towards the prevention and management of financial crises." (United Nations 2000: p24-26).

(g) National policies to prevent and manage financial crises

It will take time and immense effort for developing countries to be effective in their battle for a new international financial system that is suited to their interests. Regional arrangements will also take time to form. In the meanwhile the existing system can be expected to continue to give rise to volatility in capital flows and exchange rates, and the instability can overwhelm many developing countries. Therefore the only realistic opportunity of defense for most developing countries would have to be at the national level. Developing countries should thus prepare to use policy options and instruments at national level to prevent and manage future financial crises. Among the policies are the following:

- **Need for serious caution about financial liberalization:** Developing countries need to be prudent and to have measures that reduce its exposure to the risks of globalization and thus place limits on its degree of financial liberalization. Countries should not open up and deregulate their external finances and foreign exchange operations so rapidly when they are unprepared for the risks and negative consequences. Measures should be adopted to prevent speculative

inflows and outflows of funds, and to prevent opportunities for speculation on their currencies.

- **Establish a comprehensive national policy towards capital flows:** Measures should be considered to manage the different types of capital flows, i.e. FDI, foreign loans of the public and private sectors, portfolio investment, and foreigners taking local-currency loans for speculation. One of the critical aspects to look at is the potential effect of different types of funds on foreign exchange reserves and the balance of payments. A framework to deal with these flows may include a selective policy towards attracting FDI of the right type and the appropriate amount (keeping in mind the potential for large foreign exchange losses through profit repatriation and high imports); a careful policy on portfolio investment that welcomes serious long-term investors but discourages or prohibits the damaging short-term profit-seekers; a very prudent policy towards public and private foreign loans; and measures that as far as possible avoid manipulative activities and institutions.
- **Managing external debt:** A country should limit its foreign debt to levels where it can be serviced with a margin of comfort. Developing countries should beware of the dangers of building up a large foreign debt even if they have relatively large export earnings. Having a large foreign debt (whether of the public or private sectors) puts a country in a situation of considerable risk, especially when the country has financially liberalized, there is full capital mobility and its currency is fully convertible and thus subject to speculation. In particular, having too much short-term debts can be dangerous as they have to be repaid within a short period, thus requiring the country to have large enough reserves at that period to service these debts. The structure of debt maturity should be spread out, keeping in mind the dangers of “bunching”. Reserves should be built up to a level comfortable enough for a country to service its foreign debt, especially short-term debt.
- **Managing foreign reserves:** Careful management of foreign reserves is of critical importance to avoid a debt and financial crisis. Many factors cause changes in reserves, such as the movements in merchandise trade (exports and imports), the payment for trade services, the servicing of debt and repatriation of profits, the inflows and outflows of short-term funds, the level of FDI and the inflows of new foreign loans. To guard and build up the foreign reserves, a country has to take measures to strengthen the two main aspects of its balance of payments, i.e. the current account and the capital account. The current account (which measures trade and services) should not be running a high deficit. The capital account (which measures flows of long- and short-term capital not directly related to trade) should also be manageable and well-behaved. These goals can be difficult to achieve especially in the present volatile circumstances.
- **National-level capital controls:** These may be especially required in the absence of international regulation of capital flows. To avoid excessive inflows or undesirable types of funds, various regulations can be introduced. For example, the Central Bank can rule that before taking a foreign loan, private companies have to seek its permission, which will be given only if it can be shown that the project financed by the loan can earn foreign exchange to finance debt servicing, and the level of permitted foreign loan would be limited to the expected amount of foreign-exchange earnings, which could be used to service the loan. (Such a rule exists in Malaysia). There can also be regulations limiting foreign portfolio investment and that limit speculative behaviour in the stock exchange; that constrain currency speculation (for example, by limiting the amount of local currency loans to foreigners), and that prohibit the international trade in the local currency. Regulations on capital outflows could include the prohibition of locals opening

overseas bank accounts, limiting the types and amounts of transfers abroad, and constraining the overseas investments of local companies, if the situation so requires it. The regulations can be varied or removed according to changing circumstances and developments. Some of these measures were adopted recently in Malaysia as part of its response to the financial crisis. Another of its major measures was the fixing of the local currency to the US dollar.

- **Managing the exchange rate:** To attain relative stability of the exchange rate is a major challenge facing developing countries. After reviewing different systems of exchange rate management UNCTAD concluded that the key to having reasonable exchange rate stability is the regulation of destabilizing capital flows. Under free capital mobility, no regime of exchange rates will guarantee stable and competitive rates, nor will it combine steady growth with financial stability. "Damage can only be prevented or limited if there is effective regulation and control over destabilizing capital flows...Managing nominal exchange rates in a flexible manner in order to minimize fluctuations in the real exchange rate, in combination with controls on destabilizing capital flows, thus remains the most plausible option for most developing countries" (UNCTAD, 1999a: 130).

(A more detailed discussion of the above points are given in Khor (2000), *Globalisation and the South*, p60-68)

C. REVITALISING THE ROLE OF THE UN IN THE CONTEXT OF GLOBALISATION

C1. General

The second theme of the commitments of the Heads in relation to globalisation is as follows: **"To revitalize and strengthen the role of the UN system in promoting development and international cooperation in the context of globalization."**

Under this theme are three decisions and commitments, as follows:

- **Work for decisions on critical economic issues in institutions such as IMF, World Bank and the WTO, which promote the interests of developing countries through effective and full participation of all and on the basis of sovereign equality, and by asserting the key role of the UN in this sphere.**
- **Work towards strengthening the role of UNCTAD and the coordinating role of ECOSOC and the regional commissions in addressing the economic and social development priorities of developing countries.**
- **Continue to pursue the complementarity and coordination among the UN agencies, especially UNCTAD and other relevant international organizations including the IMF, the World Bank and the WTO with the view to promoting the development of developing countries while avoiding the imposition on governments of cross-conditionalities and other conditions which would operate to restrict their policy options further.**

These constitute an important set of inter-related themes, decisions and commitments by the political leaders of G77 countries. The commitment is to reassert the South's faith in the UN system as the predominant framework for establishing international norms, policies and paradigms for development, economic issues and international cooperation. Their understanding is also that this role of the UN is even more important now, in the context of a world being dominated by the context and trends of globalisation.

C2. Erosion of the UN's role

The reference in the POA to the need to "revitalise and strengthen" the role of the UN system in this regard alludes to the fact that in the past decade that role has been seriously eroded as a result of the exercise to "restructure" the UN (a move prompted by the developed countries, and carried out under the threat by its most important member of non-payment of dues unless the reform process meets with its satisfaction).

During the restructuring and reform processes, which are still continuing, the economic and social units of the UN Secretariat were weakened, funding was reduced to some development-oriented agencies such as the UNDP and some other agencies (for example UNIDO) have faced the prospect that they may have to be closed. The UN Centre on TNCs has been closed and some of the components of the secretariat were shifted to an investment division in UNCTAD where it performs a role very different (in fact, in many respects, opposite) to what the UNCTC performed. At one time even UNCTAD had to face rumours that there would be proposals for it to close of and its ability to be as independent in the past, to directly serve the interests of developing countries, has been curtailed by the new donor-influenced environment.

It is no secret that in the meanwhile the developed countries have preferred to build up the strength and mandate of the IMF, World Bank and the GATT/WTO to take on an increasing range of issues and functions relating to the economic, social, environmental and political spheres. The decision-making processes and powers in institutions are dominated by the developed countries, and thus they feel more comfortable to have global economic and social policy-making placed in these institutions, rather than in the UN or its agencies, where the one-country-one-vote system of decision-making generally prevails.

C3. The differences in approach and policies of the UN and the three agencies

The relocation of international policy making and resources from the UN system to the IMF-World Bank-WTO trio of agencies has implications not only in terms of the power balance of who controls the policies, but (just as importantly) also in terms of the content of the policies.

The IMF, Bank and WTO are institutions that represent and promote the globalisation/liberalisation paradigm of the North. The elements of this paradigm include a much reduced role for government in economic and social affairs, privatisation and deregulation, drastic cuts in taxes and a dismantling of the welfare state. The state's redistributive role, of taxing the better off (and companies) to subsidise the poor (and consumers of basic services) is in retreat. Under structural adjustment policies, social and even development objectives have often been subjugated to financial imperatives. The redistributive role of government is

depleted, whilst reliance on market forces is greatly enhanced. The social fallout is recognised as inevitable side effects; instead of being prevented through a balanced designing of adjustment programmes, a "safety net" approach (of compensatory measures) is adopted. The paradigm also promotes the full opening up of developing countries to foreign trade and investments, with a minimal function for government intervention. Although in the past few years there has been more appreciation of the importance of poverty eradication and social development (at least in the pronouncements of the World Bank), by and large the model remains that of minimal interference in the market by the state. This model has been effectively transmitted to developing countries through loan conditionality of the IMF and Bank and the sanctions-backed rules of the WTO.

In contrast, the UN and its agencies have traditionally represented an economic and social paradigm that gives greater emphasis to the role and responsibility of the state in the development process and in social development. While the UN has also taken a more market-friendly approach in recent years, it has also retained a significant part of its traditional paradigm that the market cannot be left to itself to function as the local private sector is still weak in developing countries, and leaving the market to run itself may not be enough to enable self-sustaining growth, whilst it could also lead to social inequalities and the lack of social development. The need for an activist and social-redistributive role of governments is appreciated. UN agencies such as UNCTAD also take a more realistic view of the need for developing countries to treat their interaction with the world economy in a strategic manner, in terms of trade, finance and investment, and not to open up too rapidly, otherwise the adverse effects would more likely outweigh the benefits.

The differences in approach and paradigm enable the UN system to provide a counterweight and alternative view of the development process to that of the three agencies. Given that there has been increasing disillusionment with the liberalisation/globalisation approach has in the past few years (due mainly to its inability to result in growth, development or equity in most developing countries), the need for the strengthening of the UN approach and paradigm has become increasingly obvious.

The erosion of the UN's influence and the corresponding growth of the influence of the three agencies has also led to a very significant change in the nature of international relations, and especially in North-South relations. Perhaps, more accurately, this change in international relations resulted in the transfer of influence from the UN to the three agencies. With the ending of the Cold War, the West no longer had the same political imperative to be partners with the South as competition from the Soviet bloc had evaporated. This accelerated the North's move away from the principle and practice of development aid and partnership that until recently had been accepted as part of the responsibility of the international community. The need for the United Nations to intervene on behalf of weak and poor countries had been recognised from the UN's birth itself. A social-welfare and redistributive model had been adopted whereby aid provided by the rich countries (supposedly to reach an agreed target of 0.7 percent of their GNP) would help finance the South's development. A significant part of the funds was channelled through the UN agencies for economic development and social programmes. The UN General Assembly and ECOSOC would be the political forum where global social and economic issues would be discussed, and decisions taken.

This had by no means been a "radical" model for change, but a soft approach to partnership between two unequal entities. Instead of basic reforms to the international economic and social order, the Northern countries agreed to non-

binding aid and compensatory mechanisms and institutions, including the UN agencies. These would give expression to the attitude of giving their weaker brethren a helping hand in the understanding that this would be for the good of everyone, both the givers and the recipients. That part of aid which sustained the UN's economic and social activities and agencies has till now played a generally useful role in helping build the South's development capacity, with agencies such as UNCTAD, UNDP, UNICEF, WHO and UNEP playing their respective roles in development, health and environment.

Whilst the UN agencies provided grants for development, the UN assemblies, conferences and conventions served as a fora for developing countries to express their grievances and needs. Even as the process of transfer of resources and effective policy making shifted in the 1990s towards the three agencies, the UN continued to provide a valuable forum for the airing of major global problems through its world conferences (such as on the environment, human rights, population, social development, women, food, the Millennium Summit, and financing for development). The conferences and the follow-up activities (such as through the Commission for Sustainable Development and the Climate Change and Biodiversity Conventions after UNCED) have generated new trends in policy thinking and in programme directions.

The downgrading of the UN's social and economic functions has been done in the name of efficiency. But the exercise of depleting the UN and its agencies whilst upgrading Bretton Woods-WTO is not a mere replacement of one set of bureaucracies by another to carry out similar functions, for there are very basic differences between the two sets of agencies in philosophical underpinnings, governance, management, approach, policy framework and programmes. The UN's governance is on a one-country-one-vote democratic basis, its operations and decision-making process are transparent, and the majority of countries being of the South are able to have an influence corresponding with their numbers. Since financing of the UN secretariat and agencies are through government contributions and grants, they do not need to be driven by profit or commercial interests. The programmes of UN agencies are meant to be (or at least have a greater chance to be) "country-driven", in terms of being tailored to meet the needs of individual countries. Most projects are conducted on a grant basis or have a high subsidy content, and rely heavily on public-sector implementation.

In the UN approach, there is implicit and explicit understanding that states have the prime responsibility to ensure that the poor majority in their countries have access to basic facilities, irrespective of their ability to pay. The role of the UN is to reaffirm the rights of people to fulfil their basic needs. To help in the realisation of these rights, it is recognised that redistributive policies and mechanisms are required. The UN agencies operate as part of the redistributive mechanisms at international level, and are meant to augment the states' redistributive mechanisms at national level.

The UN framework also recognises the need for developing countries to overcome the adverse effects of colonialism on their economic, social and cultural structures, and to build up their national capacity for implementing appropriate development strategies. It further recognises the imbalanced nature of the international system, and the need for South-South collaboration and North-South partnership to redress this through structural reforms, aid, financial, trade and technology access concessions. These themes run through many of the discussions at UN assemblies, conferences and meetings. They also form an important part of the rationale and goals of many UN agencies.

On the other hand, the governance of the Bretton Woods institutions follows the one-dollar-one-vote principle. As such, decision-making control is by the Northern countries that own a majority of the equity, with developing countries having a minor role. These institutions are Secretariat-driven in policy, and have been widely criticised for designing their stabilisation-structural adjustment plans in Washington without adequate consultation with or participation of the loan recipient countries. Being commercial-driven organisations, their policies and projects are designed so that the loans are repaid with an adequate yield. Even if they would like to be more development-oriented, the IMF and World Bank will always face the in-built constraints of being first and foremost commercial institutions with the highest priority given to getting adequate returns on their investments.

In the GATT-WTO system, governance is theoretically through consensus decision-making of the contracting parties. In reality, key decisions have been made by the major trading countries, which often reach agreement among themselves, consult with some other big trading countries, and then oblige the majority of parties to sign on. Small and middle-sized countries still find they have little real influence. In terms of content of policies, earlier sections of this paper have shown that the WTO's rules are imbalanced in favour of the developed countries, and that developing countries are facing serious difficulties as a result of having to liberalise their economies and of having to give up many measures used previously for boosting the domestic economy.

The shift of location in decision-making in international economic and social affairs from the UN to the Bretton Woods-WTO institutions would lead to the downgrading of development as an operational principle and strategic goal, and its replacement by the free reign of the "market". And with deregulation and liberalisation both nationally and internationally, subjugation to the "free market" means that transnational corporations will exercise overwhelming control of the market in most or all sectors, with minimum interference from governments.

This carries the serious implication that development goals such as growth, poverty eradication, social equity, access to basic facilities and employment, will be seriously compromised. It is widely accepted that the realisation of these goals requires a significant degree of state intervention in the economy, as the market by itself cannot for instance bring the economy into full employment equilibrium. Moreover, due to its bias towards catering to the elite and middle classes (who have the purchasing power), the market cannot take care of the social needs of the poorer sections of society, which in many countries form the majority.

If the UN's resources and influence were to wane further, its approach entailing domestic capacity-building, redistributive policies and social-development programmes will even more be replaced by the harsh principles of the market forces, in which individuals matter in correspondence with what capital or skills they can offer to the market and how much purchasing power they can bring to it. Development as the central operating principle will be replaced by laissez-faire, or maximum rights to corporations and the "market." The goal of development will be displaced by the means of the market. Large sections of the population that are unemployed, unskilled and poor will likely find they have few rights and little space in their market-dominated society and that increasingly the welfare programmes, subsidised health and education services and other "safety nets" will be reduced or disappear. Thus, even the compensatory measures that already offset the adverse social effects of the market to only an inadequate degree may wither away.

C4. Conclusions and Proposals.

(i) General

The foregoing discussion shows that there is an even greater need by developing countries of the UN and its agencies, especially in the context of the era of globalisation. This is especially so because the realities of the globalisation process have been different for developing countries than the promises held out for it by the North that has promoted this process through the three agencies. The conflict between the two paradigms has by no means been settled. Indeed, in the wake of the growing public disillusionment with the results and operations of the three agencies, there is an opportunity for the paradigm represented by the UN system, and for the UN itself, to re-emerge as a more significant force. If this opportunity is taken, there can be a reversal of the trend, with a return shift of greater influence to the UN and its approach.

The three commitments and decisions in the Havana POA on revitalising the UN have well placed the need for action in three areas. This is further discussed below.

(ii) Fighting for Southern interests within the three agencies and for the key role of the UN

Firstly, there is a need for developing countries to organise themselves better to fight for their interests within the three agencies (the IMF, World Bank and WTO) and other agencies where critical decisions are taken which affect the South's policies and prospects. In doing so, the South can gain greater influence over these agencies themselves and help to carry out changes for the better in their policies and processes. Suggestions on democratising the decision-making processes and in changing the policies of these agencies are made in other sections of this paper.

The POA stresses key four points in this regard: (i) that the South must work for decisions on economic issues in these agencies; (ii) that these decisions should promote developing countries' interests; (iii) developing countries must have effective and full participation in the agencies on the basis of sovereign equality; (iv) the key role of the UN must be asserted.

The first two points imply that developing countries have to work closer together and support one another in formulating substantive and negotiating positions in the three agencies, so as to more effectively achieve decisions on economic issues that are in their interests. The political commitment made in Havana on this should be followed up seriously at levels of policy makers in capital, experts and delegations in the three agencies, with the political leaders also continuously kept informed.

The third point concerns the fight for democratisation and transparency in the three agencies. This will of course be a major battle that will require coordination, political will and tenacity.

The fourth point is also significant. It implies that the roles of the three agencies should be redefined: they should have functions and mandates that are appropriate

for their areas of competence and these should not be expanded to other spheres. For example, the mandate of the WTO should be on trade issues and non-trade issues should not be introduced; whilst the IMF should focus on finance issues (and indeed on stability of financial flows and exchange rates) and not be the prescriber of economic, social and political policies to developing countries. The political role of setting the global framework and context of economic and social policies should rightfully belong to the UN. Thus the roles of the IMF, World Bank and WTO should be reduced to their appropriate and optimal sizes, and their areas of competence reviewed and amended accordingly; whilst correspondingly the role and mandate of the UN should be re-affirmed and scaled upwards.

These issues are critical and complex and could be the subject of discussions and study by the G77.

(iii) Strengthening the role of the UN and its agencies

Secondly, it is now opportune to strongly advocate for a revitalisation of the role of the UN and its agencies, in the light of the general disenchantment with the performance, results and divisiveness of the globalisation model represented by the three agencies. (The disillusionment is widespread, and even key establishments of the North have become critical). If this advocacy is done well, there can be significant and growing public support, in both the South and the North.

The Havana POA specifically mentions the need for strengthening the role of UNCTAD, and the "coordinating role" of ECOSOC and the regional commissions to address the economic and social priorities of developing countries.

A position paper with detailed rationale and operational proposals specifically on a larger role for these institutions could be prepared by the G77, and the position advocated at different levels and fora. It is an opportune moment for such a move.

A strong case can now be made for a much strengthened role for UNCTAD: (i) It is now increasingly obvious that there are limits to the role of WTO in improving the position of developing countries in world trade. For example, WTO does not deal with the problems faced by commodity exporters whereas addressing this issue was formerly the strongest point of action by UNCTAD. Moreover, the WTO is not designed to deal with issues of developing supply capacity in developing countries. The "multilateral trading system" therefore cannot simply be equated with the WTO, and UNCTAD with a revitalised role should be a key component of that system. (ii) UNCTAD has distinguished itself in recent years with cogent and deep analyses of the globalisation process, its warnings on the workings and destabilising effects of the global financial system have been proven to be correct, and its proposals for addressing the problems are the most comprehensive and well respected. (iii) UNCTAD can also be recognised as a more legitimate forum for valuable discussion on trade and development issues (as shown in UNCTAD X), especially in the wake of disillusionment with the narrow focus of the WTO and its still untransparent and non-inclusive nature.

There is also a strong case for strengthening the coordinating role of ECOSOC since there is no better or no other suitable international and universal forum for inclusive and transparent inter-governmental policy discussion and formulation on economic and social issues on a global level. The limitations and problems of the IMF, World Bank and WTO being used as alternative fora for making such

policies are increasingly obvious, not only to governments of developing countries (which have limited participation and roles) but also to the world public and increasingly even to large parts of the establishment in the North. Advocacy of the strengthened role of ECOSOC, with rationale and operational suggestions, could now find positive response, at least with many citizen groups, including in the North. This would be an important step towards building public support and influencing governments in the North, on investing more political importance to key UN organs.

(iii) Better coordination among UN agencies and with the IMF, World Bank and WTO.

The third Havana POA decision on better coordination among agencies seems to have two components: coordination among the UN agencies; and coordination among the UN agencies (especially UNCTAD) and other relevant international organisations, especially the IMF, World Bank and WTO, both for the aim of promoting development. There is an important reference to the need to avoid the imposition of cross-conditionalities and other conditions that further restrict developing countries' policy options; thus implying the recognition of the need to avoid the danger that an attempt at "harmonising" or coordination with the IMF, World Bank and WTO could lead to the negative results of further conditionality.

The first point is rather straightforward, that better coordination among the UN agencies should be pursued to further developing countries' development interests. It would be useful for developing countries, through the G77, to propose how the coordination could be better carried out.

The second point is more complex, as it involves the relations between the UN, its agencies and the IMF, World Bank and the WTO. In the UN, developing countries have for some time already been calling for the Bretton Wood institutions to be more collaborative with the UN (for example, this message was advocated during the Social Summit, whose Declaration has references to this). In recent years, there has been closer dialogue with high-level representatives of the World Bank, IMF and WTO at UN meetings, for example ECOSOC and the UNCTAD conferences. In the Financing for Development process, the three agencies are represented in the working groups of the Secretariat.

In the foregoing analysis, it was stressed that there are differences in philosophy, approach and policies between the UN and the three agencies. In the process of coordinating, these differences may emerge. In attempts to "harmonise", it is important that the UN secretariat and its agencies remain faithful to their mission and paradigm, especially in relation to protecting and promoting the interests of development and developing countries.

It should be recognised that developed countries have also been proposing better coordination and "coherence" of policies among international agencies. This is usually in the context of coordination among the IMF, World Bank and the WTO. The anxiety of developing countries that such collaboration will lead to cross-conditionalities is understandable and justified. There have also been moves for greater collaboration between UN agencies and the other three agencies. The reference in the POA to avoid new conditionalities or cross-conditionalities should also apply in such cases. Developing countries should be alert to the possibility that in the course of the relationship the paradigm of the IMF, World Bank or WTO

secretariats could become more dominant, with the danger of the UN or the UN agency being inappropriately "absorbed" in that paradigm.

If coordination, even on equal footing, between the institutions is not possible (or not yet possible), at the least the United Nations and its agencies should be given the opportunity and resources to maintain their identity, have their approach and development focus reaffirmed, and strengthen their programmes and activities. It is vital that the UN continues to adopt development, an equitable world order and the realisation of human and development rights as its central economic and social goals. There is a danger that some UN agencies (and the Secretariat itself) may be influenced to join in the approach of the IMF, World Bank and WTO, or merely be content to play a second-fiddle role of taking care of the adverse social effects of laissez-faire policies promoted by other these agencies.

If it does join in with the "extreme-liberalisation ideology" or the approach that globalisation (in the forms advocated by the North) is inevitable (and that developing countries have to join the game), in order that it can be "relevant", the UN would no longer be able to provide an alternative position. There would then be only a monolithic or monopolistic approach to globalisation; and that would leave a large part of humanity without protection. The UN should therefore be kept true to its mission of development and justice for the world's people, and to always advocate for policies and programmes that promote this mission, otherwise it would lose its credibility with the public

D. UTILISING INSTITUTIONS OF THE SOUTH TO MEET CHALLENGES OF GLOBALISATION

D1. General

The fourth theme of the commitments of the Heads in relation to globalisation is as follows: **"To utilise institutions in the South in meeting the challenges of globalisation."**

Under this theme are two decisions as follows:

- **Invite the Chairman of G-77 to coordinate the networking of research institutions and centers from the South to undertake analytical and prospective research on globalization and related matters, with a view to strengthening the Group's negotiating capacities in various G-77 Chapters.**
- **Intensify efforts at institutional capacity building, including through the exchange of expertise, experiences, information, and documentation between**

the institutions of the South in order to develop human resources and strengthen the institutions of the South.

Ultimately, the most important aspect of facing up to the challenges of globalisation is the need for developing countries themselves, to build their capacity to obtain and analyse information about globalisation, formulate appropriate strategies and policies, and act accordingly at global negotiations, individually and collectively.

The institutional response of the South can be at national, regional and international levels. Some suggestions are provided below.

D2. National-level Responses.

At the **national level**, each developing country could put high priority to building the national capacity to analyse globalisation trends and processes, and formulate policies to respond. The formulation of national policies on how to interface with the world economy (in trade, finance, investment and in global negotiations) is now (or should now be) one of the most important aspects of national policy-making. However, in many countries, governments and policy makers are institutionally still inadequately prepared to accord the due significance for this, and for meet globalisation challenges in general, even though the decisions made at global institutions (to which most of the countries may also belong) have such an impact on national policies. Thus, financial, political, bureaucratic, manpower and technical resources should be allocated to the tasks of raising awareness of the public, the policy makers and the academic institutions, and to build their capacity to respond.

The following measures could be considered:

- (a) Establish a cabinet committee on globalisation issues, comprising Ministers and officials dealing with economic, social and environmental issues that are affected by global negotiations and processes. This committee could coordinate and harmonise national policies on globalisation issues and global negotiations at the political level.
- (b) Establish a national committee of representatives of various Ministries and government departments to deal with matters relating to globalisation. The committee could set up a secretariat to obtain or coordinate information on globalisation trends and developments at global negotiations and bring this to the attention of relevant departments and to the committee. The committee could be responsible for formulating national positions on global negotiations taking place at the various international fora.
- (c) Each Ministry or department could also have a unit or focal point to monitor and deal with globalisation issues as they affect it, and report to the national globalisation committee.
- (d) The government may also set up a national consultative group on globalisation comprising bureaucrats and representatives of national business, trade unions, farmers' associations and social organisations, the media, research and academic institutions, etc. The group can be used to sensitise the various interest groups and the public to globalisation issues and enable responses from these groups to be provided as inputs to the policy makers.

- (e) Government may also utilise or encourage research institutions and universities to carry out monitoring and research activities on various aspects of globalisation.
- (f) NGOs could be encouraged to be actively involved, including having dialogues with the government, and providing inputs and information. They can be encouraged to network with NGOs in other developing countries, to respond to globalisation issues.

Building a strong national institutional capacity to understand, analyse and respond to globalisation is a necessary basis for a Southern response.

D3. Regional-level Responses.

At the **regional level**, there are many regional organisations of developing countries, many of which are already actively engaged in helping the countries of the region prepare for various aspects of global developments, such as negotiations relating to regional and international trade agreements, finance-related issues, UN meetings and conventions (including on environment and health), etc. The capacity of these regional organisations could be further strengthened, including in the areas of information, analysis, assistance in formulating negotiating options, and establishing regional conventions, model laws, etc.

Stronger regional networking (on responses to globalisation) among various sections of society, such as chambers of commerce, manufacturers' associations, trade unions and farmers' organisations, as well as the media and organisations of civil society, could also be encouraged.

At some of the negotiating fora, it would be useful if at times the negotiating positions of developing countries within a region could be coordinated. This is already being done at some UN fora, such as UNCTAD, and in sometimes in some UN conventions or negotiating processes, such as the Convention on Biological Diversity. This could be more difficult at other fora where the views of developing countries within a region may not coincide. However, even in the WTO, there are more frequent instances in which regional groupings such as the Africa Group or Caricom have tabled proposals.

D4. International-level Responses

At the international level, It would be useful for the representatives and secretariats of the various regional organisations of the developing countries to interact and network more regularly and more effectively. This could be for the sharing of information, views, reports as well as discussions on what positions are being taken by each of the regions in negotiating fora. Such region-to-region exchanges would be helpful in building international policy coordination among developing countries. This strengthening of exchange would be very useful for increasing understanding of one another's positions and policies, even if it is not possible (or not the aim) to come up with a common position of all regions or countries in negotiations in trade organisations or in the international financial institutions.

Similarly, increased region-to-region networking and communications would be useful among regional organisations of business, media, universities, research institutions and NGOs.

Communications and interaction can be facilitated through email, websites, regular exchange of documents through the post, as well as meetings and workshops held at regular intervals, with the aim of promoting understanding on globalisation issues, and sharing national and regional experiences and responses.

At some of these meetings and workshops, there should also be a mix of participants from different sectors, such as policy-makers, diplomats, officials of regional and international organisations of the South, experts, and representatives of business and civil society of the South. A dialogue among different sectors can be very useful in building a collective response from the South that also includes various groups in society.

As the Havana POA has indicated, the G77 could initiate a research agenda on what topics are required for analysis, in order to assist the G77 countries and the G77 as a group, in global negotiations at the different fora. It could then liaise with institutions of the South to assist with implementing the research programme. Wherever possible, the G77 could also catalyse or organise some of the inter-regional activities, or jointly organise meetings, other events and programmes, with other institutions of the South and with UN agencies.

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Annex

HAVANA PROGRAMME OF ACTION: PART II (ON GLOBALISATION)

The following is Part II (dealing with globalisation issues) of the Havana Programme of Action adopted by the Group of 77 South Summit held in Havana, Cuba, 10-14 April 2000.

II. GLOBALIZATION

1. Globalisation, through trade, investment and capital flows and advancements in technology, including information technology, has had a profound impact on all aspects of international relations. As a result of technological development, especially in the electronic, transport and communication sectors, there has been a proliferation of economic, scientific, technological and cultural innovations, which have greatly affected all areas of human life, and especially the process of development in the countries of the South.

2. Globalisation can be a powerful and dynamic force for strengthening cooperation and accelerating growth and development. It presents opportunities, as well as risks and challenges. Globalisation is a process which can be uneven and unpredictable, but if it is properly harnessed and managed, the foundations for enduring and equitable growth at the international and national levels can be laid. National efforts need to be complemented by intensified international cooperation in order to reverse the marginalization and manage the risks, overcome the challenges and seize the opportunities created by globalization.

3. The empirical evidence shows, among others, that the income gap between developed and developing countries has widened. Even those countries which seem to have adapted well to globalisation were the most seriously affected by the Asian financial crisis. It is clear that there is no automatic process by which income levels of developing countries will converge towards those of developed nations. The challenge before the international community is to ensure that globalisation should take into account the development dimension.

4. We are concerned about the increased marginalization of a large number of developing countries, especially Least Developed Countries, owing to the globalisation process, particularly in the finance, trade and technology sectors. We emphasise the importance of the effective and

beneficial integration of the LDCs into the global economy and the multilateral trading system as its main driving force. In this context, we agree that the United Nations is in a unique position, as a universal forum, to strengthen international cooperation for promoting development in the context of globalisation; in particular the integration of developing countries into the globalizing economy, on terms in which as they are able to take full advantage of all their potentials for economic growth and development. In this regard, the forthcoming Millennium Summit presents an important platform to strengthen the role of the United Nations in international cooperation for development.

5. In addition, globalization has increased the vulnerability of those countries of the South, which are in the process of being integrated into the world economy. As the recent financial crisis has illustrated, financial liberalization including speculative and volatile financial flows, over which the developing countries have little controls, in the absence of adequate institutional arrangements to manage the processes, has generated significant instability in the international economies, with specially disastrous results for the developing countries. Therefore, there is an increasing need for the reform of the international financial architecture. In this context, we should seek to ensure a more democratic and fair ordering of any mechanism which emerges from these discussions in order to increase the effective participation of developing countries in the management of the international economy. It will also be important to ensure that the reform of the international financial architecture addresses financing for development as well as issues of financial stability including the need for the regulation of hedge funds and highly leveraged institutions and strengthening of the early warning system to provide for improved response capabilities to help countries deal with the emergencies and spread of financial crises. In this context, UNCTAD should contribute to the debate on issues related to the strengthening and reforming of the international financial architecture by continuing to provide relevant analysis from a development perspective. The focus should be to achieve the objective of financing for development.

6. We stress the need for adjustment of the policies of developed countries which should lead to an improved market access for the exports of developing countries and the elimination of protectionist and support measures especially in agriculture, textile and clothing sectors. We also call for the mandated negotiations on agriculture in accordance with the provisions of article 20 of the Agreement on Agriculture. In agriculture the objectives should be to incorporate the sector within normal WTO rules.

7. Vulnerability and volatility are major impediments to the countries of the South and contribute to perceived risks and difficulty in attracting foreign direct investment in developing countries, making ODA a crucial source of finance for developing countries and stressing the need for the continuation of flexible graduation procedures by the Bretton Woods Institutions. The completion of the work on a vulnerability index would be an important step in assisting multilateral institutions to assess effectively the needs of developing countries. **As a number of underlying principles governing globalisation and trade liberalisation have been formalised in the agreements emanating from the Uruguay Round of multilateral trade negotiations, there is a need to address those aspects which have clearly operated to the disadvantage of developing countries and immediately implement fully the provisions for special and differential treatment in favor of developing countries. We are distressed that since the Ministerial Meeting in Marrakech held in 1994 establishing the WTO, little has been done to develop an effective program of concrete measures to assist the integration of these countries into the multilateral trading system. Of concern also is the volatility of international markets** which have witnessed the deterioration of prices of commodities and terms of trade, which have imperilled the ability of developing countries in the global economy.

8. In this respect, it is necessary to adopt measures that improve access, for all products of export interest to developing countries, to the markets of developed countries, by means of reducing or eliminating tariff and non-tariff barriers, and by introducing measures that support capacity-building for production and export in our countries, as well as other measures that help to guarantee the stability of the prices of these products in the international markets. Within the framework of the WTO, to promote the idea of the creation of a fund for development.

9. Furthermore, increased international interaction, which has taken place in the context of globalization, has also led to problems which require enhanced international cooperation and solidarity for their resolution. Maximising the benefits of globalisation requires sound domestic macroeconomic policies supported by an enabling global environment and international economic cooperation. It is imperative that a collective solution is found to wide-scale collective problems. Globalisation calls for approaches and methods in line with the global level of the problems facing the world; it calls for a view which includes the large majority and is based on an essential sense of social justice and human solidarity. In general, it will be necessary to ensure greater coordination in international policy-making.

10. Globalisation and interdependence, whilst strengthening common values, should boost and maintain local development, taking into account the traditions, culture and identity of the people, who together make up the common heritage of humanity. Special attention should be paid to preserve diversity which is the principal wealth of human development. Respect and tolerance for cultures and cultural identity would contribute to peaceful co-existence and economic development.

11. We reaffirm the right to self-determination of all peoples, in particular of peoples under colonial or other forms of alien domination or foreign occupation, and the importance of the effective realization of this right, as enunciated, inter alia, in the Vienna Declaration and Programme of Action adopted at the World Conference on Human Rights. We decide to continue working for removing the obstacles to the realization of the right of peoples to self-determination, in particular of peoples living under colonial or other forms of alien domination or foreign occupation, which adversely affect their social and economic development. We are deeply concerned also over the gravely negative impact of foreign occupation on the social and economic development of peoples under foreign occupation, and, in this context, we also reaffirm the principle of permanent sovereignty of peoples under foreign occupation over their natural resources.

12. We stress that democracy, respect for all internationally recognized human rights and fundamental freedoms, including the right to development, transparent and accountable public administration and governance, responsive to the needs of peoples, in all sectors of society, as well as effective participation by our citizens and their organisations are an essential part of the necessary foundations for the realization of people-centered sustainable development. We also stress that every State has the inalienable right to choose political, economic, social and cultural systems of its own, without interference in any form by another State.

We, the Heads of State and Government, commit ourselves to the following decisions and actions:

(1) To respond to globalisation with a view to making it beneficial for all countries and peoples, and to actively promote effective participation of developing countries in the international economic policy decision making in the context of the globalizing world economy

- Convene, in consultation with member States from the South a High Level Advisory Group of eminent personalities and intellectuals to prepare a report on globalisation and its impact on developing countries, and report to the annual Ministerial Meeting in the year 2001.

- Intensify efforts to review and reform the WTO regime with a view to promoting a multilateral trading system that is fair, equitable and rules-based, and that operates in a non-discriminatory, inclusive and transparent manner, and in a way that provides benefits for all countries, especially developing countries. This will involve among other things, improving market access for goods and services of particular interest to developing countries, resolving issues relating to the implementation of WTO agreements, fully implementing special and differential treatment, facilitating accession to the WTO, and providing technical assistance. Invite member States to consult and make efforts as necessary for coordination of the position of developing countries prior to UNCTAD and WTO meetings, including through Ministerial Meetings

- Work to ensure that countries whose economies depend heavily on trade preferences be accorded the necessary transition period by the World Trade Organization to adjust to the new liberalized regime.
- Work within all relevant fora to ensure the establishment of a work programme for small economies to enhance their capacity to participate more effectively into the international trading system.
- Work towards reform of the international financial architecture that addresses issues of financing for development and stability of the international financial system including the need for regulation of hedge funds and highly leveraged institutions and strengthening of the early warning system to provide for improved response capabilities to help countries deal with the emergencies and spread of financial crises.
- Oppose application of all disguised protectionist measures such as labour standards and the attempts to further widen the environmental windows currently existing under the rules. We pledge to work together to ensure that linkages which act to curb the comparative advantage of developing countries are eschewed in WTO.
- Press for the freer movement of natural persons, in which developing countries have comparative advantage in the global economy, thus matching the arrangements applied in other areas such as finance and services. While the capital markets have been opened, including in developing countries, there has hardly been any movement in opening of the labour market in developed nations, particularly within the context of forthcoming negotiations on trade.
- Call on the relevant institutions to work towards the early completion of a vulnerability index.
- Urge UNCTAD to assist in collaboration with Common Fund for Commodities in developing countries and upon request, in handling commodities in an integrated manner with attention on improving their prices, developing their processing, transportation and availability of capital and technology for production. We also urge UNIDO to continue its assistance to developing countries to enable them to diversify their economies.
- Pursue efforts to harmonize the South's position on monetary and financial matters and in this context welcomes the decision adopted by the Twenty-sixth meeting of the Chairmen/Coordinators of G-77 Chapters held in Geneva, from 6 to 7 April 1999, to convene annual coordinating meetings between the Chairmen of the G-77 and G-24 prior to the IMF/World bank spring and autumn sessions.

(2) To revitalize and strengthen the role of the UN system in promoting development and international cooperation in the context of globalization

- Work for decisions on critical economic issues in institutions such as IMF, World Bank and the WTO, which promote the interests of developing countries through effective and full participation of all and on the basis of sovereign equality, and by asserting the key role of the UN in this sphere.
- Work towards strengthening the role of UNCTAD and the coordinating role of ECOSOC and the regional commissions in addressing the economic and social development priorities of developing countries.
- Continue to pursue the complementarity and coordination among the UN agencies, especially UNCTAD and other relevant international organisations including the IMF, the World Bank and the WTO with the view to promoting the development of developing countries while avoiding the imposition on governments of cross-conditionality and other conditions which would operate to restrict their policy options further.

(3) To preserve and promote cultural diversity especially in the context of globalisation

- Invite national governments and institutions of the South to preserve and promote diversity in traditions, culture and identity of the people, as well as indigenous and local traditional knowledge, practices, and technology for achieving local development and request the Chairman of Group of 77 to examine the possibility of organising a Southern Cultural Assembly, Art Festival of the South on a biennial basis. The Chairman would present his recommendations to the next Ministerial Meeting.
- Invite governments and institutions of the South to promote and intensify cultural exchanges and tolerance among the developing countries.

(4) To utilise institutions in the South in meeting the challenges of globalisation

- Invite the Chairman of G-77 to co-ordinate the networking of research institutions and centres from the South to undertake analytical and prospective research on globalisation and related matters, with a view to strengthening the Group's negotiating capacities in various G-77 Chapters.
- Intensify efforts at institutional capacity building, including through the exchange of expertise, experiences, information, and documentation between the institutions of the South in order to develop human resources and strengthen the institutions of the South.

RESPONDING TO THE GLOBALISATION CHALLENGE: A PERSPECTIVE FROM THE SOUTH

By Martin Khor

SUMMARY OF PROPOSALS

A. GENERAL ASPECTS OF GLOBALISATION

Proposal: The South should treat Globalisation as the result of policy choices rather than an "inevitable" process

The South should not accept the theory that globalisation is an "inevitable process" and therefore beyond the influence of any developing country, which must simply adapt or be left behind.

Instead, the particular type of globalisation process taking place is to a large extent the result of policy choices. If the present form of globalisation is inappropriate in then some aspects of the globalisation process can be "re-shaped" to make it more suitable, or at least less damaging. If it is beyond the capacity of a single country to sufficiently influence the globalisation process, it may be more possible for several countries, acting in unison, to pursue the task of transforming policies at global or regional level (and also national level) and in so doing to re-shape the globalisation process or trend (and even in changing its direction). The role of human intervention is thus a pivotal factor, whether in creating, generating, or changing the globalisation process.

It is important to take this "proactive approach" to globalisation, firstly because it corresponds to the reality of the dynamics of globalisation, and secondly, it provides the framework for possible intervention and influencing of the process by developing countries, including following up on the G77 Summit's Declaration and Programme of Action.

The most important aspect of globalisation is the **globalisation of policy-making**. Domestic policies which in the past were under the jurisdiction of national governments are now increasingly made by international financial institutions, or through international or regional trade agreements, or by donor governments.

If developing countries could improve their analysis of what are the global policies that would be in their interest, and increase their cooperation and coordination among themselves, they could be in a better position to put forward proposals to reshape the global economic system in areas such as trade, debt, finance, resource flows, investment and technology transfer.

The aspects of globalisation that should be addressed by developing countries as a matter of priority include the following:

- The unequal process of decision-making in global economic affairs and in specific institutions and fora.
- The inappropriateness of policies imposed on developing countries through loan and aid conditionality, resulting in continuing debt, retardation of economic growth and reduced social development.

- The instability induced by free mobility and sudden shifts in direction of short term capital.
- The narrowing of policy options required for development as a result of rules and pressures faced in the WTO that curb the ability of developing countries to subsidise local industries and farms.

B. RESPONDING TO GLOBALISATION AND INCREASING THE SOUTH'S PARTICIPATION IN POLICY DECISIONS

B1. GENERAL

The first theme of the commitments of the Heads in relation to globalisation is as follows: **"To respond to globalization with a view to making it beneficial for all countries and peoples, and to actively promote effective participation of developing countries in the international economic policy decision making in the context of the globalizing world economy."** [POA Part II para 12 (1)]

B2. REVIEW AND REFORM THE WTO REGIME

(i) General

A major decision for action in the POA is to: **"Intensify efforts to review and reform the WTO regime with a view to promoting a multilateral trading system that is fair, equitable and rules-based, and that operates in a non-discriminatory, inclusive and transparent manner, and in a way that provides benefits for all countries, especially developing countries..."**

The POA reflects the South's growing awareness that the Uruguay Round: (i) has not produced a balanced result between North and South, (ii) that much of the expected benefits to developing countries have not materialised, and (iii) that developing countries have made obligations in the Agreements, many of which are difficult to implement and moreover will cause adverse economic and social effects when implemented. These three major problems have to be corrected in order to "rebalance" the WTO and make progress towards a fair trading system that can contribute to development in countries of the South. Moreover, there is also a need to reform the decision-making process so that all developing countries are able to participate fully in the discussions and negotiations at the WTO. Also, the question of "new issues" that the developed countries are attempting to introduce into the WTO through a new Round has to be seriously considered by developing countries.

(ii) Need to Correct North-South Imbalances

The WTO Agreements contain many imbalances that work against the interests of the South. These imbalances have been spelt out in some detail in the book by B.L. Das,

"The WTO Agreements: Deficiencies, Imbalances and Required Changes" (1998). The South should work for rectification of the imbalances, including the following:

- Subsidies prevalent in developed countries have been made non-actionable (i.e. they are allowed), whilst subsidies mostly used by developing countries for development objectives have been made actionable (i.e. they are not allowed and can be disciplined by a trade sanction);
- Under the Agriculture Agreement, countries that have maintained high levels of tariffs and other market access constraints, high domestic support and export subsidies are allowed to continue with a large part of these practices (i.e. the levels have to be reduced only slightly) whilst countries that were not using these measures (or had only low levels) are prohibited from having or raising them in future. Most developed countries fall under the first category whilst many developing countries fall under the second category.
- In the services agreement, there is an imbalance between the liberalisation of capital and that of labour. The movement of labour (which would benefit developing countries) is still restricted.
- In the TRIPS Agreement, the protection of the rights of IPR holders are provided for but there is hardly an provision specifically for the rights of the users of intellectual property. Most of the owners of IPRs are in the North whilst users of technology are mainly in the South.
- Obligations on the South are mainly legally binding and can be disciplined through the dispute settlement system, whilst many obligations that the North have towards the South (such as technology transfer) are not operational or subject to the WTO's enforcement mechanisms. Moreover, the special and differential treatment principle that is meant to benefit developing countries is in most cases inoperable as the clauses are only on a "best endeavour" basis.

The correction of imbalances between North and South should be high on the agenda of the present and next stage of WTO negotiations.

(iii) Expected Market Access Benefits to South have not materialised; therefore the South should demand the full implementation of the North's market access commitments.

A major cause of the disillusionment of the South with the WTO is that the expected benefits have not materialised. Developed countries have continued to keep their markets protected in sectors that are of most interest to developing countries, especially textiles and clothing and agriculture. Also, non-tariff barriers have also been used in attempts to block developing countries' products.

The developing countries therefore should together demand the full implementation by developed countries of their commitments to increase market access to developing countries in order to restore the latter's confidence in the trading system. Among the measures which the South should rightfully demand are the following:

(a) No gains yet in textiles; need to accelerate liberalisation in North

After six years, there has not been liberalisation on a proportionally phased or progressive basis (in value terms), due to the developed countries' choice to "endload" the implementation. Most products chosen for "liberalisation" so far have not been actually restrained in the past.

Proposal: The ITCB has made concrete proposals to rectify this. At least 50% of import of products that were under specific quota limits should be liberalised by the start of the next stage of implementation on 1 January 2002. This is certainly not unreasonable since by then 70% of the transitional period of the Agreement would have passed. Also, the provisions of growth-on-growth should be applied so as to contribute to meaningful increases in access possibilities in developing countries. (Hong Kong, China 2000: p3). These and other ITCB proposals should be fully supported by developing countries, which should make strong demands that the ATC should be fully implemented progressively in spirit and fact, and not merely in law. Indeed, whether there is a real improvement in the developed countries' policies in this sector in the immediate future is one of the key tests of their sincerity in wanting to build a balanced multilateral trading system. Any attempts by them to get additional concessions from developing countries (as a condition for meaningful liberalisation of quota restrictions), and such an attempt has been reported, should be firmly rejected.

(b) Need to counter increased use of non-tariff barriers

Whilst meaningful increase in market access by the North for the South has not materialised, the developed countries have meanwhile increased their use of non-tariff protectionist measures to block products of developing countries. Examples from the textiles sector: (i) unjustified safeguard actions; (ii) changes in rules of origin; (iii) unduly cumbersome customs and administrative procedures; and (iv) anti-dumping actions.

Proposal: Developing countries should compile a comprehensive report giving details of all the various types of unjustified restrictive trade measures, and the increasing trend of developed countries resorting to them. Regular monitoring and updates of the use of these measures should also be conducted. Measures to curb or prevent such abuses should be suggested, including amendments to current agreements, such as the WTO Agreement on Anti-Dumping. These proposals should be an important part of the developing countries' platform for future negotiations at the WTO.

(c) North should eliminate agriculture protection and subsidies

There has been little progress in the developed countries in reducing their high protection and subsidisation in the agriculture sector, thus preventing the potential export gains for developing countries to be realised.

Proposal: In the on-going WTO agriculture negotiations, developing countries should insist that the tariff peaks in agriculture in developed countries be brought down substantially and rapidly and that the rate of reduction and time frame be finalised. Domestic subsidies in developed countries should also be drastically

reduced, and these should also include categories not covered by the AMS. Similarly, export subsidies in developed countries should be rapidly reduced and eliminated. (These proposals have also been made by several developing countries in the WTO agriculture negotiations. For example, see Cuba et al 2000, WTO document G/AG/NG/W/37). At the same time, developing countries should be allowed greater flexibility than now allowed; this may require revisions to the Agreement.

(d) North should also reduce industrial tariff peaks and tariff escalation

Exports of industrial products of developing countries are also still hampered by tariff peaks and tariff escalation in the industrial sector in developed countries.

Proposal: These tariff peaks and escalation should also be brought down, to enable developing countries to expand their manufactured exports.

(iv) Need to Review Existing WTO Agreements to Counter Adverse Effects on Developing Countries ("Implementation Problems").

Developing countries are much more aware of the possible and real negative effects that some of the WTO Agreements will have on them. Developing countries must insist on a review of the rules of the WTO, and that changes be made to those rules wherever necessary, in order to prevent the negative consequences.

The operational implication of the POA is that the WTO should be reformed to make the trading system fair and equitable and provide benefits for developing countries, rather than generate problems.

In the preparation for the WTO's third Ministerial Conference in 1999, many developing countries submitted papers pointing out problems they faced in implementing various Agreements, and put forward proposals to redress these problems. A summary of these proposals was placed in paras 21 and 22 of a draft Ministerial Text dated 19 October 1999 in a Section entitled "Implementation Concerns".

Proposals:

(a) Proposals on Implementation Issues

It is imperative that developing countries maintain the strongest position possible that the existing WTO agreements have to be amended appropriately to take into account the problems facing them which have been made more evident during the implementation process. The present period provides an important window of opportunity to review the Agreements and to amend them.

In insisting on changes to "rebalance" the WTO system, a good starting point would be those proposals put forward by developing countries in paras 21 and 22 of the draft Ministerial Text of 19 October 1999. These proposals cover changes required to the agreements on anti-dumping, subsidies, safeguards, sanitary and

phytosanitary measures, technical barriers to trade, textiles, trade-related investment measures, TRIPS, Article VII of GATT 1994, rules of origin, balance of payments provision of GATT 1994, agriculture, services and special and differential treatment.

Among the significant proposals are the following:

- The subsidies agreement should be amended to include as non-actionable subsidies, measures implemented by developing countries for legitimate development goals, such as regional growth, technology research and development funding, production diversification, environmentally sound production methods, and manufacture of high technology and value added goods.
- Regarding anti-dumping, no investigation shall be initiated for 365 days from the date of finalisation of a previous investigation for the same product. Provisions shall be improved to prevent arbitrary or primarily protectionist methods. A moratorium shall be applied by importing countries on anti-dumping actions in textiles until two years after the entire textiles and clothing sector is integrated into the GATT.
- On the TRIMS Agreement, the transition period for developing countries shall be extended until such time that their development needs demand. Developing countries shall also have another opportunity to notify existing TRIMS measures which they can then maintain till the end of the new transition period. Developing countries shall be exempted from disciplines on domestic content requirement. Provisions should be included in the Agreement to provide developing countries the necessary flexibility to implement development policies.
- On the TRIPS Agreement, essential drugs (as listed by the WHO) shall be added to the list of exceptions to patentability. Additional protection for geographical indications shall be extended for products other than wines and spirits. Article 27.3(b) be amended to take into account the Convention on Biological Diversity and the International Undertaking on Plant Genetic Resources; the amendments should clarify that all living organisms and their parts cannot be patented and that those natural processes that produce living organisms should not be patentable. The amendments should ensure protection of innovations of indigenous and local farming communities, and continuation of traditional farming practices including the right to use, exchange and save seeds and promote food security. Articles 7 and 8 should be operationalised to provide for technology transfer on fair and mutually advantageous terms.
- On the Agriculture Agreement, developing countries with predominantly rural agrarian economies shall have sufficient flexibility to adequately address their non-trade concerns such as food security and rural employment. The Marrakesh Ministerial Decision on least developed and net food importing developing countries shall be revised to ensure its effectiveness.
- On the Services Agreement, developed countries shall fully implement commitments undertaken by them in Mode 4 (movement of natural persons).

- On special and differential treatment, all S&D provisions shall be converted into concrete commitments, especially to address supply side constraints faced by developing countries. Preferential treatment by developed countries in favour of developing countries shall be implemented in a generalised, non-discriminatory and non-reciprocal manner.

In addition to the developing countries' proposals of para 21 and 22, it would also be useful to refer to the set of concrete proposals in B.L. Das's book, "Some suggestions for improvements in the WTO Agreements." (1999).

(b) Proposals on Guidelines to Services and Agriculture Negotiations

In relation to the "built-in agenda" of services and agriculture negotiations, now going on, B.L. Das (2000) has also suggested that developing countries put forward sets of proposals on the modalities and guidelines that will guide the negotiations. The rationale for the developing countries' proposed guidelines is that both the agreements are imbalanced against the developing countries, and thus the main aim of any negotiations should be to correct the imbalances, and this principle should be reflected in the guidelines that will influence the entire span of the negotiations.

The proposed guidelines that developing countries could put forward for the **services negotiations**, as suggested by Das, are as follows:

- The developing countries should not be expected to undertake further obligations for liberalisation in services.
- The developing countries should select the services sectors and transactions which are of export interest to them. Negotiations should aim at liberalisation in those sectors/transactions by the developed countries.
- The developed countries should take concrete steps to encourage the import of services from the developing countries. Some examples of such steps are: providing incentives to their domestic firms for importing services from the developing countries and reserving a portion of their import of services for the government use for import from the developing countries. Negotiations should aim at identifying more such measures and to work out the modalities of their operation in the developed countries.
- Negotiations should be undertaken and completed within a specified time frame for liberalising the movement of labour from the developing countries to the developed countries.

After these initial modalities/guidelines are fully acted upon, further modalities/guidelines should be prepared.

The proposed guidelines that developing countries could put forward for the **agriculture negotiations**, as suggested by Das, is as follows:

- The tariff peaks in agriculture in the developed countries should be reduced substantially. The extent of reduction and the period over which the target of reduction is to be fulfilled should be finalised.

- The domestic subsidy in agriculture in the developed countries should be eliminated or substantially reduced over a short course of time. Similarly, the export subsidy in agriculture in the developed countries should be eliminated over a short course of time. The period within which it is to be done should be finalised.
- There should be a decision that food production in the developing countries for domestic consumption as well as the protection of small farmers and household farmers in developing countries will be excluded from the disciplines of the Agriculture Agreement on market access and domestic subsidy. Negotiations should take place to determine the method of implementing the decision.
- There should be a decision that the Special Safeguard mechanism can be utilised by the developing countries, whether or not they have taken to tariffication.
- There should be an agreement on effectively and directly assisting the net food importing developing countries. The mechanisms and method should be finalised.

B3. ENSURE SMALL ECONOMIES CAN PARTICIPATE MORE EFFECTIVELY IN THE TRADING SYSTEM.

(i) General

One of the commitments in the POA states: **"Work within all relevant fora to ensure the establishment of a work programme for small economies to enhance their capacity to participate more effectively in the international trading system."**

There are two main types of problems hindering effective participation: the pressures on developing countries to liberalise their imports, thus affecting local industries; the lack of export capacity or opportunities of the developing countries. These problems result in imbalances, including in trade deficits which add on to the existing external debt burden.

(ii) The pressures for rapid import liberalisation and the need instead to properly sequence and time import liberalisation

The WTO and the IMF and World Bank place tremendous pressures on small economies and developing countries to open up their economies rapidly to imports. But there is an emerging view that several other factors (including competitiveness of local firms or farms, overcoming supply-side constraints in producing for exports, and the existence of export opportunities or adequate market access) have to be present before trade openness can work for the good of developing countries and small economies. If such factors are not present yet, then the priority is to work for the establishment of these factors first, before an overly hasty liberalisation of imports.

A developing country may be able to control how fast to liberalize its imports but cannot determine by itself or in the short term that its exports should also grow

rapidly. For a successful trade policy, a country has to "calibrate" and aim for balance between the two major aspects of trade, i.e. imports and exports.

In the recent experience of many developing countries, trade liberalization can (and often does) cause imports to surge without a corresponding (or correspondingly large) surge in exports.

Proposals

(a) Conduct studies to draw lessons from positive and negative trade experiences

There is a need for developing countries and small economies to review their experiences, both positive and negative, of their performance and participation in the international trading system. Just as in the case of macro-economic policy, there should not be a "one-size-fits-all" approach to trade policy. Appropriate lessons should be drawn from the conditions for successful trade performance in some developing countries, as well as developed countries (especially during their past stages of development), and the implications of these lessons can be applied to the case of other developing countries that have not been so successful. The lessons should include how the successful countries dealt with the timing, sequencing and rate of import liberalisation (including different categories of imports); how they increased their exports (including diversification of export products, building up production, technology and labour-skills capacity, and marketing channels, etc); and the linkages between import policy and export policy; and between trade policy and production policy (in industry, services, agriculture, etc).

Lessons should also be drawn from the experiences of countries with less successful trade policies. On the side of imports, which were the factors that led to import liberalisation (including its timing, rate and its product scope), and what effects did it have on the domestic firms and farms (in terms of improving their competitiveness, or of rendering them less viable), and on jobs? On the side of exports, what were the factors (domestic and external) that constrained export performance and growth? If imbalances developed between import and export performances, what were the effects on the trade balance, the balance of payments and on the debt situation? Could the situation have been different and more positive if conditions and factors had been different, and in which ways?

(b) Need to be cautious of "big-bang" import liberalisation; a more sophisticated and well-timed policy is required.

Given the experience of many developing countries that have had negative experiences, an important conclusion is that trade liberalization should not be pursued automatically, rapidly, as an end in itself, or in a "big bang" manner. Rather, what is important is the quality, timing, sequencing and scope of liberalization (especially import liberalization), and how the process is accompanied by (or preceded by) other factors such as the strengthening of local enterprises and farms, human resource and technological development, as well as the build-up of export capacity and markets.

A logical conclusion must be that if conditions for success are not present yet in a country, then to proceed with import liberalization (or liberalisation of services, including investments) can lead to specific negative results or even a general situation of persistent recession.

Therefore, developing countries need adequate policy space and freedom, to be able to choose between different options in relation to their trade policies. Developing countries must have the scope and flexibility to make strategic choices in trade policies and related policies in the area of finance, investment and technology, in order to make decisions on the rate and scope of liberalization and combine this appropriately with the defence of local firms and farms.

(c) Need for changes in conditionality on trade policy

It therefore follows that policy conditionalities of the IMF, World Bank, regional banks and bilateral aid agencies, that promote unrealistic import policies in developing countries should be reviewed.

(d) Need for major reorientation of WTO approach to and rules on liberalisation: moving the aim from avoiding "trade distorting" measures to avoiding "development distorting measures and rules."

The WTO's approach to trade liberalisation, including in terms of its operational principles, should be reviewed. It should be reaffirmed that the ultimate objectives of the multilateral trading system are increased living standards, full employment, economic growth, and sustainable development (as stated in the preamble to the Marrakesh Agreement establishing the WTO) and that reduction of tariffs and other trade barriers are only a contributory means to these objectives (as also stated in the same preamble). There should be sufficient flexibility in WTO rules to enable each developing country to determine the scope, rate and timing of liberalisation according to its own plan, judgment and schedule.

The test of a rule, proposal or policy being considered in the WTO should not be whether that is "trade distorting" but whether it is "development distorting." A measure that may be considered "trade distorting" may actually be required to serve a development objective. The need to avoid development distortions should have primacy over the avoidance of trade distortion. From this perspective, the prevention of development distorting rules, measures, policies and approaches should be the overriding concern of the WTO.

The re-orientation of the WTO towards this perspective and approach is essential if there is to be progress towards a fair and balanced multilateral trading system with more benefits rather than costs for developing countries. Such a reorientation would make the rules and judgment of future proposals more in line with empirical reality and practical necessities.

Taking this approach, the goal for developing countries would be to attain "appropriate liberalisation" rather than to come under the pressure of attaining "maximum liberalisation." There should be a slow down to the pressures applied to developing countries for further liberalisation, whether in trade in industrial or agricultural products, or in services, or in investment. Developing countries should not be subjected to more pressures to continuously liberalize on the ground that it is automatically good for them.

The rules of WTO should be reviewed to screen out those that are "development distorting", and a decision could be made that, at the least, developing countries be exempted from being obliged to follow rules or measures that prevent them from meeting their development objectives. These exemptions can be on the basis of special and differential treatment.

(e) Need for developed countries to increase market access for developing countries' products

The South Summit Declaration and the Havana POA both refer to the need for better market access for developing countries' products to developed countries. For developing countries to be able to participate more meaningfully in the trading system, the developed countries have to do much more to open their markets for imports coming from developing countries, such as in agriculture, textiles and industrial products (where there are now high tariffs). Moreover, they should stop taking protectionist measures such as anti-dumping measures. Developing countries could potentially tap into the market for low-technology products alone in the North that could add US\$700 billion to their annual export earnings, if the North were to remove their trade barriers, according to UNCTAD estimates.

(f) Need for positive measures to boost the export supply capacity of small economies and developing countries

Developing countries, especially the small economies and LDCs, face several types of supply and marketing constraints in improving their export performance. The G77 could compile information on the programmes being conducted by the various agencies and assess their effects. A study can also be considered on the elements for a successful export strategy and export-supply capacity building programme for developing countries, taking into account the recent experiences of developing countries; on the present weaknesses; and on how to overcome the obstacles.

(g) Need for reform to the decision-making system and to improve developing countries' participation in the trading system

Many developing countries are still unable to fully or adequately participate in the WTO decision-making processes. Developing countries need to develop more effective ways of sharing information among themselves, and to collaborate on analysis and formulating joint positions, wherever possible, in order to increase their negotiating capacity and strength.

The decision-making procedures and practices in the WTO is untransparent and undemocratic, especially during the preparations for, and during, Ministerial Conferences. There is a need for serious reform of the system and culture of decision-making in the WTO. The reform process itself should be conducted in a manner whereby all members can fully participate. The reform should aim at a result whereby WTO meetings are run on the basis of full transparency and participation, where each member is given the right to be present and to make proposals. Even if some system of group representation is considered, all members

should be allowed to be present at meetings and have participation rights. The WTO secretariat should also be impartial and seen to be impartial.

B4. OPPOSE DISGUISED PROTECTIONIST MEASURES AND ATTEMPTED LINKAGES TO THE TRADE SYSTEM

(i) General

One of the decisions of the South Summit POA is: "**Oppose application of all disguised protectionist measures such as labour standards and the attempts to further widen the environmental windows currently existing under the rules. We pledge to work together to ensure that linkages which act to curb the comparative advantage of developing countries are eschewed in WTO.**"

Proposal:

**** On labour standards:**

The likelihood that this issue would be used for protectionist purposes if introduced in the WTO is very high and thus developing countries should continue to reject such a move. Developing countries should be prepared for even more intense pressures from developed countries to include labour issues in the WTO system, perhaps starting with apparently minor aspects such as a joint WTO-ILO forum or working group. Even such apparently minor aspects are likely to be the precedent-setting first steps towards further future integration of labour issues into the trade rules. Developing countries should therefore be united in facing the challenge and in rejecting the linkage, however small initially, of these issues to the trade system.

**** On trade and environment issues:**

Given the unequal bargaining strengths of North and South in the WTO, the complex issues relating to PPMs, cost internalisation, trade related environment measures etc. should not be negotiated within the WTO but if at all discussed, the venue should be the United Nations (for example in the framework of the Commission on Sustainable Development) in which the broader perspective of environment and development and of the UNCED can be brought to bear.

Policies and measures to resolve environmental problems (and there are many genuine such problems that have reached the crisis stage) should be negotiated in international environmental fora and agreements. These measures can include (and have included) trade measures.

Discussions within the WTO entailing the environmental effects of WTO rules can be beneficial, provided the environment is viewed within the context of sustainable development and the critical component of development is given adequate weightage.

The Committee on Trade and Environment should orientate its work to the more complex but appropriate concept and principles of sustainable development. But

there should not be any move to initiate an "environment agreement" in the WTO that involves concepts such as PPMs and eco-dumping.

Developing countries should thus play an active role in the WTO Committee on Trade and Environment and continue to bring up issues of interest to them there. However they should not accept the linking of environmental standards (and the related issues of PPMs and eco-dumping) to trade measures.

B5. RESPONSE TOWARDS THE PROPOSED "NEW WTO ROUND" AND THE PROPOSED NEW ISSUES

(i) General

There is a renewed attempt by developed countries to launch a New WTO Round in 2001. Developing countries should strongly oppose the launching of a such a new Round on the following grounds:

- (1) The WTO should focus in the next few years on reviewing problems of implementing the existing agreements and making the necessary changes in the agreements. These will be enormous tasks. They will not be properly carried out if there is a proliferation of new issues in a new round of negotiations. The extremely limited human, technical and financial resources of developing countries and their diplomats and policy-makers would be diverted away from the review process to defending their interests in the negotiations on new issues. The limited time of the WTO would also be mainly devoted to the new issues.
- (2) The proposed new issues would also have the most serious adverse consequences for the South's future development. Issues such as investment rules, competition policy and government procurement are strictly not trade issues and it has been argued that they do not belong in the WTO. There is a suspicion on the part of many developing countries that these issues are sought to be placed there by the developed countries to take advantage of the enforcement capability (the dispute settlement system) of the WTO, so that disciplines can be effectively put on developing countries to open their economies to the goods, services and companies of the developed countries. Other issues relate to labour, social and environment standards. Almost all developing countries have argued that these issues should also not enter the WTO as they could be made use of as protectionist devices against the products and services of developing countries.
- (3) A Round with the proposed new issues at its heart would expand the mandate of the WTO to incorporate these non-trade issues. Taking on board the new issues would overload the multilateral trading system further and add to the existing systemic stresses and tensions. The WTO would be even more split, on North-South lines, and this would threaten the goodwill, functioning and even survival of the system.

(vii) Proposal

It is important that developing countries exchange their views frankly and seriously on this important topic as early as possible, so that each of them can take an informed position as negotiations start in earnest in 2001.

From the analysis presented above of the new issues that form the heart of the proposed New Round (as envisaged by the major trading countries that are its proponents), the acceptance of such a Round would mean the starting of negotiations for new agreements in the WTO. Given the previous historical record of negotiations, especially the Uruguay Round and after; and the present balance of negotiating power in the WTO, it is likely that the demands and interpretations of the developed countries would have much greater advantage and weight than those of the developing countries, and thus there would probably be new agreements on investment, competition, transparency in government procurement (followed by the increasing integration of procurement practices themselves into the WTO system). If this were to happen, then the WTO would become even much more heavily imbalanced at the expense of developing countries, and added to the serious set of problems they already face will be yet more sets of disciplines that will further constrain their development options and prospects.

Although the developing countries are on the brink of a disastrous situation, few of them fully understand the dangers they are facing at the level of high policy makers and political leaders. It is imperative that they be alerted as soon as possible to the full implications of what is at stake, so that they can be involved in the decisions that their delegations will make, explicitly, implicitly or by default (ie those that remain silent are taken to have "joined the consensus").

The next phase of the WTO's history should be focused on correcting the present imbalances, resolving the problems of implementation facing developing countries, opening the markets of developed countries for products from developing countries, and establishing democratic decision-making processes, in order to bring the multilateral trading system in line with the needs and interests of developing countries that form the majority of the membership. It would be incorrect and unfair for developed countries to argue that the demands of developing countries can only be met through a new round in which they are asked to give even more and heavier concessions, for this would be asking the weak and poor to "pay twice" without their having any confidence that they would even get anything concrete in return.

Although the pressures from the developed countries for a New Round will be very intense, developing countries will be able to resist if they were to realise it is of utmost importance to their future to do so, if there is knowledge of the issues, political will, and some significant degree of unity among them. Therefore, organisations of the South, such as the G77 and the regional organisations of developing countries, should give the highest priority to planning meetings, workshops and coordinating sessions, where they can build the capacity of their member countries to monitor and study the issues, exchange views and positions, and take an active part in the negotiating process individually, as regional groupings, and if possible together as a group.

B6. ADDRESSING THE PROBLEM OF COMMODITIES

For a majority of developing countries, the commodity problem remains their single most important issue in international trade. It is thus a matter of great regret that international cooperation in this key area has failed. The effects of falling commodity prices have been devastating for many countries.

Proposals

- The commodity problem has been the major trade problem for many developing countries, especially the poorer among them. In recent years, the urgency that had previously been attached to this issue appears to have faded. This complacency should be reversed as the problem has not only remained but become more acute, and if not resolved, it would further marginalise the role of developing countries in the trade system. Institutions and groupings of developing countries should therefore place high priority in advocating for a serious addressing of this issue, and enlist the help of UNCTAD and other agencies, to of trend decline in commodity prices and in the South's terms of trade should be seriously addressed through an international conference or convention, or other institutional mechanisms. It is imperative that such huge income losses incurred by poor countries be stemmed.
- The UN Secretariat should resume compiling and publishing data and analyses on an annual basis on the terms of trade between commodities and manufactures, and the effects of movements in the terms of trade on the incomes of different categories and regions of developing countries, as well as the effects on net international transfer of resources from and to developing countries.
- The assistance of UNCTAD and the Common Fund could be sought to review the experience of commodity agreements and look into the possibility or desirability of reviving commodity agreements. The revitalisation of the Common Fund or other methods of cooperation should also be explored. One possibility is to initiate a new round of commodity agreements aimed at rationalizing the supply of raw materials (to take into account the need to reduce depletion of non-renewable natural resources) while ensuring fair and sufficiently high prices (to reflect ecological and social values of the resources).
- Although international cooperation is the most preferred method of improving the commodity situation, and attempts should be made to revive it, this may be not feasible at present. In the absence of joint producer-consumer cooperation, producers of export commodities could take their own initiative to rationalize their global supply so as to better match global demand. The recent sharp increase in the price of oil as a result of better coordination among producing countries is a good reminder of the benefits that producers can derive from greater cooperation among themselves.
- UNCTAD, UNIDO and other agencies could be approached to assist commodity-producing developing countries to improve their capacity for increasing the value of their commodities by going up the value chain through processing and manufacturing as well as marketing. At the same time, developing countries should press developed countries to reduce tariff escalation and allow better market access for processed and commodity-based

manufactured products, and thus help commodity producers reap better benefits from the trading system.

- UNCTAD and UNIDO should monitor and analyze the implications of biotechnology for developing-country commodities. Measures should be taken if impact assessments show significant negative effects on incomes and livelihoods in the South. Signatory members of the Biosafety Protocol under the UN Convention on Biological Diversity should exercise the protocol's mandate to consider the social implications of developments in biotechnology especially on developing countries.

B7. REFORM OF THE INTERNATIONAL FINANCIAL ARCHITECTURE

(i) General

A major concern voiced by Leaders of G77 countries in the South Summit Declaration and the Havana POA is the speculative nature and instability of the global financial system and its negative effects on the developing countries.

(ii) Reform of the international financial architecture

An adequate reform of the global system would require at least the following:

- (a) requirements for greater transparency of the international financial markets, how it operates, who the major players are and what are their activities;
- (b) international regulation to discipline at least the manipulative aspects of financial speculation in currency and stock markets and cross-border financial trade;
- (c) greater transparency and regulation of the activities and operations of hedge funds, other highly leveraged financial institutions, investment banks, pension funds and other investment funds and offshore financial centres;
- (d) better regulation in the source countries (ie countries providing funds) of their financial institutions and their international operations;
- (e) consideration of other measures to reduce speculation, such as a currency transaction tax (CTT).
- (f) in the event of a financial crisis, a system of debt standstill and orderly debt workout, whereby an outward stampede by creditors/investors is prevented, and a fair sharing of costs is worked out between the debtor country and creditors.
- (g) a system of financing for a country facing difficulties (to prevent a crisis) and for a country already in crisis.
- (h) a review of the conditionalities attached to loans or debt rescheduling, since the existing set of conditions may be inappropriate, and the working out of what constitutes more appropriate sets of conditions to suit different situations.

(i) attempts towards greater stability in exchange rates (including among the major currencies), and more openness in considering what are appropriate currency systems for developing countries.

(j) an international framework that is more sympathetic towards capital controls (inflows and outflows) instituted by countries as a normal part of their financial policy options in light to volatile capital flows and in the absence of adequate international regulation or reform.

(k) a better system of international financial governance, including greater participation of developing countries in decisions of the IMF and World Bank.

(l) a more adequate system of financing for development.

Some of these issues have been raised at various fora by some developing countries, but this has so far not produced much effect. There has been considerable resistance especially by major financial countries.

There are many issues on which much work has to be done in building a new global financial architecture. In the absence of adequate global reforms, developing countries have to devise their own national and regional mechanisms for prevention and management of financial crises.

Proposals

(a) Strengthen the coordination of the South in negotiations on financial issues

Developing countries should collaborate more to come forward with a common platform to advocate for reforms to the present global financial system, and pursue their positions in a campaign for a new financial architecture that can take account of the concerns to prevent financial crises, and to manage them well if they occur. Since the political leaders of the developing countries have already committed themselves to pursue the "harmonisation of the South's position on monetary and financial matters", the G77 could act on this by strengthening its own capacity, for example by establishing a task force or working group. The G77 decision referred to of April 1999 to convene meetings between the Chairs of G77 and G24 prior to IMF/World Bank meetings is an excellent start to better coordination. The meetings can be an opportunity to establish a work programme of exchange of information, monitoring of events and developments, research and the formulation of suggestions and proposals. This could perhaps evolve into formulating common or "harmonised" positions on monetary and financial issues, which countries of the South can make use of in various negotiating fora.

(b) G77-G24 Report on Developing Countries' position on NIFA

The G77 and G24 in collaboration could **produce a report** of what in their opinion would constitute a new international financial architecture (NIFA) appropriate to the needs and interests of developing countries. This study would have to monitor the developments on this issue in various fora and arenas, and put forward its own

proposals, with the rationale for each. The report could constitute the basis of positions that developing countries, as a group or individually, could advocate at the various relevant fora, including the UN Financing for Development high-level event and its process, the IMF, the Financial Stability Forum, etc.

(c) Elements of a new international financial architecture

In considering the elements of a new financial architecture, it is proposed that the following points be taken into account:

Two sets of actions are urgently required at international level for the interests of developing countries.

The **first set of proposals** involves the need to **avoid new policies or agreements** that would "lock in" further financial liberalisation. The following are proposed:

- The IMF stop pursuing the goal of amending its articles of association to give it the mandate over capital account convertibility as this would enable the IMF to discipline developing countries to open up their capital account and markets;
- The OECD countries should stop altogether any attempt to revive their proposed multilateral agreement on investment, which would have given extreme freedom of mobility for all types of capital flows;
- There should not be an investment agreement in the WTO as this would put intense pressures on developing countries for compulsory financial liberalisation;
- There should be a review of the financial services agreement in the WTO to take into account the new knowledge and lessons learned from the negative effects of financial liberalisation resulting from the latest round of the financial crisis. There should also not be any pressures put on developing countries for further liberalisation of their financial markets. Developing countries should collaborate to prevent such pressures.

The **second set of proposals** relate to **international policies and measures** that need to be put in place, including:

- Measures and guidelines to help countries prevent debt and financial crises.
- Once a crisis has broken out, measures to manage the crisis effectively, including debt standstill arrangements and a debt workout system that fairly shares the cost and burden between creditors and debtors. An international bankruptcy court along the lines of chapter 11 of the US bankruptcy law should be set up to implement this.
- A framework that allows and encourages countries (especially developing countries that are more vulnerable than rich countries) to establish systems of control over the inflow and outflow of funds, especially of the speculative variety;
- Governments of countries which are the sources of internationally mobile funds should be obliged to discipline and regulate their financial institutions and players to prevent them from causing volatility and speculation abroad;

- International regulation is needed for activities of hedge funds, investment banks and other highly leveraged institutions, offshore centres, the currency markets and the derivatives trade;
- A international system of stable currencies (including possibly a return to fixed exchange rates or of rates that move only within a narrow band) should be considered;
- A change in the set of conditionalities ("structural adjustment policies") that accompany IMF-World Bank loans so that recipient countries can have options to choose among appropriate financial, monetary, fiscal, macroeconomic, trade, ownership and other economic and social policies.

(d) Reform of the decision-making system in international financial institutions to allow effective participation by developing countries

A most important component of the reform of the global financial system is a reform of the decision-making system in international financial institutions such as the IMF and the World Bank, as well as other institutions such as the Financial Stability Forum. The "one-dollar-one-vote system" in the Bretton Woods institutions prevents developing countries from having fair representation in the policies and processes of these institutions that so much determine the shape of their economies and societies. Such a decision-making system does not belong to a modern world which is supposed to be guided by principles of democracy and participation. The quota system that in turn determines the voting rights was established in the immediate post-War era; since then, the world economy has changed and at the least the quota distribution should more accurately reflect the changes in the relative economic weight or strength of countries. However, even a change in this manner this may not be adequate to enable effective representation of the borrowing countries; and thus a fair, representational and democratic system of voting rights and decision-making, enabling a just balance between borrowers and lenders, should be urgently worked out.

The need for a reform in decision-making is now felt to be all the more urgent because of the decline in the credibility of the appropriateness of the IMF's structural adjustment policies, imposed on East Asian borrowing countries, during the recent financial crisis. It is now widely believed that there was undue influence by some of the major shareholder countries on the IMF secretariat in the drawing up of some of the conditions of the loans to reflect their own interests (rather than the interest of the borrowing countries or of the IMF); and the IMF has also been widely criticised for choosing the wrong policies that helped to deepen the crisis. The crisis of credibility of the Bretton Woods institutions may explain the recent vocal calls for reforms not only to their policies but also their decision-making systems.

Especially since there is now a strong demand coming from various sectors (experts, governments of developing countries, the NGO community worldwide), **developing countries should demand for reforms in the IMF, World Bank and other financial institutions, and especially in the voting and quota systems.** The future development prospects of many developing countries (especially those that depend on these institutions for continuing loans) depend significantly on the Bretton Woods institutions having better policies on lending and conditionality, and there is a stronger possibility of this happening if developing countries have a fairer representation in decision-making. **The G77 and G24 could organise the drafting of a report proposing changes which are in the interests of developing countries, and this could be the basis for advocating for the needed reform.**

(e) Consider the relationship between trade and financial systems

The relationship between the trading system and the financial system, and the implications that one has for the other, should be also an important subject for study and consideration. A study of such a relationship and the implications should be advocated by developing countries, and also be considered as part of the proposed G77-G24 report on the financial system reforms. For example a review can be made of the appropriateness (or impact) of trade policies on the financial situation of developing countries, including how trade liberalisation can in some cases cause or contribute to or worsen a financial crisis. For example when a country liberalises its imports when its local sectors are not yet prepared to compete whilst at the same time it is unable to earn more export revenue, the country's trade and BOP deficits may worsen significantly, adding to debt pressures. The need to reconsider the rules of WTO in order to take into account the effects they have on the balance of payments of many developing countries is also an important issue to consider (See *Akyuz 2000b on this point*).

(f) Regional financial arrangements

In the absence of such international measures, developing countries may look towards regional or South-South financial arrangements to strengthen themselves to prevent and manage financial crises, to protect themselves against future speculative attacks, or to meet the need for emergency loans, perhaps with conditions different from the set prescribed by the Bretton Woods institutions. Options to review for such regional arrangements include a regional monetary fund; currency swap arrangements to be applied when a country comes under speculative attacks; and a regional currency. The consideration of these and other options was adopted by the UN Asia-Pacific regional consultative meeting on Financing for Development in Jakarta in August 2000. An interesting suggestion included in the Report of the meeting was that "the proposal for the establishment of an Asian Monetary Fund needed to be pursued; such an institution could be an important step towards the prevention and management of financial crises." (United Nations 2000: p24-26).

(g) National policies to prevent and manage financial crises

It will take time and immense effort for developing countries to be effective in their battle for a new international financial system that is suited to their interests. Regional arrangements will also take time to form. In the meanwhile the existing system can be expected to continue to give rise to volatility in capital flows and exchange rates, and the instability can overwhelm many developing countries. Therefore the only realistic opportunity of defence for most developing countries would have to be at the national level. Developing countries should thus prepare to use policy options and instruments at national level to prevent and manage future financial crises. Among the policies are the following:

- **Need for serious caution about financial liberalization:** Developing countries need to be prudent and to have measures that reduce its exposure to the risks of globalization and thus place limits on its degree of financial liberalization. Countries should not open up and deregulate their external finances and foreign exchange operations so rapidly when they are unprepared for the risks and negative consequences. Measures should be adopted to prevent speculative

inflows and outflows of funds, and to prevent opportunities for speculation on their currencies.

- **Establish a comprehensive national policy towards capital flows:** Measures should be considered to manage the different types of capital flows, i.e. FDI, foreign loans of the public and private sectors, portfolio investment, and foreigners taking local-currency loans for speculation. One of the critical aspects to look at is the potential effect of different types of funds on foreign exchange reserves and the balance of payments. A framework to deal with these flows may include a selective policy towards attracting FDI of the right type and the appropriate amount (keeping in mind the potential for large foreign exchange losses through profit repatriation and high imports); a careful policy on portfolio investment that welcomes serious long-term investors but discourages or prohibits the damaging short-term profit-seekers; a very prudent policy towards public and private foreign loans; and measures that as far as possible avoid manipulative activities and institutions.
- **Managing external debt:** A country should limit its foreign debt to levels where it can be serviced with a margin of comfort. Developing countries should beware of the dangers of building up a large foreign debt even if they have relatively large export earnings. Having a large foreign debt (whether of the public or private sectors) puts a country in a situation of considerable risk, especially when the country has financially liberalized, there is full capital mobility and its currency is fully convertible and thus subject to speculation. In particular, having too much short-term debts can be dangerous as they have to be repaid within a short period, thus requiring the country to have large enough reserves at that period to service these debts. The structure of debt maturity should be spread out, keeping in mind the dangers of “bunching”. Reserves should be built up to a level comfortable enough for a country to service its foreign debt, especially short-term debt.
- **Managing foreign reserves:** Careful management of foreign reserves is of critical importance to avoid a debt and financial crisis. Many factors cause changes in reserves, such as the movements in merchandise trade (exports and imports), the payment for trade services, the servicing of debt and repatriation of profits, the inflows and outflows of short-term funds, the level of FDI and the inflows of new foreign loans. To guard and build up the foreign reserves, a country has to take measures to strengthen the two main aspects of its balance of payments, i.e. the current account and the capital account. The current account (which measures trade and services) should not be running a high deficit. The capital account (which measures flows of long- and short-term capital not directly related to trade) should also be manageable and well-behaved. These goals can be difficult to achieve especially in the present volatile circumstances.
- **National-level capital controls:** These may be especially required in the absence of international regulation of capital flows. To avoid excessive inflows or undesirable types of funds, various regulations can be introduced. For example, the Central Bank can rule that before taking a foreign loan, private companies have to seek its permission, which will be given only if it can be shown that the project financed by the loan can earn foreign exchange to finance debt servicing, and the level of permitted foreign loan would be limited to the expected amount of foreign-exchange earnings, which could be used to service the loan. (Such a rule exists in Malaysia). There can also be regulations limiting foreign portfolio investment and that limit speculative behaviour in the stock exchange; that constrain currency speculation (for example, by limiting the amount of local currency loans to foreigners), and that prohibit the international trade in the local currency. Regulations on capital outflows could include the prohibition of locals opening

overseas bank accounts, limiting the types and amounts of transfers abroad, and constraining the overseas investments of local companies, if the situation so requires it. The regulations can be varied or removed according to changing circumstances and developments. Some of these measures were adopted recently in Malaysia as part of its response to the financial crisis. Another of its major measures was the fixing of the local currency to the US dollar.

- **Managing the exchange rate:** To attain relative stability of the exchange rate is a major challenge facing developing countries. After reviewing different systems of exchange rate management UNCTAD concluded that the key to having reasonable exchange rate stability is the regulation of destabilizing capital flows. Under free capital mobility, no regime of exchange rates will guarantee stable and competitive rates, nor will it combine steady growth with financial stability. "Damage can only be prevented or limited if there is effective regulation and control over destabilizing capital flows...Managing nominal exchange rates in a flexible manner in order to minimize fluctuations in the real exchange rate, in combination with controls on destabilizing capital flows, thus remains the most plausible option for most developing countries" (UNCTAD, 1999a: 130).

C. REVITALISING THE ROLE OF THE UN IN THE CONTEXT OF GLOBALISATION

C1. General

The second theme of the commitments of the Heads in relation to globalisation is as follows: **"To revitalize and strengthen the role of the UN system in promoting development and international cooperation in the context of globalization."**

Conclusions and Proposals.

(i) General

The foregoing discussion shows that there is an even greater need by developing countries of the UN and its agencies, especially in the context of the era of globalisation. This is especially so because the realities of the globalisation process have been different for developing countries than the promises held out for it by the North that has promoted this process through the three agencies. The conflict between the two paradigms has by no means been settled. Indeed, in the wake of the growing public disillusionment with the results and operations of the three agencies, there is an opportunity for the paradigm represented by the UN system, and for the UN itself, to re-emerge as a more significant force. If this opportunity is taken, there can be a reversal of the trend, with a return shift of greater influence to the UN and its approach.

The three commitments and decisions in the Havana POA on revitalising the UN have well placed the need for action in three areas. This is further discussed below.

(ii) Fighting for Southern interests within the three agencies and for the key role of the UN

Firstly, there is a need for developing countries to organise themselves better to fight for their interests within the three agencies (the IMF, World Bank and WTO) and other agencies where critical decisions are taken which affect the South's policies and prospects. In doing so, the South can gain greater influence over these agencies themselves and help to carry out changes for the better in their policies and processes. Suggestions on democratising the decision-making processes and in changing the policies of these agencies are made in other sections of this paper.

The POA stresses key four points in this regard: (i) that the South must work for decisions on economic issues in these agencies; (ii) that these decisions should promote developing countries' interests; (iii) developing countries must have effective and full participation in the agencies on the basis of sovereign equality; (iv) the key role of the UN must be asserted.

The first two points imply that developing countries have to work closer together and support one another in formulating substantive and negotiating positions in the three agencies, so as to more effectively achieve decisions on economic issues that are in their interests. The political commitment made in Havana on this should be followed up seriously at levels of policy makers in capital, experts and delegations in the three agencies, with the political leaders also continuously kept informed.

The third point concerns the fight for democratisation and transparency in the three agencies. This will of course be a major battle that will require coordination, political will and tenacity.

The fourth point is also significant. It implies that the roles of the three agencies should be redefined: they should have functions and mandates that are appropriate for their areas of competence and these should not be expanded to other spheres. For example, the mandate of the WTO should be on trade issues and non-trade issues should not be introduced; whilst the IMF should focus on finance issues (and indeed on stability of financial flows and exchange rates) and not be the prescriber of economic, social and political policies to developing countries. The political role of setting the global framework and context of economic and social policies should rightfully belong to the UN. Thus the roles of the IMF, World Bank and WTO should be reduced to their appropriate and optimal sizes, and their areas of competence reviewed and amended accordingly; whilst correspondingly the role and mandate of the UN should be re-affirmed and scaled upwards.

These issues are critical and complex and could be the subject of discussions and study by the G77.

(iii) Strengthening the role of the UN and its agencies

Secondly, it is now opportune to strongly advocate for a revitalisation of the role of the UN and its agencies, in the light of the general disenchantment with the performance, results and divisiveness of the globalisation model represented by the three agencies. (The disillusionment is widespread, and even key establishments of the North have become critical). If this advocacy is done well, there can be significant and growing public support, in both the South and the North.

The Havana POA specifically mentions the need for strengthening the role of UNCTAD, and the "coordinating role" of ECOSOC and the regional commissions to address the economic and social priorities of developing countries.

A position paper with detailed rationale and operational proposals specifically on a larger role for these institutions could be prepared by the G77, and the position advocated at different levels and fora. It is an opportune moment for such a move.

A strong case can now be made for a much strengthened role for UNCTAD: (i) It is now increasingly obvious that there are limits to the role of WTO in improving the position of developing countries in world trade. For example, WTO does not deal with the problems faced by commodity exporters whereas addressing this issue was formerly the strongest point of action by UNCTAD. Moreover, the WTO is not designed to deal with issues of developing supply capacity in developing countries. The "multilateral trading system" therefore cannot simply be equated with the WTO, and UNCTAD with a revitalised role should be a key component of that system. (ii) UNCTAD has distinguished itself in recent years with cogent and deep analyses of the globalisation process, its warnings on the workings and destabilising effects of the global financial system have been proven to be correct, and its proposals for addressing the problems are the most comprehensive and well respected. (iii) UNCTAD can also be recognised as a more legitimate forum for valuable discussion on trade and development issues (as shown in UNCTAD X), especially in the wake of disillusionment with the narrow focus of the WTO and its still untransparent and non-inclusive nature.

There is also a strong case for strengthening the coordinating role of ECOSOC since there is no better or no other suitable international and universal forum for inclusive and transparent inter-governmental policy discussion and formulation on economic and social issues on a global level. The limitations and problems of the IMF, World Bank and WTO being used as alternative fora for making such policies are increasingly obvious, not only to governments of developing countries (which have limited participation and roles) but also to the world public and increasingly even to large parts of the establishment in the North. Advocacy of the strengthened role of ECOSOC, with rationale and operational suggestions, could now find positive response, at least with many citizen groups, including in the North. This would be an important step towards building public support and influencing governments in the North, on investing more political importance to key UN organs.

(iii) Better coordination among UN agencies and with the IMF, World Bank and WTO.

The third Havana POA decision on better coordination among agencies seems to have two components: coordination among the UN agencies; and coordination among the UN agencies (especially UNCTAD) and other relevant international organisations, especially the IMF, World Bank and WTO, both for the aim of promoting development. There is an important reference to the need to avoid the imposition of cross-conditionalities and other conditions that further restrict developing countries' policy options; thus implying the recognition of the need to avoid the danger that an attempt at "harmonising" or coordination with the IMF, World Bank and WTO could lead to the negative results of further conditionality.

The first point is rather straightforward, that better coordination among the UN agencies should be pursued to further developing countries' development interests. It would be useful for developing countries, through the G77, to propose how the coordination could be better carried out.

The second point is more complex, as it involves the relations between the UN, its agencies and the IMF, World Bank and the WTO. In the UN, developing countries have for some time already been calling for the Bretton Wood institutions to be more collaborative with the UN (for example, this message was advocated during the Social Summit, whose Declaration has references to this). In recent years, there has been closer dialogue with high-level representatives of the World Bank, IMF and WTO at UN meetings, for example ECOSOC and the UNCTAD conferences. In the Financing for Development process, the three agencies are represented in the working groups of the Secretariat.

In the foregoing analysis, it was stressed that there are differences in philosophy, approach and policies between the UN and the three agencies. In the process of coordinating, these differences may emerge. In attempts to "harmonise", it is important that the UN secretariat and its agencies remain faithful to their mission and paradigm, especially in relation to protecting and promoting the interests of development and developing countries.

It should be recognised that developed countries have also been proposing better coordination and "coherence" of policies among international agencies. This is usually in the context of coordination among the IMF, World Bank and the WTO. The anxiety of developing countries that such collaboration will lead to cross-conditionalities is understandable and justified. There have also been moves for greater collaboration between UN agencies and the other three agencies. The reference in the POA to avoid new conditionalities or cross-conditionalities should also apply in such cases. Developing countries should be alert to the possibility that in the course of the relationship the paradigm of the IMF, World Bank or WTO secretariats could become more dominant, with the danger of the UN or the UN agency being inappropriately "absorbed" in that paradigm.

If coordination, even on equal footing, between the institutions is not possible (or not yet possible), at the least the United Nations and its agencies should be given the opportunity and resources to maintain their identity, have their approach and development focus reaffirmed, and strengthen their programmes and activities. It is vital that the UN continues to adopt development, an equitable world order and the realisation of human and development rights as its central economic and social goals. There is a danger that some UN agencies (and the Secretariat itself) may be influenced to join in the approach of the IMF, World Bank and WTO, or merely be content to play a second-fiddle role of taking care of the adverse social effects of laissez-faire policies promoted by other these agencies.

If it does join in with the "extreme-liberalisation ideology" or the approach that globalisation (in the forms advocated by the North) is inevitable (and that developing countries have to join the game), in order that it can be "relevant", the UN would no longer be able to provide an alternative position. There would then be only a monolithic or monopolistic approach to globalisation; and that would leave a large part of humanity without protection. The UN should therefore be kept true to its mission of development and justice for the world's people, and to always advocate for policies and programmes that promote this mission, otherwise it would lose its credibility with the public.

D. UTILISING INSTITUTIONS OF THE SOUTH TO MEET CHALLENGES OF GLOBALISATION

D1. General

The fourth theme of the commitments of the Heads in relation to globalisation is as follows: **"To utilize institutions in the South in meeting the challenges of globalization."**

Ultimately, the most important aspect of facing up to the challenges of globalisation is the need for developing countries themselves, to build their capacity to obtain and analyse information about globalisation, formulate appropriate strategies and policies, and act accordingly at global negotiations, individually and collectively.

The institutional response of the South can be at national, regional and international levels. Some suggestions are provided below.

D2. National-level Responses.

At the **national level**, each developing country could put high priority to building the national capacity to analyse globalisation trends and processes, and formulate policies to respond. Thus, financial, political, bureaucratic, manpower and technical resources should be allocated to the tasks of raising awareness of the public, the policy makers and the academic institutions, and to build their capacity to respond.

The following measures could be considered:

- (a) Establish a cabinet committee on globalisation issues, comprising Ministers and officials dealing with economic, social and environmental issues that are affected by global negotiations and processes. This committee could coordinate and harmonise national policies on globalisation issues and global negotiations at the political level.
- (b) Establish a national committee of representatives of various Ministries and government departments to deal with matters relating to globalisation. The committee could set up a secretariat to obtain or coordinate information on globalisation trends and developments at global negotiations and bring this to the attention of relevant departments and to the committee. The committee could be responsible for formulating national positions on global negotiations taking place at the various international fora.
- (c) Each Ministry or department could also have a unit or focal point to monitor and deal with globalisation issues as they affect it, and report to the national globalisation committee.
- (d) The government may also set up a national consultative group on globalisation comprising bureaucrats and representatives of national business, trade unions, farmers' associations and social organisations, the media, research and academic institutions, etc. The group can be used to sensitise the various interest groups

and the public to globalisation issues and enable responses from these groups to be provided as inputs to the policy makers.

- (e) Government may also utilise or encourage research institutions and universities to carry out monitoring and research activities on various aspects of globalisation.
- (f) NGOs could be encouraged to be actively involved, including having dialogues with the government, and providing inputs and information. They can be encouraged to network with NGOs in other developing countries, to respond to globalisation issues.

Building a strong national institutional capacity to understand, analyse and respond to globalisation is a necessary basis for a Southern response.

D3. Regional-level Responses.

At the **regional level**, there are many regional organisations of developing countries, many of which are already actively engaged in helping the countries of the region prepare for various aspects of global developments, such as negotiations relating to regional and international trade agreements, finance-related issues, UN meetings and conventions (including on environment and health), etc. The capacity of these regional organisations could be further strengthened, including in the areas of information, analysis, assistance in formulating negotiating options, and establishing regional conventions, model laws, etc.

Stronger regional networking (on responses to globalisation) among various sections of society, such as chambers of commerce, manufacturers' associations, trade unions and farmers' organisations, as well as the media and organisations of civil society, could also be encouraged.

At some of the negotiating fora, it would be useful if at times the negotiating positions of developing countries within a region could be coordinated. This is already being done at some UN fora, such as UNCTAD, and in sometimes in some UN conventions or negotiating processes, such as the Convention on Biological Diversity. This could be more difficult at other fora where the views of developing countries within a region may not coincide. However, even in the WTO, there are more frequent instances in which regional groupings such as the Africa Group or Caricom have tabled proposals.

D4. International-level Responses

At the international level, It would be useful for the representatives and secretariats of the various regional organisations of the developing countries to interact and network more regularly and more effectively. This could be for the sharing of information, views, reports as well as discussions on what positions are being taken by each of the regions in negotiating fora. Such region-to-region exchanges would be helpful in building international policy coordination among developing countries. This strengthening of exchange would be very useful for increasing understanding of one another's positions and policies, even if it is not possible (or not the aim) to come up with a common position of all regions or countries in negotiations in trade organisations or in the international financial institutions.

Similarly, increased region-to-region networking and communications would be useful among regional organisations of business, media, universities, research institutions and NGOs.

Communications and interaction can be facilitated through email, websites, regular exchange of documents through the post, as well as meetings and workshops held at regular intervals, with the aim of promoting understanding on globalisation issues, and sharing national and regional experiences and responses.

At some of these meetings and workshops, there should also be a mix of participants from different sectors, such as policy-makers, diplomats, officials of regional and international organisations of the South, experts, and representatives of business and civil society of the South. A dialogue among different sectors can be very useful in building a collective response from the South that also includes various groups in society.

As the Havana POA has indicated, the G77 could initiate a research agenda on what topics are required for analysis, in order to assist the G77 countries and the G77 as a group, in global negotiations at the different fora. It could then liaise with institutions of the South to assist with implementing the research programme. Wherever possible, the G77 could also catalyse or organise some of the inter-regional activities, or jointly organise meetings, other events and programmes, with other institutions of the South and with UN agencies.