The WTO's 4th Ministerial Conference promises to be anything but a

As I write this, the preparatory process for the 4th Ministerial Conference in its final stage. Members are all agreed that the process thus far has

Trade is central to human health, prosperity and social welfare. Many of the goods we buy, the services we use and the foods we eat depend on foreign trade. Examples of trade in daily life are so abundant they sometimes go unnoticed: people drive to work in a car made in Japan which runs on fuel imported from the Middle East. Others ride bicycles made in China with tyres from Malaysia. A computer might have come from Korea and may run on software from the United States and a morning cup of coffee was most likely imported from Kenya, Colombia, Tanzania or Ecuador.

Trade enriches our lives through greater choice and opens our minds to new ideas and cultures. It binds people together in a dynamic and complex network of mutually beneficial commercial relations. It is a key engine of economic growth. The prosperity trade brings gives people the opportunity to buy the things they value most: an education, access to health care, proper housing and food for their families. It is the job of the World Trade Organlzation to establish the rules and preserve and nurture this web of commercial activity.

But trade is not entirely a natural phenomenon, it depends on political will. Compare, for example, the starkly different policy responses to two of the most major economic and financial disasters of this century. When crisis set in during the 1930s, the knee-jerk reaction was economic nationalism. As one country raised its tariff barriers, so too did others in retaliation. Trade plummeted, unemployment became entrenched, cooperation between nations broke down and guns, soldiers and tanks took over. The human and economic costs were catastrophic. In stark contrast, when the Asian economies experienced a financial crisis in the late 1990s, markets were kept open and sensible but tough economic policy and regulatory decisions were taken. This helped contain the crisis and it allowed the Asian nations to export their way out of difficulty. Within a relatively short period of time, these countries were on the road to recovery and fears of worldwide recession were proven unfounded.

Restoring international economic growth and stability through the promotion of trade was crucial to securing a lasting peace after World War II. It was this vision that led to the creation of the multilateral trading system in 1948. At first this was a provisional agreement between 23 countries called the General Agreement on Tariffs and Trade (the GATT). In 1995, the GATT became the WTO, a fully-fledged international organization with stronger and broader authority. Its membership today includes 142 Members , each at its own level of economic development and with its own set of economic priorities. Since Seattle (November 1999), seven countries joined the WTO - Albania, Croatia, Georgia, Jordan, Lithuania, Moldova and Oman. With China and Chinese Taipei also poised to enter the organization, another 1.3 billion people will benefit from the rules-based trading system. Another 30 or so countries—from the Russian Federation, Saudi Arabia and Ukraine to Vietnam and Yemen—are in the process of negotiating their accession to the WTO. Even though the trading system has changed greatly over the years, the underlying goals of the system embodied in the WTO have remained constant: to promote openness, fairness and predictability in international trade for the benefit of humanity.

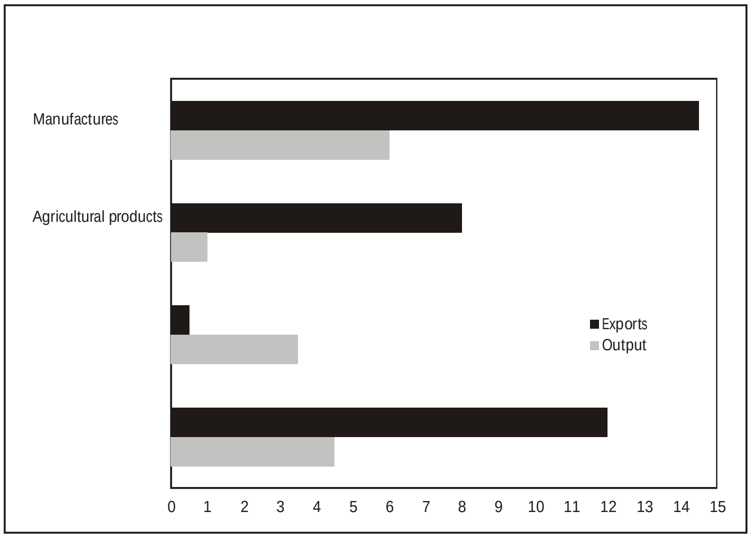
(Billion dollars and percentage)

| | Value | Annual percentage change | | | |
|---|---|---|---|---|---|
| | 2000 | 1990-00 | 1999 | 2000 | 2001 First half |
| Merchandise | 6186 | 6.0 | 4.0 | 12.5 | 1.0 |
| Commercial services | 1435 | 6.0 | 2.0 | 6.0 | … |

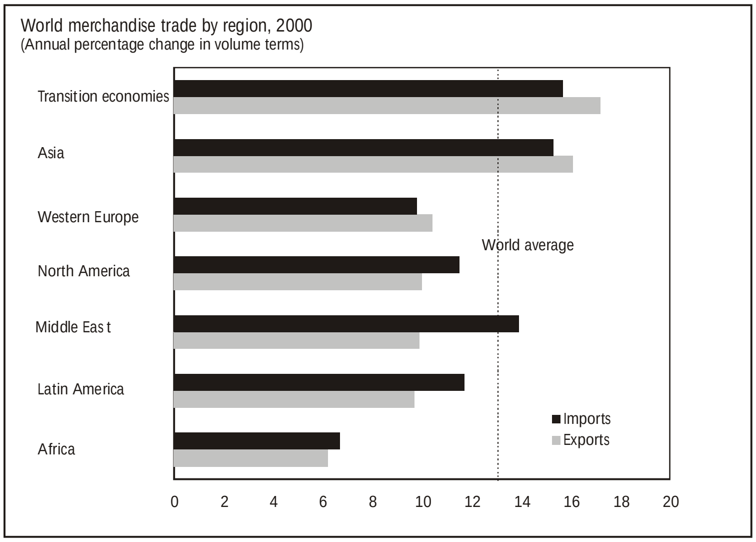
(Annual percentage change)

| | Developing economies | | | World |
|---|---|---|---|---|
| | 1999 | 2000 | 1990-00 | 1990-00 |
| GDP | 3.0 | 5.2 | 4.5 | 2.8 |
| Merchandise export volume | 7.0 | 15.0 | 9.0 | 7.0 |
| Merchandise import volume | 4.5 | 15.5 | 8.0 | 7.0 |
| Merchandise export value | 9.5 | 24.0 | 9.0 | 6.0 |
| Merchandise import value | 4.0 | 21.0 | 9.0 | 6.0 |

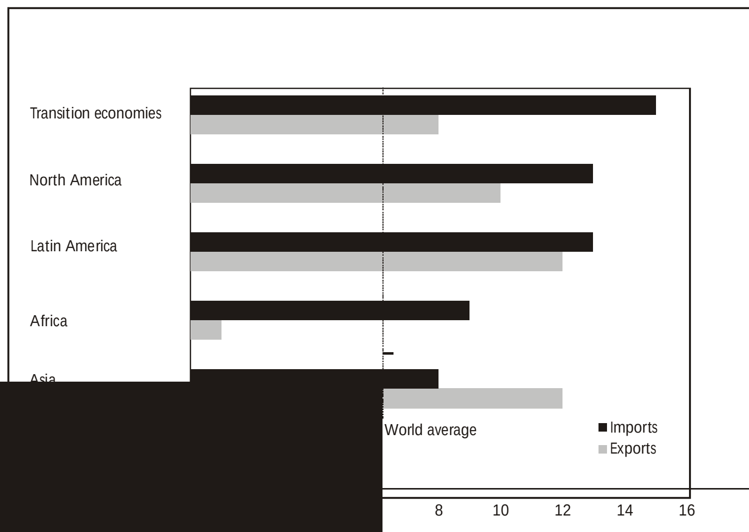
The year 2000 was outstanding for global output and trade growth. The expansion of merchandise output and trade by 4.5% and 12%, respectively, was the strongest in more than a once again, the excess of trade growth (14.5%) over output growth (6%) in manufactures was far higher than in the other two sectors, although preliminary data for agriculture also suggest also a large gap between trade and output growth.[2]




[2] A further indicator of the strength of global integration last year is the estimated 18% increase in the US dollar value of inflows of foreign direct investment (FDI). Although the most dynamic part of FDI flows was again among the developed countries, both developing and transition economies reported record FDI inflows. However, total private capital flows (net) to the developing countries and the transition economies were close to zero as net FDI inflows were fully offset by other private capital outflows. (International Monetary Fund (IMF), [illegible], October 2001).




World merchandise trade by region, 2000
(Annual percentage change in volume terms)



Trade, when it is allowed to flow freely, fosters economic growth. It encourages specialization, which can lead to greater gains in productivity and efficiency. It means countries can concentrate their resources on producing the goods they make best and importing goods that are more efficiently produced elsewhere. A more open world trading system means all countries benefit from access to the 6 billion customers in the global marketplace.

gtrcs
w124412es
y

related aspects of intellectual property rights (TRIPS). These sectors are now subject to trade liberalization and dispute settlement in the WTO.

The benefits of the Uruguay Round, as well as previous rounds, have contributed to a substantial reduction of the overall level of protection. Since the creation of the GATT, more than 50 years ago, the simple average bound tariff on imports of industrial products of the most developed countries has been brought down to under 5%. Most non-tariff barriers have been prohibited. Developing countries are now participating more fully in the WTO and in many cases they have also bound most of their industrial tariffs. Non-tariff barriers, affecting agricultural trade have been replaced with tariffs and all agricultural tariffs have been bound. A framework for the liberalization of trade in services is in place and in several sectors the liberalization process is also in progress. Most countries are more open now than they have been at any time since the end of the World War II.

The WTO treats all Members alike, be they rich or poor, big or small, strong or weak. The WTO is a system based on rules. The

The WTO…

But there are other obligations designed to ensure that Members are not given unfair advantages over their trading partners. These include rules on dumping and subsidies, which can make exports artificially competitive. The issues are complex, and the rules try to establish what is fair or unfair, and how governments can respond, in particular by taking action to compensate for damage caused by unfair trade.

unilateral imposition of trade sanctions, unilateral retaliation by powerful trading entities is subject to multilateral WTO control.

No one can claim that the WTO's dispute settlement system compensates for an unequal distribution of economic power in the world, but it must be emphasized that this system gives small Members a fair chance they otherwise would not have to defend their rights. By September 2001, developing countries as a group initiated 79 of the 239 disputes. India, Brazil, Mexico and Thailand were the most active. The United States and the European Union have used the system the most, 69 and 56 times respectively, and are also the most frequently challenged by other governments as not being in compliance with the WTO's rules.

| | | | | | |
|---|---|---|---|---|---|
| 32 | 30 | 15 | 16 | 24 | 12 |

- as a result of the larger number of WTO Members, increasing levels of trade and the greater importance of trade in the economies of Members.

Before the creation of the WTO, the dispute system was not binding, thus frequently decisions were ignored. The new system is working well, but any system can be improved with experience and mature study.

It is true that smaller and poorer countries have capacity constraints. They often do not have the resources to take their trade disputes to the WTO. That is why the WTO has actively endorsed the creation of the Geneva-based Advisory Centre on WTO Law, an independent centre that provides developing countries with legal counsel at reduced costs.

Trade can be a powerful force for fostering job creation and reducing poverty. But liberalization does not always impact favourably on everyone in the labour market. Just as new export opportunities create new jobs in some areas, pressure from foreign competition can sometimes result in jobs being lost in previously protected sectors. One of the most difficult challenges facing legislators, governments and policy-makers is to ensure their citizens cope with readjustments in the labour market and acquire necessary new skills. These pressures, however, do not just come from greater competition but also from factors such as technological change.

The temptation to resist change is high—particularly as the voices clamouring for protection tend to shout louder and are more emotionally charged than those supportive of trade liberalization. But change is not only inevitable, it is crucial to economic growth.

The way in which markets are opened, especially the speed and sequence of market-liberalizing steps, can make a big difference to these adjustment pressures.

Economic studies consistently show that market liberalization is associated with higher growth and that growth contributes to the alleviation of poverty.[4]

---

[4] IMF Issues Brief: Globalization, Threat or Opportunity. Available at http://www.imf.org/external/np/exr/ib/2000/041200.htm

Members agree to be "bound" by WTO Agreements because they see it to be in their own self interest to do so. The success of the WTO depends largely on the willingness of Members to abide by its rules and rulings. A pre-condition for this willingness to be "bound" is the negotiation of agreements that are sufficiently clear in their rules and scope and whose disciplines are workable and mutually accepted.

"Sovereignty" is a word that connotes different things to different people. It conjures up a wide spectrum of ideas of national pride and independence. In the WTO, sovereignty is understood in several ways. All WTO Members are "sovereigns" over their "customs territory". By joining the WTO, governments undertake to make laws that comply with WTO Agreements and to change laws that do not.

WTO Agreements are the result of the exercise of sovereign trade powers by WTO Members. (See Annex 1: Will the Nation-State Survive Globalization?)

Why are trade rules required for Members' regulations? Part of the reason lies in the emergence of non-tariff barriers as a form

- by the inclusion of longer time-frames for implementation of the rules by developing countries or by allowing developing countries to make lower liberalization commitments, as provided for in the Agreement on Agriculture;
- by the provision of some lower thresholds of compliance by developing countries—particularly the least-developed countries; and
- by allowing Members time-limited 'waivers' of specified obligations for particular purposes. A number of developed countries (Canada, EU, US) have granted trade concessions

gument goes, do not really represent the interests of citizens. But

Of course, not all Members participate in the WTO as effectively as they would like. Some Members, especially from least-developed countries, need assistance to increase their capacity to participate in the WTO. For instance, there is a group of least-developed countries that cannot afford to maintain offices in Geneva. The WTO Secretariat makes extensive efforts to keep these governments informed about WTO activities. And twice a year representatives of governments with no offices in Geneva are invited to the WTO for a week of detailed briefings. However, without additional financial resources, the WTO Secretariat's ability to assist is limited. Parliamentarians and legislators have repeatedly said the WTO should be equipped to do more.

–

ence venue. Regardless of the outcome of the Seattle Ministerial Conference and the tumultuous protests accompanying its proceeding, these features have all been welcomed by NGOs as genuine signs of transparency.

Violent outbreaks by demonstrators at both the WTO's Geneva (May 1998) and Seattle (November 1999) Ministerial Conferences have made it harder for some NGOs to win the support of the WTO's Members to do more. Some WTO Members are concerned that NGOs themselves are not directly accountable to the public. And some critics claim that many NGOs do not publish their accounts or make their internal documents available for public scrutiny. Although NGOs may fairly claim to represent a

Nothing in the WTO's Agreements tells governments how to prepare for negotiations or the consultations they undertake with their citizens. Members have repeatedly re-affirmed that they consider themselves responsible for dialogue with their citizens and for determining how best to represent the interests of their countries. Members can and often do have wide ranging national-level consultations on trade policy. In some countries NGOs exert considerable pressure at the national level and their views are often included in the trade policy positions taken up by many governments.

Trade values do not conflict with other values

–

But the path between the two is very narrow. So agreements are usually very carefully worded to say how, and in what circumstances, an exception may be used. At the same time, we should not forget that the benefits of trade can lead to the attainment of desired non-economic objectives.

Governments may resort to the WTO's Sanitary and Phytosanitary Agreement to protect human, animal or plant life and health but should do so only if:

- there is a sound scientific reason for the restriction (if not, they may take provisional measures while seeking additional information necessary for a more objective assessment of risk);
- the government uses the minimum level of import restriction necessary to achieve its goals; and
- the government does not apply the import restrictions in a way which discriminates between the exports of other WTO Members.

These rules are about ensuring the lowest possible level of trade restrictions and avoiding discriminatory import regulations. Why? Because discrimination disrupts trade, creates conflict between governments and is costly for producers and consumers.

There is a lot of misunderstanding of recent WTO disputes involving government environmental or health regulations.

In fact, in its decision on the case bought by India and others against the United States' laws prohibiting certain imports of shrimp (the 'shrimp-turtle' case), the Appellate Body of the WTO

An example of an environmental issue that involved fundamental WTO principles concerns a dispute that arose because the United States, in an effort to improve its air quality, applied stricter rules on the chemical characteristics of imported gasyba8.5( tho)T0.85p.2(e42.3( g(o)8.5o .)e08 0 0 10.08

representatives as observers in its meetings and the Secretariat has been mandated by Members to develop close cooperation with them. No dispute has so far arisen as the result of a conflict between a Member'

–

In globalizing economies, it is inevitable that there are trade impacts from some of these policy decisions. The WTO will probably face more and more requests for dispute resolution in matters that involve difficult decisions about scientific evidence, risk and public policy. Already, in cases such as the EU ban on beef treated with hormones, or Australian bans on salmon that could contain fish parasites, WTO panels were asked to rule on whether a policy took account of sound scientific evidence and appropriate assessments of risk. In the two cases cited, the governments were found to have acted without proper scientific justification.

5(g4)-8.4((e)38inta)-29t4((e)38anta)-29rnta)-29you7(g)-41P4((-8.yt4((f)15os.5(g4)-8.4((e)38inta)-29t4((e)38

Under the TRIPS Agreement, Members can make limited exceptions to copyright, trademark and patent rights, provided certain conditions are met. For example, the exceptions must not "unreasonably" conflict with the "normal" exploitation of the patent.

In addition, some countries allow manufacturers of generic drugs to use the patented invention to obtain marketing approval—for example from public health authorities—without the patent owner's permission and before the patent protection expires. The generic producers can then market their versions as soon as the patent expires. This provision is sometimes called the "regulatory exception" or "Bolar" provision.

The TRIPS Agreement says Members can also act, again subject to certain conditions, to prevent patent owners and other holders of intellectual property rights from abusing intellectual property rights, "unreasonably" restraining trade, or hampering the international transfer of technology.

Central to the access to medicines issue is the question of how people in low income countries can have access to patented or trademarked drugs, which are often expensive. Proposed answers cover a wide range of issues involving entire healthcare systems. As far as intellectual property is concerned, the TRIPS Agreement allows Members to take actions to improve access to drugs, provided certain conditions are met. Two that are often discussed in public are compulsory licensing and parallel or grey-market imports.

The TRIPS Agreement also allows WTO Members to authorize use by third parties (compulsory licenses) or for public non-commercial purposes (government use) without the authorization of the patent owner. The grounds on which this can be done are not limited by the agreement, but the agreement contains a number of conditions that have to be met in order to safeguard the legitimate interests of the patent owner. Briefly, two of the main conditin- t(ins )23.8(.6(i)o)8J9.67ith7 nons otcrea3 Tc0.9(rel)74( p)8.6(a)0.-8.6(e)-r9.apu

A main concern about the preservation of biodiversity is the enormous potential that genetic resources have for enhancing the welfare of mankind through their use in biotechnology.

Intellectual property rights are an important part of providing the incentives for research and development in biotechnology, in both developed and developing countries, and thus for the realization of these benefits. Intellectual property rights can also be the subject of benefit sharing arrangements with countries or communities that have supplied the underlying genetic material.

Some recent proposals by a number of WTO Members seek to use the TRIPS intellectual property regime to make the principles of the CBD more effective, for example by requiring patent applicants to disclose the geographical origin of any genetic material used in the invention in question and also to demonstrate that the necessary prior informed consent, was obtained from the competent authority in the country of origin.

In regard to the relationship of the TRIPS Agreement to the preservation and sustainable use of biodiversity, it should be empha-

wines and spirits as special. Some of them have said they may be even more willing to negotiate actively in the current agriculture talks (which began in 2000) if they see progress in extending higher-level protection to these products. Some other Members oppose extending this protection to other products. They say the present agreement reflects a delicate balance of interests both within TRIPS and between TRIPS and the previous agriculture negotiations in the 1986-1994 Uruguay Round negotiations.

The General Agreement on Trade in Services (GATS) is the first and only set of multilateral rules governing international trade in services. It was developed by WTO Members in response to the huge growth of the services economy over the past 30 years and the greater potential for trading services brought about by the communications revolution.

When the idea of bringing rules on services into the multilateral trading system was floated in the early to mid 1980s a number of countries were sceptical and even opposed. They believed such an agreement could undermine governments' ability to pursue national policy objectives and constrain their regulatory powers. The agreement which was developed, however, allows a high degree of flexibility, both within the framework of rules and also in terms of the scheduling of commitments. This is one of the reasons why, of all the WTO agreements the GATS has been the least controversial among Members. New negotiations to liberalize trade in services began on 1 January 2000 and the working atmosphere has been extremely positive with agreement being reached in late March 2001 on a set of broad guidelines and procedures for the negotiations ahead.

It has been claimed that the GATS jeopardizes the right of Members to maintain public services such as health and education services. This, however, is simply not the case. Governments remain free to choose those services sectors on which they want to make binding commitments to liberalize. Governmental services are explicitly carved out of the agreement and there is absolutely nothing in the GATS that forces privatization of services industries or outlaws governmental or indeed private monopolies.

The GATS "bottom-up" approach to scheduling of commitments means that Members are not obliged to make commitments on the whole universe of services sectors, but retain the right to specify the sectors on which they will take commitments. This means that governments who do not want to bind levels of foreign competition in a given sector, because they consider it to be a core governmental function or indeed for any other reason, are free not to include it in their schedule. In this event only the minimal obligations such as transparency and the obligation to not discriminate between foreign suppliers apply[9]. But even when commitments are made on particular services, the GATS allows Members to exercise a great deal of control over the operation of foreign suppliers in the domestic market. These take the form of limitations to market access and national treatment that are written, often in great detail, into Members' schedule of commitments.

The existence of a carve-out for services supplied in the exercise of governmental authority is an explicit commitment by WTO Members to allow publicly funded services in core areas of their responsibility. Governmental services are defined in the agreement as those supplied neither on a commercial basis nor in competition with other suppliers. These services are not subject to any GATS disciplines, they are not covered by the negotiations and commitments on market access and national treatment do not apply to them.

Equating services liberalization with deregulation is a common misperception. The GATS does not require the deregulation of any service. Commitments to liberalize do not affect the right of Members to set levels of qual6.5(e)-xO.3(t)23.6( 8.4(yisis )dm,(ls u.g5(e)-xo)8.5(tw(t)23.6( 8.4(yisis )dmc
miS(L)0ua tht thumuregulatiosn wpply 4679(tt)-8.4(o)0.3(ft)-8.4(o)0.3(r)-8.4(e)-8.1ign( supplie)-8.1

The development of rules on domestic regulation across all services sectors is currently in progress. The intention of these rules once they are agreed, will be to ensure that qualification requirements and procedures, technical standards and licensing requirements do not constitute unnecessary barriers to trade in services. The objective of this exercise is to prevent the use of disguised restrictions.

Already disciplines have been developed for the accountancy sector and these provide a good example of a possible outcome of future work.[10] These are essentially about transparency and fair process. They do not say anything about the level of professional qualifications or standards for accountants except that they should not be more trade-restrictive than necessary to achieve the legitimate objective they seek. This means that if two or more measures exist that can achieve the same objective, one should choose the measure with the least trade restrictive impact on trade. It does not mean that Members would have to compromise the level of quality or consumer protection they are seeking to achieve through the regulation in question.

Concerns about the development implications of the GATS are essentially focused on the investment aspect of the agreement. Many critics, however, confuse the scope of the GATS and the Multilateral Agreement on Investment, which was negotiated but never agreed in the OECD (Organisation for economic develop-

[10] The accountancy disciplines only apply to accountancy commitments and will

ment) and which was quite fiercely opposed by some NGO and civil society groups.

These two agreements, however, are completely different. The GATS does not address policies for foreign direct investment. It simply makes it possible for governments, if they so wish, to make commitments on the supply of services through establishment, subject to whatever conditions they may wish to apply. Any legal obligations that Members undertake in relation to certain aspects of their investment regimes are only incidental to the supply of the service in question.

The report by the Secretary-General on "Globalization and its impact on the full enjoyment of all human rights" (31 August 2000 A/55/342) to the Fifty-fifth session of the General Assembly :

> "The goals and principles of the WTO agreements and those of human rights law do, therefore, share much in common. Goals of economic growth, increasing living standards, full employment and the optimal use of the world's resources are conducive to the promotion of human rights, in particular the right to development. Parallels can also be drawn between the principles of fair competition and non-discrimination under trade law and equality and non-discrimination under human rights law. Furthermore, the special and differential treatment offered to developing countries under the WTO rules reflects notions of affirmative action under human rights law. These parallels can even be traced to the origins of GATT."

The WTO agreements do not preclude actions by individual Members of the WTO to ensure that international human rights principles are incorporated into its own activities. It is up to each individual Member to decide how it wishes to do this. The WTO agreements do not say anything about the type of policies that a government may wish to implement to bring about the fulfilment of human rights. For instance, with regard to the International Covenant on Economic, Social and Cultural Rights ated contracts specifying the legal ground-rules for international trade relations. They represent international legal commitments taken by a state [illegible] another state.

The multilateral trading system supports the fulfilment of human rights with the establishment of a rules-based multilateral framework for international trade through [illegible] the substantial reduction of tariffs and other barriers to trade, the elimination of discriminatory treatment in international trade relations and the settlement of trade disputes through the rule of international law. In these terms, the multilateral trading system indirectly contributes to the achievements of ends such as better

The world is changing fast. Technology, transportation and communication systems allow thoughts, people, goods and services to travel thousands of miles in seconds or hours. This stimulates business flows and development and inventions.

The role of the WTO's agreements is to make sure that trade flows freely and that possible conflicts are resolved by the parties involved or by the WTO's dispute settlement mechanism. But what about new forms of business now being conducted over the internet? And what about new ways of manufacturing or growing food and concerns over consumer health and safety. Such issues need to be addressed at the national and international level and in a rules-based framework, especially since they may have implications and repercussions the world over.

That is why new rules to address these issues must be negotiated by Members. The WTO, with its role as a forum for negotiation, is seen by its Members as the place to conduct such talks. And many have called for these issues and older ones in need of greater clarification to be included in a new trade round. The world moves ahead and governments see it as necessary to address today's critical issues before they become obstacles to international trade.

There is a problem, however, when it comes to which issues should be addressed first. Each Member has its own list of concerns. This is a result of each Member's differing economic interests and level of development. Negotiating new rules for sustainable development might be a valid goal for an industrialized years and how safe will our food be in a quarter of a century down the road? How many people will have risen out of poverty? Many feel these international problems require international solutions But this is not always the case. As most of us know, achieving good environmental policies often starts at home. But there are actions taken by national governments which have international consequences. For example, subsidies for farmers in many industrialized countries result in over production and an increased use of fertilizers which endanger ground water supplies. The same subsidies and other barriers to food imports in those countries able to afford to subsidies for their farmers decreases chances for developing countries to be competitive in their food exports. This is a situation where national policies do little to improve the environment and make it even harder for poorer agriculture export nations to realize the benefits of trade and to use the earnings for improving their social welfare.

What happens in farming is also applicable to fishing, forestry and mining. Correcting these policy positions is central and has been at the forefront of discussions ever since the Uruguay Round of multilateral trade talks was launched in 1986. Policies that harm the environment or do little or nothing to foster economic development are also regularly discussed by Members in the WTO's councils and committees. They are also the subject of campaigns led by such organizations as the World Wide Fund for Nature, Greenpeace and Oxfam which advocate the achievement of win-win situations—with positive benefits for the environment and development objectives.

Magazine: Foreign Affairs
Issue: January/February 2001, Volume 80, Number 1
Author: Martin Wolf

A specter is haunting the world's governments—the specter of globalization. Some argue that predatory market forces make it impossible for benevolent governments to shield their populations from the beasts of prey that lurk beyond their borders. Others counter that benign market forces actually prevent predatory governments from fleecing their citizens. Although the two sides see different villains, they draw one common conclusion: omnipotent markets mean impotent politicians. Indeed, this formula has become one of the clichés of our age. But is it true that governments have become weaker and less relevant than ever before? And does globalization, by definition, have to be the nemesis of national government?

Globalization is a journey. But it is a journey toward an unreachable destination—"the globalized world." A "globalized" economy could be defined as one in which neither distance nor national borders impede economic transactions. This would be a world where the costs of transport and communications were zero and the barriers created by differing national jurisdictions had vanished. Needless to say, we do not live in anything even close to such a world. And since many of the things we transport (including ourselves) are physical, we never will.

This globalizing journey is not a new one. Over the past five centuries, technological change has progressively reduced the barriers to international integration. Transatlantic communication, for example, has evolved from sail power to steam, to the telegraph, the telephone, commercial aircraft, and now to the Internet. Yet states have become neither weaker nor less important during this odyssey. On the contrary, in the countries with the most advanced and internationally integrated economies, governments' ability to tax and redistribute incomes, regulate the economy, and monitor the activity of their citizens has increased beyond all the United States, where the ratio has jumped from 11% in

Population movement peaked during the 1890s. In those years, A revolution has thus occurred in collecting and disseminating

Between 1846 and 1870, liberalization spread from the United Kingdom to the rest of Europe. Protectionism, which had never waned in the United States, returned to continental Europe after 1878 and reached its peak in the 1930s.

A new era of global economic integration began only in the postwar era, and then only partially: from the end of World War II through the 1970s, only the advanced countries lowered their trade barriers. The past two decades, by contrast, have seen substantial liberalization take root throughout the world. By the late 1990s, no economically significant country still had a government committed to protectionism.

This historical cycle is also apparent in international capital investments. Capital markets stayed open in the nineteenth and early twentieth centuries, partly because governments did not have the means to control capital flows. They acquired and haltingly solidified this capacity between 1914 and 1945, progressively closing their capital markets. Liberalization of capital flows then began in a few advanced countries during the 1950s and 1960s. But the big wave of liberalization did not start in earnest until the late 1970s, spreading across the high-income countries, much of the developing world, and, by the 1990s, to the former communist countries. Notwithstanding a large number of financial crises over this period, this trend has remained intact.

In monetary policy, the biggest change has been the move from the gold standard of the 1870-1914 era to the floating currencies of today. The long-run exchange-rate stability inherent in the gold standard promoted long-term capital flows, particularly bond financing, more efficiently than does the contemporary currency instability. Today's vast short-term financial flows are notsrcast sswb-12.5(s a)19eW0(y)-13sbrrurtodoun(c)-16.6(/ e2 3(r)15ooa)--8.guvsssvKl6.7(u3552003(d)T

The policy change that has most helped global integration to

# Annex 1: Will the nation-state survive globalization?

Globalization is often perceived as destroying governments' capacities to do what they want or need, particularly in the key areas of taxation, public spending for income redistribution, and macroeconomic policy. But how true is this perception?

what their residents own and spend abroad, disguising physical movement, consumption, or income remains a formidable task.

The third major aspect of globalization, the Internet, may have an appreciable impact on tax collection. Stephane Buydens of the OECD plausibly argues that the Internet will primarily affect four main areas: taxes on spending, tax treaties, internal pricing of multinational companies, and tax administration.

Purely Internet-based transactions—downloading of films, software, or music—are hard to tax. But when the Internet is used to buy tangible goods, governments can impose taxes, provided that the suppliers cooperate with the fiscal authorities of their corresponding jurisdictions. To the extent that these suppliers are large shareholder-owned companies, which they usually are, this cooperation may not be as hard to obtain as is often supposed.

It is also sometimes difficult to locate an Internet server. If one cannot do so, how are taxes to be levied and tax treaties applied? Similar problems arise with multinational companies' ability to charge submarket prices to their subsidiaries abroad (so-called "transfer pricing" within multinationals), which leaves uncertain the question of how and in which country to levy the tax. This scenario suggests that classic concepts in the taxation of corporations may have to be modified or even radically overhauled.

The overall conclusion, then, is that economic liberalization and technology advances will make taxation significantly more challenging. Taxes on spending may have to be partially recast. Taxation of corporate profits may have to be radically redesigned or even abandoned. Finally, the ability of governments to impose taxes that bear no relation to the benefits provided may be more constrained than before.

Nevertheless, the implications of these changes can easily be exaggerated. Taxation of corporate income is rarely more than 10% of revenue, whereas taxes on income and spending are the universal pillars of the fiscal system. Yet even lofty Scandinavian taxes are not forcing skilled people to emigrate in droves. People will still happily pay to enjoy high-quality schools or public transport. Indeed, one of the most intriguing phenomena of modern Europe is that the high-tax, big-spending Scandinavian countries are leading the "new economy."

Governments will also use the exchange of information and other forms of cooperation to sustain revenue and may even consider international agreements on minimum taxes. They will certainly force the publicly quoted companies that continue to dominate transactions, both on-line and off, to cooperate with fiscal authorities. But competition among governments will not be eliminated, because the powerful countries that provide relatively low-tax, low-spending environments will want to maintain them.

monetary policy. But macroeconomic policy is always vulnerable to the reaction of the private sector, regardless of whether the capital market is internationally integrated. If a government pursues a consistently inflationary policy, long-term nominal interest rates will rise, partly to compensate for inflation and partly to insure the bondholders against inflation risk. Similarly, if a government relies on the printing press to finance its activity, a flight from money into goods, services, and assets will ensue—and, in turn, generate inflation.

Within one country, these reactions may be slow. A government can pursue an inflationary policy over a long period and boost the economy; the price may not have to be paid for many years. What difference, then, does it make for the country to be open to international capital flows? The most important change is that the reaction of a government's creditors is likely to be quicker and more brutal because they have more alternatives. This response will often show itself in a collapsing exchange rate, as happened in East Asia in 1997 and 1998.

A country that chooses international economic integration implicitly accepts constraints on its actions. Nevertheless, the idea that these constraints wither away the state's capacity to tax, regulate, or intervene is wrong. Rather, international economic integration accelerates the market's responses to policy by increasing the range of alternative options available to those affected. There are also powerful reasons for believing that the constraints imposed on (or voluntarily accepted by) governments by globalization are, on balance, desirable.

For example, the assumption that most governments are benevolent welfare-maximizers is naive. International economic integration creates competition among governments—even countries that fiercely resist integration cannot survive with uncompetitive economies, as shown by the fate of the Soviet Union. This competition constrains the ability of governments to act in a predatory manner and increases the incentive to provide services that are valued by those who pay the bulk of the taxes.

The WTO…

What, then, does globalization mean for states? First, policy ultimately determines the pace and depth of international economic integration. For each country, globalization is at least as much a choice as a destiny. Second, in important respects—notably a country's monetary regime, capital account, and above all, labor mobility—the policy underpinnings of integration are less complete than they were a century ago. Third, countries choose integration because they see its benefits. Once chosen, any specific degree of international integration imposes constraints on the ability of governments to tax, redistribute income,

Annex 2: Open societies, freedom, development and trade international institution should these powers and responsibilities reside? We need to recognize the gaps in the international architecture. For example, there is no powerful, funded, global environmental agency. There should be. Heavy, fresh and creative thinking must be done about the roles, functions, jurisdictions, obligations, management and mandates of all international institutions and how we deliver our services. This is where those not captured by process and bureaucracy can help the debate. I would welcome your views. A dear friend called our process and culture "medieval". Hopefully, we are moving into an age

or a wider set of negotiations. There are several reasons why we need this.

The economic argument for a new round is compelling. Cutting by a

What does this prove? Little, other than in general the past 50 years has seen the condition of our species progress at a pace unparalleled in history.

Can I be politically incorrect? Just because the great economic powers want something, that does not automatically make it wrong. The truth is a stubborn thing. The EU, Japan and the US account for over 60% of the world's imports. Some observers have suggested recession for all three. If that is true, it will be the first time all three have been in recession in 25 years. There is a slow down, how slow we have yet to experience. That cuts jobs and revenue everywhere. I am now reluctant to predict the economic future, because I have accurately predicted five of the last two recessions.

A more open world has its dangers, but a closed world divided into tribal compartments has proved lethal in the past. The tribes of Europe are a good example. Where the tribes appreciate and respect each other's differences—culture, music, religion, food and commerce—we enjoy a united Europe. Human rights and living standards are high. A united Europe is a force for good. Where tribalism flourishes human

Albania 8 September 2000
Angola 23 November 1996
Antigua and Barbuda 1 January 1995
Argentina 1 January 1995
Australia 1 January 1995
Austria 1 January 1995
Bahrain 1 January 1995
Bangladesh 1 January 1995
Barbados 1 January 1995
Belgium 1 January 1995
Belize 1 January 1995
Benin 22 February 1996
Bolivia 12 September 1995
Botswana 31 May 1995
Brazil 1 January 1995
Brunei Darussalam 1 January 1995
Bulgaria 1 December 1996
Burkina Faso 3 June 1995
Burundi 23 July 1995
Cameroon 13 December 1995
Canada 1 January 1995
Central African Republic 31 May 1995
Chad 19 October 1996
Chile 1 January 1995
Colombia 30 April 1995
Congo 27 March 1997
Congo, Democratic Republic of the 1 January 1997
Costa Rica 1 January 1995
Côte d'Ivoire 1 January 1995
Croatia 30 November 2000
Cuba 20 April 1995
Cyprus 30 July 1995
Czech Republic 1 January 1995
Denmark 1 January 1995
Djibouti 31 May 1995
Dominica 1 January 1995
Dominican Republic 9 March 1995
Ecuador 21 January 1996
Egypt 30 June 1995
El Salvador 7 May 1995
Estonia 13 November 1999
European Communities 1 January 1995
Fiji 14 January 1996
Finland 1 January 1995
France 1 January 1995
Gabon 1 January 1995
The Gambia 23 October 1996
Georgia 14 June 2000
Germany 1 January 1995
Ghana 1 January 1995
Greece 1 January 1995
Grenada 22 February 1996
Guatemala 21 July 1995
Guinea Bissau 31 May 1995
Guinea 25 October 1995
Guyana 1 January 1995
Haiti 30 January 1996
Honduras 1 January 1995
Hong Kong, China 1 January 1995
Hungary 1 January 1995
Iceland 1 January 1995
India 1 January 1995
Indonesia 1 January 1995
Ireland 1 January 1995
Israel 21 April 1995
Italy 1 January 1995
Jamaica 9 March 1995
Japan 1 January 1995
Jordan 11 April 2000

Kenya 1 January 1995
Korea, Republic of 1 January 1995
Kuwait 1 January 1995
The Kyrgyz Republic
20 December 1998
Latvia 10 February 1999
Lesotho 31 May 1995
Liechtenstein 1 September 1995
Lithuania 31 May 2001
Luxembourg 1 January 1995
Macao, China 1 January 1995
Madagascar 17 November 1995
Malawi 31 May 1995
Malaysia 1 January 1995
Maldives 31 May 1995
Mali 31 May 1995
Malta 1 January 1995
Mauritania 31 May 1995
Mauritius 1 January 1995
Mexico 1 January 1995
Moldova 27 July 2001
Mongolia 29 January 1997
Morocco 1 January 1995
Mozambique 26 August 1995
Myanmar 1 January 1995
Namibia 1 January 1995
Netherlands 1 January 1995
New Zealand 1 January 1995
Nicaragua 3 September 1995
Niger 13 December 1996
Nigeria 1 January 1995
Norway 1 January 1995
Oman 9 November 2000
Pakistan 1 January 1995
Panama 6 September 1997
Papua New Guinea 9 June 1996
Paraguay 1 January 1995
Peru 1 January 1995
Philippines 1 January 1995
Poland 1 July 1995
Portugal 1 January 1995
Qatar 13 January 1996
Romania 1 January 1995

Algeria
Andorra
Armenia
Azerbaijan
Bahamas
Belarus
Bhutan
Bosnia and Herzegovina
Cambodia
Cape Verde
China, People's Republic of
Ethiopia
Former Yugoslav Republic of Macedonia
Holy See (Vatican)
Kazakstan
Lao People's Democratic Republic
Lebanon
Nepal
Russian Federation
Samoa
Sao Tome and Principe
Saudi Arabia
Seychelles
Sudan
Taipei, Chinese,
Tonga
Ukraine
Uzbekistan
Vanuatu
Vietnam
Yemen
Yugoslavia, Fed. Rep. of

Commitment not to increase a rate of duty beyond an agreed level. Once a rate of duty is bound, it may not be raised without compensating the affected parties.

Higher import duties by stages of processing. This practice protects domestic processing industries and discourages the development of processing activity in the countries where raw materials originate.

Relatively high tariffs, usually on “sensitive” products, amidst generally low tariff levels. For industrialized countries, tariffs of 15% and above are generally recognized as “tariff peaks”.

Customs duties on merchandise imports. Levied either than they are sold in the domestic market or third-country markets, or at less than production cost.

rangements whereby an exporting country (government or industry) agrees to reduce or restrict exports without the importing country having to make use of quotas, tariffs or other import controls.

The WTO Agreement on Textiles and Clothing which integrates trade in this sector back to GATT rules within a ten-year period.

When an exporting country uses part of the following year's quota during the current year.

When an exporting country utilizes the previous year's unutilized quota.

Avoiding quotas and other restrictions by altering the country of origin of a product.

Council for Trade in Goods—oversees WTO agreements on goods, including the ATC.

The phasing out of MFA restrictions in four stages starting on 1 January 1995 and ending on 1 January 2005.

International Textiles and Clothing Bureau—Geneva-based group of some 20 developing country exporters of textiles and clothing.

Multifibre Arrangement (1974–94) under which countries whose markets are disrupted by increased imports of textiles and clothing from another country were able to negotiate quota restrictions.

When an exporting country transfers part of a quota from one product to another res5.x-8.4( )g1u.0082 Tc0 Tw Tc762rdfrCTG

Allows members to impose restrictions against individual exporting countries if the importing country can show that both overall imports of a product and imports from the individual countries are entering the country in such increased quantities as to cause—

When prices and production are higher or lower than levels that would usually exist in a competitive market.

Paid by governments to producers of certain commodities and based on the difference between a target price and the domestic market price or loan rate, whichever is the less.

Export enhancement programme—programme of US export subsidies given generally to compete with subsidized agricultural exports from the EU on certain export markets.

Concept which discourages opening the domestic market to foreign agricultural products on the principle that a country must be as self-sufficient as possible for its basic dietary needs.

Encompasses any measure which acts to maintain producer prices at levels above those prevailing in international trade; direct payments to producers, including deficiency payments, and input and marketing cost reduction measures available only for agricultural production.

Deals with international standards concerning animal health.

idea that agriculture has many functions in addition to producing food and fibre, e.g. environmental protection, landscape preservation, rural employment, etc.

Provision in Article 13 of the Agriculture Agreement says agricultural subsidies committed under the agreement cannot be challenged under other WTO agreements, in particular the Subsidies Agreement and GATT. Expires at the end of 2003.

Programme for reducing subsidies and protection and other reforms under the Agriculture Agreement.

Sanitary and Phytosanitary regulations—government standards to protect human, animal and plant life and health, to help ensure that food is safe for consumption.

Customs duty rate which varies in response to domestic price criterion.

Treaty, administered by WIPO, for the protection of the rights of authors in their literary and artistic works.

Convention on Biological Diversity

Unauthorized representation of a registered trademark carried on goods identical or similar to goods for which the trademark is registered, with a view to deceiving the purchaser into believing that he/she is buying the original goods.

Place names (or words associated with a place) used to identify products (for example, “Champagne”, “Tequila” or “Roquefort”) which have a particular quality, reputation or other characteristic because they come from that place cations of patents for these products can be filed. (An additional requirement says they must also put in place a system for granting "exclusive marketing rights" for the products whose patent applications have been filed.)

Treaty, administered by WIPO, for the protection of industrial intellectual property, i.e. patents, utility models, industrial designs, etc.

Unauthorized copying of copyright materials for commercial purposes and unauthorized commercial dealing in copied

materi a(matera( J-8.6( rgm)-8.b)lour97 Tm-0udTm-D-Co b)16.6(opie)-8.2(d)]TJT*0.0002 Tcm-8.4(ioe)-0
aa(stoa(g)-9(8)J6(34)(15.d(a(mai(s)-8.rlle)-8.nt(a(ma((e3416.i))-8.8(e)-8.veera( se.0007.me))-8.8t( )-5.J-8.6( rgm)-8.-

Requirement that the investor use

Obligations which should be applied to all services sector at the entry into force of the agreement.

Trade liberalizing commitments in services which members are prepared to make early on.

How international trade in services is supplied and consumed. Mode 1: cross border supply; mode 2: consumption abroad; mode 3: foreign commercial presence; and mode 4: movement of natural persons.

Transportation using more than one mode. In the GATS negotiations, essentially door-to-door services that include international shipping.

The equivalent of tariff schedules in GATT, laying down the commitments accepted—voluntarily or through negotiation—by WTO members.

People, as distinct from juridical persons such as companies and organizations.

A country's proposal for further liberalization.

Additional agreements attached to the GATS. The

Informal group of Latin-American members of the WTO.

Generalized System of Preferences—programmes by developed countries granting preferential tariffs to imports from developing countries.

WTO High-Level Meeting for LDCs, held in October 1997 in Geneva.

The International Trade Centre, originally established by the old GATT and is now operated jointly by the WTO and the UN, the latter acting through UNCTAD. Focal point for technical co-operation on trade promotion of developing countries.

Least-developed countries.

Argentina, Brazil, Paraguay and Uruguay.

North American Free Trade Agreement of Canada, Mexico and the US.

Canada, EC, Japan and the United States.

Southern African Customs Union comprising Botswana, Lesotho, Namibia, South Africa and Swaziland.

"Special and differential treatment" provisions for developing countries, contained in several WTO agreements.

United Nations Centre for International Trade Law, drafts model laws such as the one on government procurement.

The UN Conference on Trade and Development.

The Agenda for the 21st Century—a declaration from the 1992 Earth Summit (UN Conference on the Environment and Development) held in Rio de Janeiro.

GATT Article listing allowed "exceptions" to the trade rules.

An MEA dealing with hazardous waste.

Border tax adjustment

Convention on International Trade in Endangered Species. An MEA.