Overview

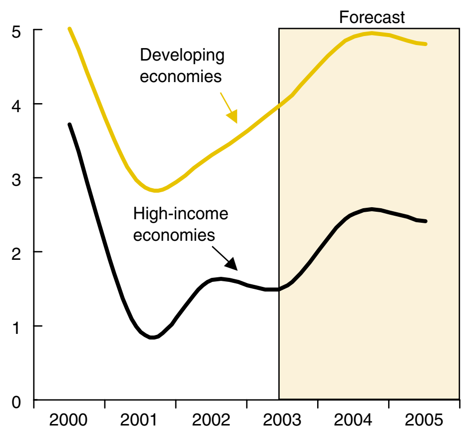
On the eve of the World Trade Organization's (WTO) Fifth Ministerial Meeting in Cancún in September 2003, the world's trade ministers—and the governments they represent—face enormous challenges. The global trade talks are stalled in several policy domains vital to developing countries—agriculture, nonfarm trade, access to patented drugs for countries without domestic drug industries, special and differential treatment, and dispute settlement. Nor is there much progress in other contentious areas, such as the "Singapore issues" of investment, competition, trade facilitation, and government procurement.

At the same time, the global recovery continues to sputter. Although some signs of a turnaround have been evident in the United States, Europe seems to be losing momentum, and Japan appears positioned for another disappointing year. The Chinese economy, reinforced by a positive performance in East Asia in 2002, continues to bustle along, but concerns over Severe Acute Respiratory Syndrome (SARS) and lost export momentum in the face of the world slowdown haunted the regional outlook. South Asia continues to grow more rapidly than the world average. Latin America is showing signs of an upturn, driven in part by renewed confidence in Brazil, a tentative rebound in Argentina, and an increase in Mexico's growth; however, the recession in the República Bolivariana de Venezuela, when coupled with political difficulties in the Andean countries, continues to weigh down regional performance. Africa, suffering from low commodity prices, is growing slowly; although faster than in the 1980s and 1990s, today's growth is far short of the pace necessary to make significant dents in the poverty headcount or to achieve the Millennium Development Goals in health and education. War has adversely affected regional performance in the Middle East and North Africa; sluggish performance in Europe, especially Germany, has adversely affected many countries in Central and Eastern Europe. Even though progress on trade would undoubtedly boost investor confidence, politicians coping with slow growth and high unemployment at home have been finding it more difficult to risk alienating influential constituencies by accepting bold proposals in the world trade talks.

The outlook for the remainder of this year and for 2004, though somewhat improved, is unlikely to produce growth strong enough to cut sharply into unemployment rates (figure 1). Uncertainty in the global environment remains unusually high. Structural problems persist—overcapacity in high-tech industries globally, rising twin deficits in the U.S. fiscal and current accounts, and lingering bad loans in Japanese and (to a lesser extent) European banks. Other problems may prove more transitory. The cessation of conflict in Iraq has not yet produced complete calm, and the inability to reach consensus at the UN Security Council

Figure 1 The recovery is building . . . but slowly

GDP growth, percent per annum



Source: World Bank data and projections.

has created a lingering distrust among multilateral partners that clouds the global business environment. Nonetheless, policy responses are promising. Governments in the United States and Europe reacted to weak economic conditions with fiscal and monetary policy to stimulate their economies. And at the global political level, the June meeting of the G-8, together with several subsequent bilateral meetings, began to mend frayed multilateral relations. It remains to be seen whether this new positive momentum will extend into multilateral collaboration in trade.

The precarious international environment is only one reason why the global trade talks have progressed slowly. Deeper explanations can also be found in the history of multilateral trade talks themselves. With the incorporation of ever more countries—mainly from the developing world—the sheer number of actors has expanded, making coalitions more difficult to build and consensus more elusive. Moreover, previous multilateral rounds produced agreements in areas of primary interest to the rich countries that dominated these discussions, particularly in manufactured goods. It was only with the Uruguay Round, concluded in 1994, that tentative steps toward freeing up trade in products of particular interest to developing countries—notably agriculture and textiles—were included. Consequently, many of the hardest issues for rich countries have been left to this negotiation.

Realizing the development promise of the Doha agenda

The challenge is daunting. But so is the reward to success. With room for additional fiscal and monetary stimulus rapidly vanishing, progress on structural reforms such as trade is important. In addition to bolstering investor confidence in the short term, a Doha Round agreement that slashed trade barriers, particularly in agriculture, would stimulate trade and raise incomes around the world, leading to a substantial reduction in global poverty.

The open question is whether a new multilateral agreement will live up to the development promise of the Doha Agenda. Several issues under discussion are pivotal to development outcomes. They are the focus of this report:

- Because most poor people live in rural areas, trade barriers in *agriculture* are among the most important to poverty reduction.
- *Labor-intensive manufactures* have been the most dynamic market segment for every major region, including Africa, yet many developing countries find that their exports meet obstacles in foreign markets—high tariffs, quotas, specific duties, and "anti-development" tariff structures that discourage adding value in poor countries.
- In *services,* the potential for development-promoting reciprocal gains is especially high. Regulations in some developing countries still protect some inefficient state monopolies from competition—a drag on growth. (To be sure, proper regulation in some sectors must precede liberalization to avoid potential disruptions in socially important markets, such as finance or basic services.) Also,

access for developing countries' services exports to industrial countries has yet to be fully bound in the General Agreement on Trade in Services (GATS) (World Bank 2001). Finally, national laws prevent greater labor mobility that would otherwise contribute to higher standards of living in both receiving and sending countries.

- Reducing the costs of trading by improving international transportation services, customs and ports, and logistics management—*trade facilitation*—requires substantial new investment, additional technical assistance, and coordinated multilateral efforts. Trade facilitation is fundamental to realizing the expanded trade promise of Doha, but the WTO agenda constitutes a small part of the challenge.
- Finally, the issue of *special treatment for developing countries* cuts across all of these policy domains and affects trade preferences and exemptions from WTO regulations. The pursuit of trade preferences and exemptions from multilateral rules have not always served developing countries particularly well, both because preferences have not proven reliable and because selective coverage has often left productivity-detracting trade barriers in place. The residual barriers sap growth in the protected economies and in developing-country trading partners that are denied access. Perhaps most important, the majority of the world's poor do not live in the least developed countries (LDCs). Trade preferences targeted at these countries do not benefit the three-quarters of the world's poor that live on US$1 per day in other countries. In implementing new WTO rules, new accords will be most effective if they recognize differences among individual countries' capacity to undertake new, resource-intensive rules. These differences require a new approach to special and differential treatment.

These areas pose difficult political challenges for all segments of the international community—rich countries, middle-income developing countries, and low-income countries alike. Rich countries account for two-thirds of world trade and comprise nearly three-quarters of world GDP, so their domestic policies—most evident in agriculture—have the greatest effect on the global marketplace. Despite the fact that agricultural protection, tariff peaks, and anti-dumping measures shield powerful lobbies, rich-country leadership in reducing this protection is a prerequisite for a pro-poor development outcome.

Today's middle-income developing countries have increased their global market share in the last two decades. Because they include many of the most dynamic global economies, their domestic policies no longer have only minor consequences for trade. With protection rates in manufactures three times the level of those in rich countries and with ubiquitous restrictions on services, the middle-income countries have ample scope for undertaking reductions in protection that will accelerate their growth and provide access and a growth impulse to neighboring countries. High protection in these countries taxes their growth and their poor in much the same way as protection in the North.

Low-income countries have a special interest in greater market access, but they cannot succumb to the siren calls of preferential market access nor opt out of reducing border protections at home, which tax exports and cut into productivity growth. Preferences for LDCs can help, but would be more effective if they were made less restrictive and more reliable than at present—and if benefiting countries take the necessary policy steps, including reductions in border protection, to promote a supply response. Moreover, because other developing countries are unlikely to be granted new trade preferences, global reciprocal reduction in trade barriers holds the most promise for the world's poor.

Market access is not the whole development story. Even if developing countries succeed in obtaining access to new markets, they will have to adopt complementary policies—removing obstacles to private investment, improving public investment in infrastructure, and providing education—to ensure that domestic firms respond to new opportunities associated with greater integration, and that the benefits of integration are transmitted to the poor. Put differently, trade policies must be embedded in a coherent national development strategy—they are not a substitute for it. For all of these reasons, realizing the development promise of the Doha Agenda requires the participation of all groups of the international community.

This report: toward a pro-poor Doha outcome

This report analyzes central elements of the Doha Agenda that are important to developing countries. Chapter 1 describes the prospects for the global economy that form the backdrop to the Doha trade negotiations. Chapters 2–6 focus on agriculture, nonagricultural trade, services, transport and trade facilitation, and special development provisions. In each area, we expand on themes that have received less analysis in previous World Bank reports—among them specific duties in agriculture, antidumping in manufactures trade, temporary movement of labor in services, security issues in trade facilitation, and trade preferences and exemptions from rules as part of special and differential treatment (SDT). The remainder of this overview weaves these findings together with those of previous Bank studies[1] to lay out the principal elements of a pro-poor outcome for the Doha Agenda.

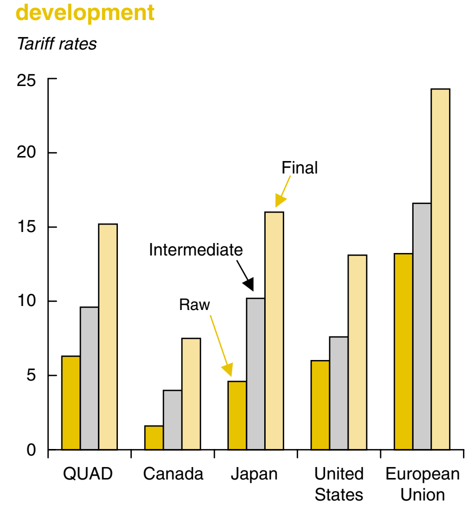
A Doha deal for development

Agriculture is at the heart of a development round

Agriculture is central to the development promise of this trade round for two reasons: most of the world's poor work in agriculture and most of the world's protection is directed at agriculture. Some 70 percent of the world's poor live in rural areas and earn their income from agriculture. Largely exempt from pre–Uruguay Round trade agreements to reduce protection, agriculture is among the most distorted sectors in international trade. Even though levels of average tariff protection are comparable in rich and poor countries, the extensive use of producer subsidies in the OECD countries and the fact that the OECD constitutes two-thirds of world agricultural trade underscore the centrality of their policies to development outcomes. Reducing protection in agriculture alone would produce roughly two-thirds of the gains from full global liberalization of all merchandise trade.

A few facts are enough to establish the context: protection facing developing country exporters in agriculture is four to seven times higher than in manufactures in the North and two to three times higher in developing countries (IMF-World Bank 2002). Tariff peaks are particularly high in rich countries against products from poor countries. Tariff escalation that discourages development of further processing is more pronounced in agriculture in both rich and poor countries (figure 2). Hefty specific duties are particularly common in rich countries; they automatically increase protec-

Figure 2 Escalating tariff rates discourage development



Sources: World Bank staff.

tion when commodity prices fall, throwing the burden of adjustment onto global prices and poor countries. Subsidies in OECD countries amount to US$330 billion—of which some US$250 billion goes directly to producers. The effect is to stimulate overproduction in high-cost rich countries and shut out potentially more competitive products from poor countries. It is no wonder that agricultural exports from developing countries to rich countries grew in the 1990s at just half the rate they did to other developing countries.

Consider how agricultural protection plays through individual commodity markets. Sugar in the European Union (EU), Japan, and the United States is commonly protected through a combination of quotas, tariffs, and subsidies allowing domestic sugar producers in those countries to receive more than double the world market price. OECD governments support sugar producers at the rate of US$6.4 billion annually—an amount nearly equal to all developing country exports. Prices are so high that it has become economic to grow sugar beets in cold climates and to convert corn to high-fructose corn syrup. Sugar imports in the OECD have shrunk to next to nothing. U.S. subsidies to cotton growers totaled US$3.7 billion last year, three times U.S. foreign aid to Africa. These subsidies depress world cotton prices by an estimated 10–20 percent, reducing the income of thousands of poor farmers in West Africa, Central and South Asia, and poor countries around the world. In West Africa alone, where cotton is a critical cash crop for many small-scale and near-subsistence farmers, annual income losses for cotton growers are about US$250 million a year. Rice support in Japan amounts to 700 percent of production at world prices, stimulating inefficient domestic production, reducing demand, and denying export opportunities to India, Thailand, Vietnam, and other countries.

More than 70 percent of subsidies in rich countries are directed to large (often corporate) farmers. These farmers have incomes that are higher—often substantially so—than average incomes in Europe, Japan, and, to a lesser extent, the United States. The net effect of subsidizing the relatively rich in wealthy countries at the expense of adverse price penalties for the products of the relatively poor in developing countries is to aggravate global income inequalities. Said differently, subsidies make the relatively rich even richer and the poor even poorer.

Realizing the development potential of Doha requires phased reductions of border protection and subsidies. Of these, border protection is the most important. These reductions ought to be done in a way that cuts off anti-development tariff peaks, reduces tariff escalation, and phases out specific duties. A pro-poor reform also means reforming policies that distort particular commodities of importance to developing countries—sugar, cotton, rice, wheat, and dairy products.

Because global prices may rise in some commodities, the international community may want to design—and help finance—a program of adjustment in vulnerable countries that suffer deterioration in their terms of trade. These effects are likely to be confined to a few countries for several reasons: many food importers also export other agricultural products that will experience positive terms-of-trade changes from liberalization; others now have tariffs on those same food imports, tariffs that can be reduced to offset any increase in global prices; some food importers will gain access to new markets in nonagricultural products and be able to export; and, because prices will change relatively slowly, some food importers will increase domestic production in response to higher prices and become self-sufficient or even net exporters. Nonetheless, even though the changes are likely to be manageable at the global level, the issue requires study and in some countries may require action.

Because rich and poor countries alike will benefit from liberalization, all must make the policy changes necessary to realize its development promise. The rich countries, whose policies arguably distort international trade the most, cannot escape leadership on agriculture. Moreover, leadership among donors to finance a program to cushion adjustment is

Box 1 Trade and poverty: what are the links?

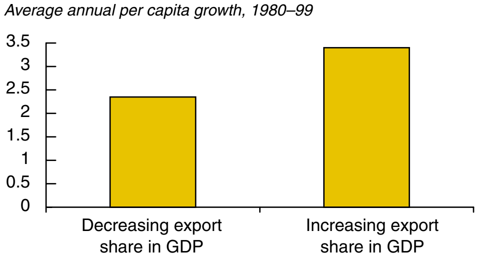
Countries that trade more grow faster, according to evidence emerging from case studies of trade liberalization and from large cross-country and time-series econometric studies. Although the links from specific trade policy instruments to trade outcomes and growth is less clear, the basic association between increased trade and growth is clear (box figure 1).[a]

Even when trade raises average incomes, its effects on poverty will depend on whether poverty in a given country is sensitive to growth in average incomes, and on how the increase in trade affects the distribution of income in the country. The first of these issues is empirically well understood. The sensitivity of poverty to growth in average incomes depends in an important way on initial inequalities in a country (Ravallion 1997). When incomes and opportunities are distributed relatively equally, the effect of growth on poverty is larger than when initial inequality is high. Thus, growth associated with increased trade (or from any other source) is likely to have larger proportional effects on poverty in countries where initial inequality is low.

More interesting and potentially more important are the effects of increased trade on the distribution of income. Almost by definition, if increased trade disproportionately benefits the poor, poverty will fall faster than if trade disproportionately benefits the nonpoor. Understanding the likely distributional consequences of trade liberalization is therefore crucial to understanding the overall effects of trade on poverty. In many cases, there are very direct channels through which trade liberalization is likely to disproportionately benefit the poor. For example, agricultural trade liberalization that allows previously suppressed prices of agricultural goods to rise to world levels will benefit farmers, who are net producers, but will hurt consumers. If farmers are more likely to be poor, the liberalization will be, on average, pro-poor. Similarly, reductions in tariffs on manufacturers will hurt previously protected urban workers, who in many developing countries are likely to be relatively well off, but will benefit poorer consumers of their products by lowering prices.

Box Figure 1 Integration with global markets is associated with faster growth

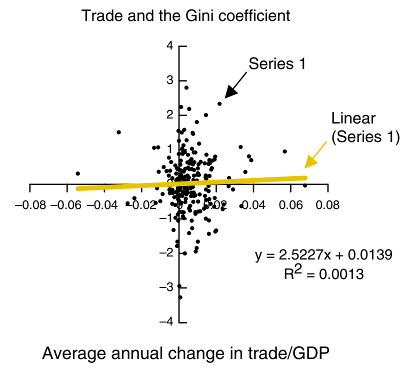
Average annual per capita growth, 1980–99



Source: World Bank (2001).

Box Figure 2 Changes in trade have little relation to inequality

Average annual change in Gini coefficient



Note: This figure shows changes in trade as a fraction of GDP and changes in the Gini measure of income inequality, for a large sample of growth episodes of at least five years in duration.
Source: Dollar and Kraay (2001).

At the same time, however, the distributional consequences of trade liberalization can also work against poor people. For example, reductions in tariffs imply reductions in trade tax revenues that can be important in developing countries that rely disproportionately on this source of revenue. To the extent that public spending disproportionately benefits poor people (and this is by no means universal), reductions in tax revenues that accompany trade liberalization can have adverse distributional consequences.

The likely distributional consequences of trade liberalization, therefore, are complex and country-specific. Determining whether a given action would be pro- or anti-poor requires careful analysis. Looking back across countries, there is little evidence that increased trade is *systematically* associated with either increases or decreases in inequality (box figure 2).

On average, trade can be a powerful force for poverty reduction, especially over longer horizons where the cumulative effects of growth on incomes of the poor are large. But this will not be true for all countries at all times—underscoring the importance of complementary pro-poor policies at the country level to ensure maximum positive effects in every situation.

[a] For contrasting views on the state of the evidence on trade, trade policies, and growth, see Srinivasan and Bhagwati (2000), Rodriguez and Rodrik (1997), Bernanke and Rogoff (2001).
Source: World Bank staff.

essential; their technical assistance to help implement standards and facilitate trade is needed to help developing countries take advantage of new trade opportunities. Middle-income countries, whose own policy reforms would produce a large share of the benefit to developing countries from global liberalization in agriculture, have to move more assertively than in the past. Their high tariffs have an adverse impact on growing South-South trade, especially with neighboring countries. In a pattern common to all regions, agricultural exporters in East Asia, for example, paid one-third of all their tariff duties to other East Asian governments (second only to tariffs paid to get into rich countries). Agricultural exporters in the Middle East paid 44 percent of their tariff duties to regional neighbors.

Nonfarm trade is increasingly essential to growth in poor countries

Over the past two decades, developing countries have increased their share of global trade from just under one-quarter to about one-third. As a group, they have moved beyond their traditional specialization in agricultural and resource exports into manufactures trade. Exports of manufactures have grown at nearly twice the rate of agriculture, and now constitute nearly 80 percent of exports from all developing countries. Countries that were low income in 1980 managed to raise their exports of manufactures from roughly 20 percent of their total exports to more than 80 percent (figure 3). As a result, many grew quickly and entered the ranks of today's middle-income countries. The middle-income group of 1980 also increased its manufactures share, but somewhat less rapidly, to reach nearly 70 percent. This dramatic change in trade magnitudes and composition has given developing countries a new interest—and a powerful voice—in the ongoing Doha Round.

One reason for this change was the dramatic reduction in border barriers in developing countries since the mid-1980s, in combination with increased access to rich-country markets. Because import tariffs indirectly tax exports, reducing trade barriers in developing countries stimulated trade. The burden of import protection on all export activities in developing countries declined, but more so for manufactures than for agriculture and natural resources. At the same time, the fact that successive multilateral trade rounds liberalized global manufactures, while rich countries continued to protect their agriculture (and developing countries eventually began to follow suit) meant that developing countries' exports of manufactures were free to grow more rapidly than those in agriculture.

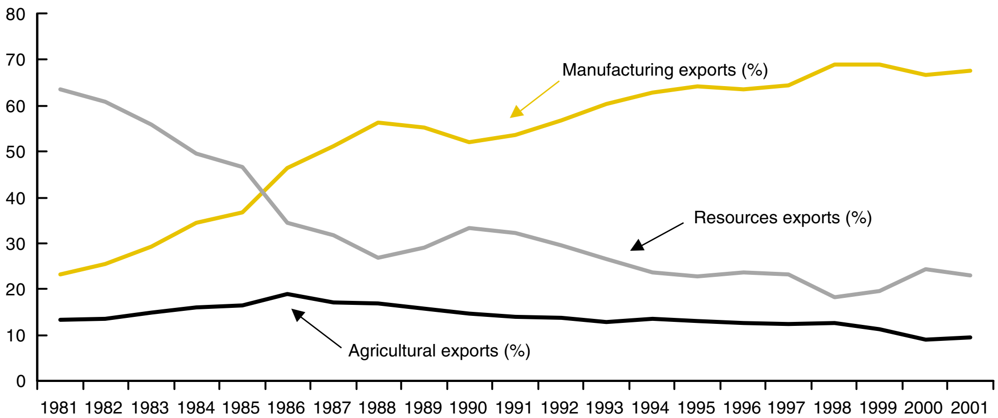
Today, trade in manufactures is still impeded. Although tariffs on manufacturing in rich countries are on average lower than in developing countries, the tariffs rich countries charge developing countries are substantially higher than those they charge other industrial countries. For example, exporters of manufactures from industrial countries face, on average, a tariff of 1 percent on their sales to other industrial countries; exporters in developing countries pay anywhere from 2 percent if they are from Latin America (where NAFTA weighs heavily) to 8 percent if they are from South Asia. Overall, rich countries collect from developing countries about twice the tariff revenues per dollar of imports that they collect from other rich countries. However, the problem is not solely a North-South issue. Latin American exporters of manufactures, for example, face tariffs in neighboring Latin American markets that are seven times higher than in industrial countries. In Sub-Saharan Africa, the same multiple is six; in South Asia, two.

Protection takes forms other than tariffs—among them quotas, specific duties, and contingent protection measures such as antidumping duties. As with tariffs, these measures tend to be used more frequently against labor-intensive products from developing countries. The quota arrangements in the WTO Agreement on Textiles and Clothing (ATC) still shackle the exports of many poor countries. Although these arrangements are scheduled to be removed in only 15 months, rich countries

Figure 3 Developing countries have become important exporters of manufactures

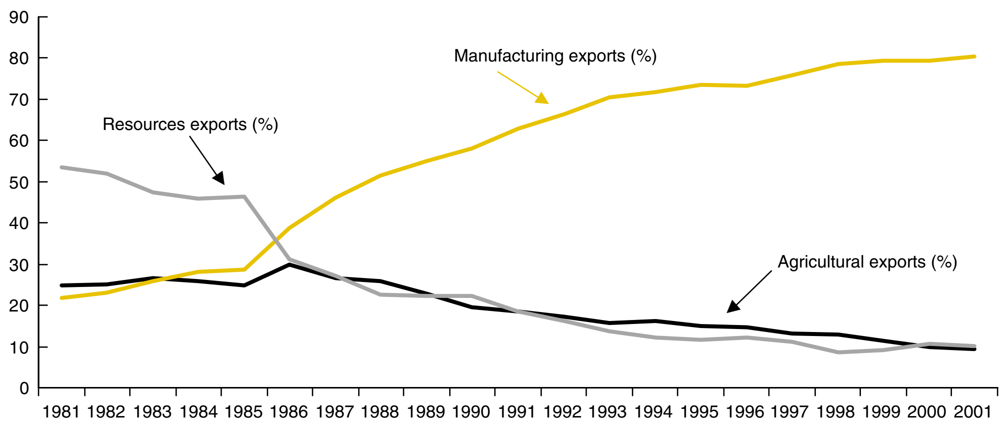
In middle-income countries, manufactures make up 70 percent of exports

Middle-income countries' share of world exports, 1981–2001 (percent)



In low-income countries, manufactures make up 80 percent of exports

Low-income countries' share of world exports, 1981–2001 (percent)



Source: UN COMTRADE.

to date have freed up only 15 percent of the quotas, obliging them to implement major changes at the end of the phase-in period. Average antidumping duties are seven to ten times higher than tariffs in industrial countries, and about five times higher in developing countries. Today's protection remains heavily concentrated in the most politically sensitive areas—textiles, clothing, and other labor-intensive manufactures, as well as agriculture—in both rich and poor countries.

Realizing the development promise of Doha depends particularly on three efforts.

- First, rich countries desirous of promoting development can do so by ensuring that the now lagging phase-out of the ATC is completed according to the agreement—and not reversed through antidumping actions. The ATC phase-out will also require reforms by some exporters facing increased competition, many of which are LDCs, to ensure a

smooth adjustment; trade-related development assistance could play a role in easing the transition.
- Second, in both rich and poor countries, efforts to cut back on antidumping measures that create a patchwork of ad hoc protection are essential if market access granted by the right hand of quota elimination and tariff reductions is not to be withdrawn by the left hand of antidumping suits. Developing countries themselves have become accomplished practitioners of contingent protection.
- Third, moving forward in nonfarm trade requires a Swiss-type formula approach that will require disproportionately greater reductions in high tariffs so as to mitigate the antidevelopment bias embedded in most tariff structures around the world. The choice of the formula, and of its coefficients of reduction, is important. Applying these cuts to bound rates will effectively credit developing countries that have unilaterally reduced their applied tariffs since the end of the Uruguay Round.

Services liberalization could raise productivity

Services are the fastest-growing component of the global economy. Even in developing countries, services exports grew more rapidly than manufactures in the 1990s (World Bank 2001, chapter 3). More efficient backbone services—in finance, telecommunications, domestic transportation, retail and wholesale distribution, and professional business services—improve the performance of the whole economy because they have broad linkage effects. Yet most developing regions trail the industrialized world in exposing service sectors to competition. Figure 4 shows that only Latin American countries are beginning to approximate the high-income countries in their degree of competition. Estimates suggest that, after controlling for other determinants of growth, countries that fully liberalized trade and investment in finance and telecommunications grew on average 1.5 percentage points faster than other countries over the past decade (Mattoo, et al. 2001).

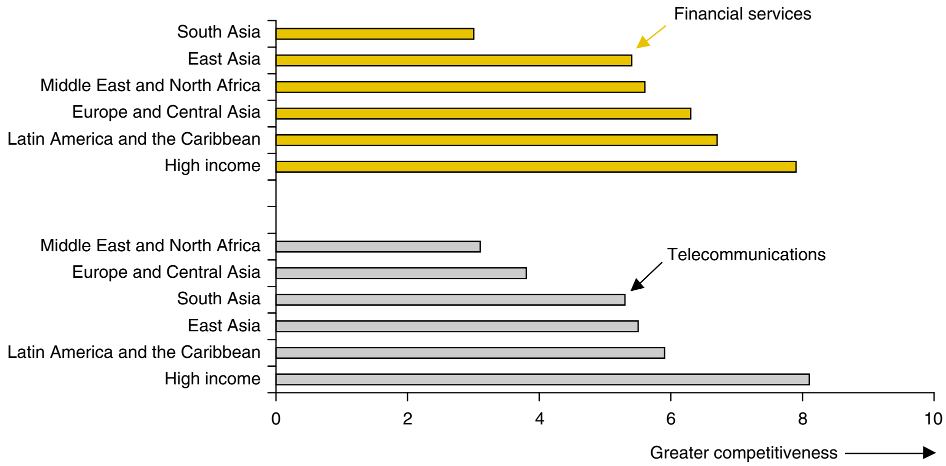
No less important, developing countries have an interest in locking in market access for their services exports to rich-country markets—exports that are growing more rapidly than merchandise exports. Examples include China's incipient software industry as well as software and back-office services from India.

The Doha Round has the potential of locking in access to foreign markets for services exports. Just as many rich countries have not yet bound access for developing countries' services exports, many developing countries have yet to schedule with the WTO liberalizing reforms that have already been undertaken. Offering to bind unilateral reforms can be used to lock in existing access to overseas services markets. Active participation in the services negotiations could help accelerate these twin processes (Mattoo 2003).

The GATS process allows governments to liberalize services at their own pace. It does not require that a government forgo its regulatory responsibilities. Nor does the GATS framework require a cessation of subsidies or preempt pro-poor regulation on universal service access. The main requirement is that, once a sector is scheduled, governments are required to have transparent regulations, treat domestic and foreign companies alike, and permit all foreign companies access to the domestic market on the same terms as domestic companies. In fact, many governments have chosen to liberalize—but not to make commitments with the GATS that would bind this opening. Some two-thirds of the WTO members have scheduled fewer than 60 sectors of the approximately 160 sectors covered by the GATS. For example, only 12 developing countries have made commitments in education. None have made commitments in the provision of water.

Why the reluctance? Liberalization in services is more complicated than in goods markets. Privatization without competition and proper regulation may achieve nothing more than transforming a public monopoly into a private monopoly—with no improvement in services. And too many developing countries have been content to change ownership

Figure 4 Developing countries lag behind rich countries in services liberalization



Source: World Bank *Global Economic Prospects 2002,* based on data from Mattoo, et al. (2001).

through privatization while retaining limits on entry that buttress monopolies.

Effective regulation is critical to ensure that the poor have access to basic services (World Bank 2002a, 2002b). Some sectors, such as retail and wholesale services, can be opened expeditiously because competition can be relied on to discipline firms' pricing and investment decisions. Others, however, require well-formulated regulations before liberalization to ensure proper market functioning and adequate access for low-income groups to services. In China's financial sector, for example, the World Bank recommended that financial markets be opened gradually to allow regulations and institutional developments to precede liberalization. The goal was to avoid destabilizing financial losses by state banks saddled with poor portfolios as efficient banks, domestic and foreign, entered the market (World Bank 1996). China's WTO accession agreement generally reflected this phased approach. In network sectors, such as telecommunications and water, ensuring adequate pricing and universal access are similarly important if the poor are to benefit from the expansion of the system (World Bank 2001, chapter 3). Trade ministers wishing to harness the reciprocal negotiating framework of the GATS to spur domestic reforms while leveraging market access abroad must ensure that sectoral ministries have properly sequenced regulations to support liberalization.

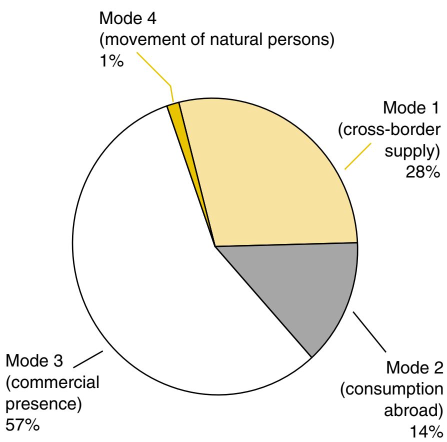
Liberalized trade in labor services could contribute much more

To date, virtually all GATS commitments have focused on the first three "modes" of international service delivery. Most trade in services has occurred through those same modes. Twenty-eight percent of the value of services trade, for example, has been in Mode 1, "cross-border supply of services." Another 14 percent has been in Mode 2, "consumption abroad," such as tourism. Fifty-six percent has been in Mode 3, "commercial presence," such as through foreign direct investment in services.

Mode 4, which involves the temporary movement of labor to provide services, accounts for only 1.4 percent of services trade (figure 5). Temporary movement has some advantages over permanent migration for both developed and developing countries. Rich countries can obtain workers whose skills are

Figure 5 Temporary labor mobility is an underused mode of trade in service

Value of world trade in services by mode, (percent)



Source: IMF, *Balance of Payments Yearbook*.

in short supply, with minimal disruption of labor markets and without taxing social services. Temporary migration allows developing countries to obtain access to new, higher-paying jobs without necessarily suffering the "brain drain" that would occur with permanent migration. Poor countries also gain from remittances sent home by temporary migrants, and returning workers bring new skills back to the sending country. In 2001, remittances from permanent as well as temporary migrants provided some US$71 billion to developing countries, nearly 40 percent more than all official development assistance and significantly more than net debt flows to developing countries. If temporary movement of labor up to 3 percent of the total labor force in rich countries were permitted, developing countries would stand to gain as much as US$160 billion in additional income (Walmsley and Winters 2003).

To date, however, even after the significant liberalization of trade in services during the Uruguay Round, little has been done to loosen conditions governing the temporary movement of natural persons (TMNP) supplying services. Present commitments refer almost exclusively to higher-level personnel. More than 40 percent of workers covered by existing Mode 4 commitments are intracorporate transferees whose mobility is intimately related to foreign direct investment (often in services); another 50 percent are executives, specialists, and sales personnel who are business visitors. To date, therefore, Mode 4 has been of limited significance for developing countries, whose comparative advantage lies in the export of medium and low-skilled, labor-intensive services.

In addition to other concerns associated with broader migration issues, two fundamental tensions hamper progress on Mode 4 temporary labor mobility. The first is that governments are reluctant to undertake permanent commitments when employment demand varies with cyclical conditions. Wanting to maintain policy flexibility, immigration and labor market officials have made GATS commitments far below the degree of TMNP access already afforded under domestic laws and regulations. TMNP liberalization has been greatest in sectors (and for categories of workers) where labor demand routinely exceeds supply—tourism, information technology, health services. The second tension stems from the fact that regional patterns of migration create domestic political support for programs that favor neighboring countries, whereas Mode 4 programs necessarily are open to all countries on a most-favored-nation (MFN) basis. Preferential migration schemes are commonly negotiated at the bilateral and regional levels—and MFN-based liberalization would undermine these. Because many bilateral labor agreements are usually not tied to trade policy or other agreements, they afford governments a greater degree of flexibility to adjust programs to evolving migration trends and labor-market needs.

Tensions notwithstanding, present levels of Mode 4 use fall far short even of Mode 4's relatively modest potential. To rectify this, developing countries should expand their requests and offers in the Doha Round. Only six requests had been tabled by June 2003, and only two from developing countries (India and Colómbia). Also, WTO members should adopt rules that would provide greater clarity and predictability. To help regularize entry and exit while improving security, countries could adopt a GATS visa system that would facilitate national visas for up to one year, subject to appropriate security checks and oversight (see Hatcher 2003 and Self and Zutshi 2003).

Reducing transport costs and facilitating trade can have a powerful effect

The cost of moving goods across international borders is often as important as formal trade barriers in determining the cost of landed goods—and ultimately of market share. One study estimated that every day spent in customs adds nearly 1 percent to the cost of goods (Hummels 2001). In developing countries, transit costs are routinely two to four times higher than in rich countries. Transparent customs regimes, modern port facilities, dense transportation networks, and access to information and telecommunications systems—all can help lower transit costs.

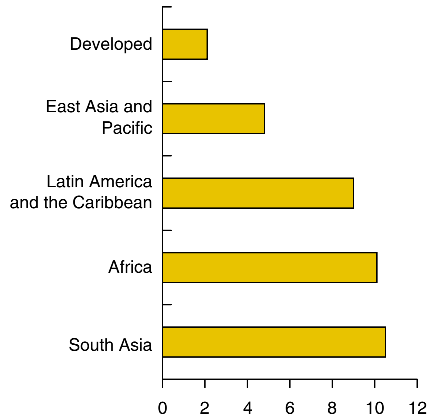
Since September 11, 2001, security has become a dominant issue in international trade. Border inspections, cargo review, and other measures have increased transport times and driven up costs. Each 1 percent increase in costs to trade from programs to tighten border security reduces world income by US$75 billion per year. Developing countries, too, are vulnerable to security threats and terrorism, but limited budgets, dependence on foreign trade and investment, and outdated infrastructure and technology present serious challenges for these countries. New security protocols being deployed at ports, customs offices, and border posts around the world have the potential to add costs and diminish market access for developing countries—at least in the short term. But managed correctly, the same measures can streamline trade transactions while promoting safety and security. To achieve this trade-expanding result, a global framework must be established to ensure that the needs of developing countries are addressed as enhanced security regimes take shape.

To counter any trade-reducing effects of security measures, every effort to cut trade-related costs in other areas is imperative. Regulatory restrictions on international air and maritime transport services inflate transport costs—on some routes by amounts that dwarf the value of tariffs. International air transport, which carries about 30 percent of developing countries' exports by value, is heavily protected from international competition. Bilateral air service agreements commonly bar entry to efficient outside carriers, thereby raising export costs for developing countries. City-pair routes on which more than two passenger airlines or dedicated freight airlines operate can cut costs by an average of 10.7 percent. Maritime transport, too, is often subject to practices, such as cargo-reservation schemes and limitations on port services, which protect inefficient service providers. Such competition-restricting practices among shipping lines and port-terminal operators can increase freight rates up to 25 percent on some routes. Rising concentration in the market for port-terminal services has increased the risk that private firms may capture the benefits of government reforms. Abusive practices by private operators are of special concern in developing countries, where traffic volumes are lower and competitive forces inherently more limited. Regulations governing such practices are now outside the WTO mandate, but logically they should be reviewed for reformulation.

Facilitating trade by eliminating delays in developing countries would lower trading costs significantly, particularly if accompanied by liberalization of transport and telecommunications, and streamlined regulations to promote domestic competition. Trade facilitation requires modernizing customs, improving port facilities, and making investments in trade-related information technology—a huge institutional and infrastructural agenda. Countries display wide variation in customs efficiency and clearance times, for example (figure 6). If those whose trade-facilitation capacity was below average could be brought halfway up to

Figure 6 Clearing customs takes longer in developing countries

Average number of days to clear customs for sea cargo



Note: This is based on a sample of countries in each area; see figure 5.1 in chapter 5.
Source: International Exhibition Logistics Associates. Available at http://www.iela.org.

the global average, international trade would increase by US$380 billion annually.

Multilateral efforts are under way outside the WTO to promote—and in some cases finance—institutional changes in trade facilitation. Key players include the World Customs Organization, the regional development banks, and the World Bank. Their efforts focus on policy reform, technical assistance, and infrastructure modernization.

Should trade facilitation, investment, and competition be the subject of new multilateral disciplines in the WTO?

As one of the four Singapore issues, trade facilitation is under discussion in Geneva for possible inclusion in the Doha Agenda. Already the WTO, through the GATS, has a potentially important role to play in international transport and trade logistics—many of the transport service sectors could be immediately scheduled with the GATS if countries saw fit to do so. However, few countries have taken advantage of its provisions.

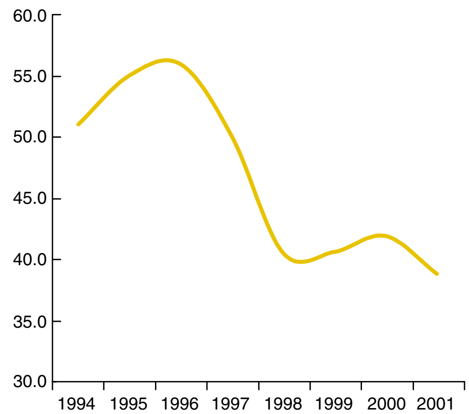
Aspects of trade facilitation are part of the WTO's trade-related disciplines, particularly the provisions that encourage uniform treatment of transit trade and transparency of fees. Strengthening provisions related to transit, fees, and transparency, issues originally in the General Agreement on Tariffs and Trade (GATT), would be helpful. However, best practice cannot be established in a vacuum; it has to be gradually created in sound domestic laws, regulations, and practices. A sustained program of institutional reform must be tailored to each country, and it often requires technical assistance. The bilateral donors and multilateral development banks and agencies are best positioned to provide the thorough diagnostics and technical assistance required to promote needed institutional change.

If the dynamics of the Doha negotiations propel the WTO into a role in the broader trade-facilitation agenda, any agreement, if it is to be effective, should recognize limitations in domestic capacity for implementation. An agreement would be most effective if it included a serious commitment by developed nations to finance new trade-facilitation systems. Development assistance delivered under the commitment could be provided by the World Customs Organization, the multilateral development banks, and bilateral donors. The obligations of developing countries should be tailored to their implementation capacity. And because the WTO's dispute settlement provisions are largely inappropriate to promoting institutional changes, conventional enforcement of dispute settlement through trade sanctions ought to be set aside.

Other Singapore issues would stretch the WTO mandate into yet new areas, probably with only marginal development benefits if taken up in isolation. As discussed in *Global Economic Prospects 2003,* there is no evidence that an investment agreement would, by itself, promote new foreign investment. Similarly, adopting an agreement in competition policy—as currently framed in the negotiations—would have minimal effects on the terms of trade of developing countries, unless the agreement were to establish new disciplines on national export cartels and illegal international cartels (World Bank 2002a, chapter 4). Finally, a new agreement on government procurement that focuses on transparency is unlikely to improve market access substantially (Evenett 2002). Virtually all of the disciplines proposed in these arrangements would require new policy actions only in developing countries. Although some of these may promote development, the main benefits of WTO agreements in these areas would be in the market access that new agreements leverage (Newfarmer 2003).

Figure 7 Fewer exporters to the Quad countries are taking advantage of preferences

Share of potential imports under GSP that entered with preferential access, 1994–2001 (percent)



Source: Inama (2003).

Securing the benefits of trade for the poorest countries

More favorable and differential treatment of developing countries is a prominent feature of multilateral trade rules. Selected subsets of countries have been granted trade preferences. Some countries were granted exemptions or allowed to defer implementing some multilateral agreements; many have benefited from technical assistance to help implement mandates.

The present patchwork system has not worked especially well. Countries benefiting from trade preferences have generally underperformed in exports. One reason is that rich countries grant preferences voluntarily rather than as part of a binding multilateral negotiation. Those preferences often come laden with restrictions, product exclusions, and administrative rules that prevent beneficiaries from taking full advantage of them. For example, only 39 percent of potentially preferred imports under the Generalized System of Preferences (GSP) into the Quad countries—Canada, the EU, Japan, and the United States—actually took advantage of preferential access—and usage rates are declining (figure 7). At times, protectionist lobbies have weighed in to pressure for reductions in the preference, either before a country was deemed eligible or even later, when the first signs of export success for developing countries become evident. Beyond GSP, the Quad countries sponsor their own "deep preference" programs, such as the EU's Everything But Arms program and the U.S. African Growth and Opportunity Act, but each has different rules and exceptions. For these reasons, preferences cover only a portion of exports from even poor developing countries—and among eligible countries and products, only a fraction of preferences are actually used. Even when effective, preferences tend to divert trade away from other poor countries, effectively "robbing Peru to pay Panama."

Existing preferences do relatively little for most of the world's poor people (those living on less than US$1 per day), most of whom live in China, India, Nigeria, Pakistan, Northeast Brazil, and the ASEAN countries, which may enjoy only partial preferences at best. Although some of these countries enjoy limited preferential access to some markets, all would be better off with across-the-board, nondiscriminatory binding access.

Finally, the extensive use of voluntary preference schemes has created perverse incentives in both rich and poor countries to avoid liberalization that would otherwise benefit the poor. Too often, rich countries have offered differential treatment to a subset of poor countries instead of arriving at MFN reductions in trade barriers that would benefit all developing countries. And, too often, developing countries have sought preferential access and exemptions from agreed MFN reductions in trade barriers that would benefit themselves and other developing countries. In other words, the present system of preferences reduces the incentives to negotiate effectively for reductions in trade barriers abroad and with domestic protectionist constituencies at home.

Making trade regime more supportive of development therefore involves four important policy directions.

- Central to any new regime is improvement in market access for all developing countries on an MFN basis, especially in products that have hitherto escaped WTO disciplines, such as agriculture and labor-intensive products. Broad market access would allow trade reform to reach the 70 percent of the world's poor not living in the 49 least developed countries.
- Trade preferences would be more effective if they were consistent and uniform, shorn of restrictions that raise the cost of taking advantage of preferences. WTO rules that require institutional improvements—especially "behind the border" policies, as distinct from trade policy changes that can be implemented at the "stroke of the pen"—would be more effective if they were calibrated to developing countries' capacity to implement them. As countries move up the ladder of development, they should be expected to assume the full obligations of WTO members.
- Integrating technical assistance into the national priorities for development while increasing "aid for trade"—a part of the Monterrey consensus—could help poor developing countries identify and address trade-capacity priorities. Increased development assistance—for ports, customs, and logistics management—would augment the capacity of developing-country firms to benefit from market-access opportunities.
- Finally, the WTO membership must learn which of its policies promote, and which defeat, the interests of developing countries. Getting the rules right is arguably the major challenge confronting WTO members from a development perspective. Among other things, getting the rules right means limiting new rule-making to cases in which the payoff for developing countries is clearly positive.

TRIPS and Public Health

Negotiations at the WTO on patents and public health have stalemated over the question of improving access to generic drugs for poor countries. The WTO's Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), which took effect in 1995, obliges countries to extend patent protection to pharmaceutical products and processes after a phase-in period linked to level of development (World Bank 2001, chapter 5). Under these rules, countries that are able to manufacture the drugs themselves would continue to have legal access to generics if they chose to issue compulsory licenses. These tend to be the larger and better-off developing countries such as Brazil, China, India, and Thailand. Countries that lack sufficient manufacturing capability—typically the world's poorest and often most disease-ravaged states—may be barred from importing generic versions of patent-protected drugs, once rules take effect. Hence, the Doha mandate on TRIPS and Public Health included finding a mechanism by which such countries can import generic drugs protected by patents abroad.

These rules are important for poor people. For example, one day's supply of patented antiretrovirals to treat a single HIV/AIDS patient can cost as much as US$30 in rich countries. Such prices are prohibitive for the nearly 3 billion people who live on less than US$2 per day. Generics are not always cheaper, but the threat of competition has helped to reduce prices of patented antiretrovirals supplied to developing-country governments (Fink 2003).

Patents create incentives for research by offering temporary monopolies on new drugs, and developing countries need that research as much as the rest of the world. Indeed, increased R&D for medicines to treat diseases that are more prevalent in developing countries is desperately needed. Yet poor countries that lack pharmaceutical manufacturing capability form only a tiny portion—perhaps less than 1 to 2 percent—of the global pharmaceuticals market. In the 12 months to October 2002, developed countries accounted for more than 95 percent of the US$270 billion of sales in the world's leading 20 country markets worldwide. The group of developing countries that may benefit from a WTO agreement on importing generic drugs under compulsory licensing probably accounts for less than 1 or 2 percent of global pharmaceutical sales. Permitting the export to these markets of generic versions of patented medicines developed for rich-country markets is unlikely to erode incentives for research and development (Fink 2003). Despite this unlikelihood, the negotiations going into the summer of 2003 were stalemated on possible restrictions of the list of diseases that would be covered by any new agreement.

Governments everywhere have potentially competing interests. They have an interest in maintaining R&D and in preventing illegal generics entering rich-country markets from undercutting patent rights that finance it. Strengthening mechanisms that prevent such illegal trade is important, such as by prohibiting generic manufacturers from mimicking the packaging of patented drugs. At the same time, governments everywhere have an interest in ensuring that limited budgets for drugs to improve health in poor countries go as far as possible, and this means that all developing countries have access to drugs at the cheapest most competitive prices. In balancing these objectives, any eventual agreement should put the developing countries with insufficient manufacturing capacity on the same footing as those countries that have manufacturing capacity.

Resolving the Doha issue is only one small piece of the larger problem of delivering drugs and health care to sick people in developing countries. Of equal importance to the health of the poor is undertaking the large investments in complementary health infrastructure, including hospitals, roads, warehouses, and doctors and nurses. For example, even in some countries that manufacture anti-AIDS generics or that get AIDS drugs free, governments have not succeeded in providing medicines to significant shares of the needy population. Second, funding for fighting the developing world's health crisis needs to be scaled up—and massively. For example, the latest projections by UNAIDS put the cost of the global struggle against AIDS at US$10.5 billion a year by 2005 and US$15 billion a year by 2007; even if governments in affected countries cover part of this amount, estimated aid flows of about US$3 billion in 2002 are still insufficient. The *Global Fund to Fight Aids, Tuberculosis, and Malaria* remains cash-strapped. The recent U.S. commitment of US$15 billion to fight HIV/AIDS will, when disbursed, partially relieve resource constraints, but a substantial funding gap remains. The TRIPS issue is small when compared with the real obstacles preventing access to better health in developing countries, and it concerns a small corner of the global pharmaceutical market—two reasons why the international community should move swiftly to resolve it.

Delivering the Doha deal for development

The potential for reciprocal reductions in trade protection holds the promise of better lives for everyone. To illustrate, we consider the effects of a pro-poor agreement in which rich countries cut tariff peaks to 10 percent in agriculture and to 5 percent in manufacturing, and in which these reductions are reciprocated with cuts to 15 and 10 percent in developing countries (table 1). This program, combined with reductions in prevailing tariff averages, a decoupling of agricultural subsidies, and an end to agricultural subsidies could realize nearly three-quarters of the gains that might be anticipated from full merchandise liberalization.

Table 1 A pro-poor tariff reduction program
(percent)

	Rich	Developing
Agriculture		
Average	5	10
Maximum	10	15
Manufacturing		
Average	1	5
Maximum	5	10

This illustrative pro-poor program, discussed in detail in chapter 1, if implemented progressively over the five years to 2010 and accompanied by a realistic productivity response, would produce gains for developing countries of nearly US$350 billion in additional income by 2015. Rich countries would benefit, too, with gains on the order of US$170 billion. All of this would mean that 8 percent fewer people would be living in poverty in 2015—140 million fewer people living below US$2 per day. If greater opening of services, including Mode 4, were to occur, the benefits would be substantially greater.[2]

Delivering a Doha deal that spurs development will not be easy. Negotiators may well have to transcend the mercantilist mind-set that tends to dominate trade negotiations. All segments of the international community must keep their focus on potential gains, not only from "winning concessions" from foreign partners, but also on the gains from domestic reforms that "pay for" foreign concessions. Rich-country negotiators will do better, for themselves and for the developing world, if they keep in mind that their own countries can benefit by directing agricultural subsidies away from production subsidies for large farmers toward income subsidies to relatively small family farms, delivered in a form that is decoupled from output. Middle-income country negotiators likewise have to keep in mind that their telecommunications and financial services could be much more efficient and less expensive if more competitors were allowed to enter well-regulated markets. Low-income countries that have high protection will find they benefit from domestic reforms that lower costs of imported inputs, increase domestic competition that spurs productivity growth, and expand exports. Study after study has shown that trade reforms redound first and fastest to the reformer.

Negotiations will determine the pace and details of a final package, but the broad outlines of a potentially good deal for development are already evident from this analysis. Realizing that agricultural reform in a time of rapidly rising budget deficits will contribute positively to their own economic growth, rich countries would benefit from reforms in agriculture. Lopping off tariff peaks and phasing out the ATC at the end of 2004 will benefit developed-country poor who are forced to pay more for food and clothing because of external protection (Gresser 2002). Further progress on the part of all countries in reducing tariffs in manufactures would benefit developing countries and stimulate healthy South-South trade. For the rich countries, the prospect of greater access to markets in developing countries—home to 80 percent of the world's population with markets growing two to three times faster than their own—is also a worthy prize.

Developing countries, too, have much to gain. Middle-income countries—continuing a process begun over the last two decades—may do well to open selected services markets, often plagued by inefficiency that dampens productivity of the whole economy, in exchange for greater access in agriculture and labor-intensive goods. Because many countries have already lowered tariffs, the issue is now to bind those new lower levels. Finally, low-income countries would benefit if, in relinquishing demands for exemption from disciplines on their own tariffs, they succeed in obtaining commitments to greater market access in products and services of importance to them, a new commitment to consistency in the administration of preferences, and development assistance to facilitate trade and implement new WTO rules in accord with domestic capacities and development priorities. Delivering this type of deal would go far toward fulfilling the development promise of the Doha Agenda.

Notes

1. *Global Economic Prospects 2002: Making Trade Work for the World's Poor* (World Bank 2001), in addition to analyzing agriculture, labor-intensive manufactures, and services, dealt with regulatory impediments in transportation (chapter 4) and intellectual property rights and TRIPS (chapter 5). *Global Economic Prospects 2003: Investing to Unlock Global Opportunities* (World Bank 2002a) analyzed two of the Singapore issues—investment and competition policy—from a development perspective (chapter 4).

2. *Global Economic Prospects 2002* presents illustrations of the gains from services liberalization. While we do not have firm estimates of relative parameters, several studies have shown that gains are likely to be a multiple of merchandise liberalization. See World Bank (2001), chapter 6.

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