

World Bank – Civil Society Video Conference Discussion on Trade

June 23, 2003

MEETING NOTES¹

John Garrison (Civil Society Team/World Bank):

John welcomed the participants and **initiated the video conference** by asking that the participants introduce themselves in each of the six participating sites. He then explained that the video had **three objectives**: i) allow for Bank and Civil Society Organizations (CSOs) representatives to exchange information and views on trade issues; ii) allow Bank staff to update its analysis and plans in the run-up to the Cancun Trade Ministerial in September; and iii) allow CSO staff to express their positions and concerns on trade issues. CSO representatives from three large and developing countries (**Brazil, Mexico, and South Africa**), two European countries (**Belgium, and Denmark**), and the **United States** were invited to participate which include a broad cross section of CSOs ranging from policy advocacy NGOs and trade unions, to research centers. (*See list of participants attached*) From the World Bank, the participants included the Director of the Trade Team (Uri Dadush), Senior Economist of the Trade Team (Richard Newfarmer), and several staff from the PREM (Poverty Reduction and Economic Management) Network, External Affairs Department, and global, regional, and country-based Civil Society Teams.

Initial Presentation by the World Bank

Uri Dadush (Trade Team/World Bank):

Uri began the discussion by welcoming this opportunity to dialogue with civil society on trade and giving a short power-point presentation on the **background of trade negotiations** and **Bank trade policies**. (*See power point presentation attached*) He stated that the Doha Development Agenda represents the first time that development is placed at the centre of multilateral trade negotiations. These negotiations cover three broad issues 1) market access in relation to agriculture, tariff, subsidies, services and preference regimes; 2) World Trade Organization (WTO) rules in relation to TRIPS and health, anti-dumping and Singapore Issues; and 3) technical assistance.

¹ Attribution is only given to WB staff since it was not feasible for civil society participants to review the draft text of their questions and comments.

Developing countries have increased their share in international trade and today represent one third of global commercial exchange. However, much of this increase has occurred in manufacturing and not agriculture in which most low-income families in developing countries depend to make a living. Also, there are enormous differences in income between developing countries. It is the middle-income countries that have mostly experienced an increase in export shares, while low-income countries have seen very little increase or, in some cases, a decline. For a long time, **the interest of developing countries have not been properly addressed** because the international trade regime was an initiative of rich manufacturing countries trading among themselves. With the Uruguay Round, we have seen an increased participation from developing countries.

There is evidence that **market integration is in most cases accompanied by market growth**. However, it is important to mention that this link between the increase in the share of exports and growth is a correlation rather than a causality. Trade is only one element of a broader set of reforms to accelerate growth.

The trade system as it exists today has a **strong anti-development bias**.

- 1) Tariffs are higher for products of special national interest, both in the developed and developing countries. Developing countries have higher barriers both vis-à-vis industrialised countries and vis-à-vis each other. On the other hand, trade policies of the industrialised countries have a large impact on developing countries due to their proportionally larger size. For this reason, **poor people face barriers three times higher than non-poor**.
- 2) **Tariff escalation** are also anti-developmental in their nature. Tariff escalation makes it extremely difficult for developing countries to increase their share of trade for added value products.
- 3) Trade in services, with the potential gains it withholds is also lagging behind.

There has been some **constructive discussions since Doha**, but the real message is illustrated by the fact that all the important deadlines have been missed. In this context, how can we move forward? Industrialised countries must commit themselves to liberalise their agricultural and textile sectors. Developing countries have to become full partners and lower their barriers, especially vis-à-vis each other. International institutions should provide technical assistance.

Richard Newfarmer (Trade Team/WB):

Richard **continued the initial presentation by the Bank's Trade Team** by mentioning that an agreement at the WTO is important for the poor, but in the end, it is the type of agreement reached that is crucial. If development is to be at the heart of the multilateral trade regime, there needs to be significant movement and change in the area of agriculture, in relation to tariffs and subsidies. A non-linear "Swiss formula" would also be a significant step forward for trade in manufacture. Advancements in anti-dumping measures and TRIPS are also crucial. The World Bank defends that non-producing countries have access to compulsory licensing to access medicine.

So far, developing **countries have lacked the capacity to fully benefit from preferences regimes**. In trade in services, the “mode four” concerning the temporary movement of labour has also not been very beneficial to low-income countries. The World bank is working to provide technical assistance and develop detailed assessment of trade potential at a country level. What needs to be assessed are the specific obstacles faced for particular crops and products at a country level.

Questions and Comments - Round 1

Belgium:

A participant stated that there is little evidence proving the link between trade liberalization and poverty reduction. He stated that the Poverty Reduction Strategy Papers (**PRSPs**) **could have been used to assess the validity of this link**. However, trade has not been properly integrated within the PRSP process. He continued with the following questions: In what ways could the Bank integrate trade assessment within the PRSPs in a participatory manner? Why is the Bank still pushing forward conditionality without ex-ante assessment?

Brazil:

A participant expressed that a more nuanced view on the potential benefits of trade liberalization is needed. Evidence shows that **trade liberalization has not generated the expected outcomes in terms of poverty reduction**, income equality and job creation. Brazil is clear example of this point as the opening of its markets over the past decade has not resulted in reduced poverty reduction indicators. Evidence also shows that the poor may not be positively affected by the WTO agreements, considering their isolated position in the economy. The participant continued by saying that trade liberalization may not be the panacea of poverty reduction. The participant also defended the increased modernisation of all sectors of production, as agriculture should not be considered as the most important vehicle of development.

Denmark:

The participant asked why the World Bank is offering loans rather than grants for technical assistance in the trade area? Considering the limited gains from trade in goods for developing countries, then **what is to be gained from trade in services?** Is there a certain level of performance to be reached in trade in goods (and other sectors), before opening services markets?

Mexico:

A participant commented that it is important for developing countries to involve themselves in the negotiation process in order to determine what the terms of exchange will be. It is also of utmost importance to assess the **impact of trade liberalization on income distribution**. The role of transnational corporations may have on the poor and employment should also be taken into consideration.

Another participant mentioned that energy, labour and the taxation are three areas facing two levels of problems: the **imbalances between countries in the negotiation process** and the lack of commitment from industrialised countries to poverty reduction.

South Africa:

A participant stated that the South African experience shows that in certain sectors, **trade liberalization has led to a decline in employment**. The view that trade liberalization is always beneficial is simplistic and does not take into account the complexity and the diversity of the reality of developing countries. The participant also mentioned the **concern that “Singapore Issues” are being integrated within the WTO** without a clear agreement on a development framework. The right conditions must be in place before pushing for further liberalization and it is unfair to ask developing countries for further commitments.

United States:

Referring to trade in services, a participant asked what is the criteria used by the World Bank in assessing **the impact of liberalisation in trade in services**? Is it based on the steps taken by countries in the direction of liberalization? Or rather an assessment of the impact of liberalization on labour, income, and other indicators? It is important to assess the impact of already liberalized sectors such as telecommunications and financial services. Another participant stated that developing countries have already made several concessions and that they should not be expected to further liberalized, considering that many promises from the Uruguay Round have not been fulfilled.

Replies from Panellists - Round 1

Uri Dadush (WB):

In reply to the question from Belgium, Uri stated that indeed there has been very little discussion on trade in PRSPs. One reason for this is because PRSPs are country-owned and country-driven documents. However, the World Bank trade team **agrees that PRSPs should include an analysis of trade policies** at the country level and is therefore actively encouraging governments to include trade into the PRSPs. In this regard, the Bank is beginning to provide targeted diagnosis to large groups of low income countries.

With regard to comments made on conditionality, he insisted that the idea that the WB is imposing trade liberalization on developing countries against their will represents an outdated view of the Bank. When **trade conditionalities** are applied within larger economic reform loans, they are carefully negotiated and their objectives are mutually agreed to with the local government and driven by the country's development and poverty reduction priorities. Further, conditionalities also represent a binding mechanism which is beneficial to both parties as it provides respective governments firm trade commitments it can leverage with its trading partners. The Bank is trying to help countries identify their needs and assess impact of trade liberalisation through proper analysis.

For example, he added, **Madagascar wants to consider trade liberalization** and we have advised the Government to carry out a careful ex-ante analysis. This analysis will look at what trade liberalization will mean for the most vulnerable, the private sector, tax base etc. He commented that liberalisation has to be looked within a context of broader reforms, as opening markets can negatively affect vulnerable sectors. In this context, government should anticipate

what the adjustment costs will be and then alleviate these negative effects through providing safety net programs.

Uri Dadush concluded the first round of answers by saying that trade in services typically have an impact in **lowering the costs of services**. The Bank has undertaken various assessment on services which offers mixed results concerning the impact of liberalization.

Richard Newfarmer (WB):

In response to the questions from Mexico, Richard commented that countries are at most disadvantaged when they depend on one or two commodities. The **Bank advises such countries to try diversifying out of just a few commodities** and improve productivity . He continued by stating that there is now a rapid trend across many countries to diversify into manufactured goods. As a matter of fact, countries depending on just three commodities has fallen in virtually all regions. Total commodity exports have increased from 20% in 1980 to 80% in 2000. There have been trade reductions in India and China but increasing productivity in those sectors has helped to compensate for this trend.

With regard to the distribution of income, Richard agrees with several of the CSO participants that **trade should not be seen as a panacea for countries**. There is no *a priori* relation between expanding trade and income distribution, which is more directly influenced by policies concerning distribution of wealth, access to education, and land redistribution programs. He then commented on transnational corporations by stating that they often have a stronger voice in shaping domestic protection of their interest than other sectors.

He then responded to the questions on **trade liberalizations of services** by stating that many governments have embarked on autonomous liberalization before scheduling commitments within the WTO framework. It is in a large part the nature of the regulatory framework in place that will determine the outcomes of liberalization. On “Singapore Issues”, the Bank has adopted a cautious approach. So far, it is unlikely that an agreement on investment will increase the flow in foreign direct investment (FDI).

Questions and Comments - Round 2

Belgium:

A participant commented on the first reply and said that there were many similarities between the **World Bank sourcebook on PRSPs** and the actual strategy laid out by certain countries. The participant also reiterated that the World Bank is still pushing for conditionalities. He continued by making reference to a recently released UNDP report on trade which suggests that the current trade regime is anti-poor, and asked if the Bank has or will comment on this report.

Another participant mentioned that the lack of transfer of knowledge and technology further marginalizes the southern producers and asked whether an agreement on investment would encourage greater knowledge transfer.

Brazil:

A participant stated that industrialised countries still massively use **agricultural subsidies** which are trade distorting and harmful for producers in developing countries. Coffee and orange juice are two important sectors in Brazil which face trade barriers in G7 countries, and particularly the United States.

Denmark:

A participant mentioned the possibility of a new declaration on “special and differential treatment” and asked whether the World Bank would support a **special declaration** in the WTO conference on the importance of integrating the **Millennium Development Goals**. The participant also mentioned the lack of critical research on the “Everything but Arms” initiative. Is the Bank committed to conducting further research on this initiative as well as on Common Agriculture Policy (CAP) reform?

Mexico:

A participant asked whether it is **fair to ask low-income countries to open their agricultural sectors** considering the heavy agricultural subsidies exercised by industrialised countries, as well as the significant dumping practiced by G7 countries in developing countries. The participant also mentioned the importance of building an adequate regulatory framework for the trade area.

South Africa:

A participant mentioned that in South Africa, trade in services is necessary considering how thin the capital base is. Another participant expressed worries concerning South African commitments on ‘Singapore Issues’ in the negotiation of the Free Trade Area with the United States. The participant felt that **the ‘Singapore Issues’ should be left out of the negotiation process**.

United States:

A participant asked several questions. First, if unpopular trade conditionalities are no longer practiced by the Bank why was it having to **employ public relation firms to convince local populations of the benefits brought by trade reforms**. Why doesn’t the Bank push for the establishment of an independent regulatory framework? On what basis does the World Bank assume that trade in services does not cause labour dislocation? Finally, what is the Bank’s position on the introduction of an “agreement on investment” within the WTO? And what should be included in such an agreement, portfolio investment or strictly FDI?

Replies from Panellists - Round 2:

Uri Dadush (WB):

Uri started off by responding to the Brussels comment and saying that he was **not aware of any situations where the Bank is imposing conditionalities** geared to promoting trade liberalization. With regard to the PRSPs, he commented that the sourcebook has been developed to provide assistance to developing countries but not to be forced upon them.

The trade team is aware of the existence of the UNDP report, and while it has not yet had the chance to analyse it, they hope to do so shortly. The Bank would support a **statement on the Millennium Development Goals** at the Cancun meetings. He then continued by responding to the question on the **‘Everything but Arms’ initiative**. The Bank has undertaken critical research on the initiative and concluded that the rules of origins are extremely tight. Overall, the initiative is a step in the right direction but it should be pushed towards encouraging greater market access.

With regard to **agricultural subsidies**, he stated that the Bank would not advocate further liberalization in sectors which are highly distorted and heavily subsidized. In answer to the question from South Africa, a free trade agreement with the United States may or may not be a good thing. The Bank shares South Africa’s concerns relating to the integration of new issues such as liberalization of the capital account. The Bank believes that the interests of developing countries are better served by a multilateral system rather than numerous and disparate bilateral agreements.

Uri concluded by commenting on trade in services. He stated that privatisation does result in the dislocation of workers. However, the production of services to be traded, compared to the production of goods, remains domestic and provokes less dislocation.

Richard Newfarmer (WB):

Referring to Belgium’s comment on the **PRSP Sourcebook**, Richard asked where exactly in the sourcebook is advice given to developing countries which the participant considers to be anti-poor, and how the sourcebook could possibly fall short in providing tools to governments. He then continued by saying that he was sympathetic to the case of Brazil concerning orange juice and the US should lower their barriers.

With regard the **‘Everything but Arms’ initiative**, he explained that the initiative affects only a small share of Africa’s trade with the EU and is not likely to have a very significant impact on global poverty reduction. Low-income countries which benefit from the EU preferences, represent only a small portion of the world’s most poor.

Concerning the question from Denmark on whether technical assistance for trade should be provided as grants or loans, Richard stated that **financial liberalization has not increase the availability of credit**. What is important is the distribution of credit and the nature of the regulatory framework in place. On the issue of an independent **regulatory framework**, he explained that the power of the World Bank should not be overestimated and it is not in position to impose regulatory capacity on its member countries. The scope and definition of FDI has been looked at by the Bank’s trade team, but has found little evidence that greater investment would bring greater FDI.