

## ***Trade and poverty reduction***

Which areas of trade policy are most likely to make a positive contribution to poverty reduction, and which are the most problematic? Does current knowledge already point towards trade policy changes that are desirable, and where should a high priority be given to further research? Can the European Union and developing countries establish common ground for future WTO negotiations? On which items does a strong basis exist, and where do further questions need to be asked?

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These were some of the key issues addressed at the EU-LDC Network conference on 'Trade and Poverty Reduction' held on 30-31 May 2001 in Rotterdam. Although considerable uncertainty surrounds the possible launch of a new WTO round, two main questions provided the framework around which the conference discussions were built:

- If there is a new round, what may - or may not - be on the agenda?
- How might multilateral trade reforms from a new WTO round impact upon poverty reduction?

The goal of this report is to summarise the discussions and presentations of the conference and to highlight some of the main findings. More information on the conference and the papers presented are available on the EU-LDC Network website: [www.eu-ldc.org](http://www.eu-ldc.org).

## **Background and overview**

### **Introduction**

The issues involved in assessing the impact of trade liberalisation on poverty are highly complex and no less contentious. Although much attention has recently been given to evaluating empirical evidence on the relationship between trade, economic growth and poverty, the simple fact is that the body of rigorous research carried out to date is not substantial given the magnitude of the questions to be addressed. With respect to the central question of whether trade liberalisation leads to a sustained fall in poverty, a fair assessment would seem to be that overall the evidence is inconclusive. At the same time, it does not appear that the outcomes of trade liberalisation are inherently biased against the poor, such that they systematically worsen the distribution incomes so as to increase the absolute numbers in poverty.

Although further research is much needed, it is perhaps not surprising that the evidence on the relationship between trade, economic growth and poverty is ambiguous. Certainly conventional economic theory shows that

the impact of trade liberalisation on poverty will, in most cases, be an indirect one. In this respect, international trade encourages the division of productive activities among countries along the lines of their comparative advantages, thus improving resource allocation and fostering economic growth. However, even if freer trade could, for example, benefit labour-intensive activities in developing countries and thereby create additional productive employment, it is not necessarily the case that new employment will become available to the poor. Employment for the poor, or increased opportunities to earn income depend on a number of institutional and other conditions, which have to be met in addition to economic growth. In other words, a positive impact on poverty requires both the stimulation of economic growth through trade liberalisation, and for the resulting increase in incomes to be distributed in such a way as to diminish the numbers in poverty.

The above remarks provide, briefly, the background against which discussions on a new multilateral trade round, and on globalisation, and poverty may be evaluated. Essentially they offer a word of warning that the links between trade and poverty are not always clear and may not be that strong.

### **Trade opportunities and a new round**

On the question of the opportunities to trade that a new WTO round may offer developing countries, two empirically established facts should be taken into account:

- First, the outcomes of previous trade rounds have been more favourable to developed countries than to developing ones. There is a considerable literature on the impact of these trade liberalisation rounds on opportunities to trade which shows that developed countries have benefited much more than developing countries from the kind of trade liberalisation undertaken. A fair minded person would conclude, therefore, that a new round should grant developing countries at least equal, if not over proportional, benefits from further trade liberalisation.
- Secondly, there are also a large number of studies indicating that developing countries could indeed benefit from further trade liberalisation. However, the benefits from a new trade round will not come automatically. Rather, they depend on developing countries being able to overcome supply-side constraints that limit their capacity to respond to trade opportunities. Thus, in addition to having the right external conditions, appropriate supplementary reforms may be necessary to build trade capacity.

### **Three observations on the prospects for a new round**

On the possibility of a new round going ahead, the scepticism of many developing countries and the ent-

husiasm of the EU are well known. Nonetheless, three observations that are less often advanced in the general debate can be made:

- The last decade has seen a rapid increase in the number of regional trading arrangements (RTAs). Many of these encompass one or more economically strong developed countries and a number of developing countries. Given the imbalance of economic strength, developed countries have often been able to attach conditions (e.g. environmental and labour standards, and human rights clauses) to these RTAs, which are strongly rejected by developing country governments in the context of a new round. In other words, market access is being used as a strategic asset, and it is the more economically powerful nations that can exploit this to greatest effect. This is certainly an argument in favour of multilateral trade rules and a new round since, when compared to RTAs, developing countries would appear to be in a stronger negotiating position and be better able to influence the outcome of such negotiations.
- Developing countries remain to be convinced of the sincerity of developed countries assurances that the "development dimension" will be a key aspect of a new round. Therefore, it seems imperative for developed countries to take steps to restore trust and confidence in the negotiations. Outstanding 'implementation issues' from the Uruguay Round offer scope to do this. In addition, more could be done to help developing countries determine where their real interests lie in a new round. This requires additional research, as there are many areas (e.g. services, competition and investment policy) where these interests are not clearly identified.
- Finally, there is an issue of the comprehensiveness of a new round versus timeframes. Few, if any, want to see negotiations on a new round take as long as the Uruguay Round. At the same time, the EU and others argue that there are big advantages to be reaped from a broad agenda. If, as can be expected, reaching a compromise on a comprehensive agenda would take more time it will conflict with ambitions for a shorter round.

### **Three observations on the benefits to the poor from a new round**

On the question of who benefits from a new round, the basic notion is that transparent multilateral rules help to reduce poverty, or at least are not inconsistent with other measures to reduce poverty. However, it is clear that the issues involved in assessing the impact of trade liberalisation on poverty are more complex than this basic notion suggests. Even aside from the fact that the relationship may be indirect, in many instances the potential impact of trade liberalisation on poverty is not well understood nor clearly identified, and may need additional research. Among the issues that come to the fore are the following:

- To realise the benefits from additional market access may require developing countries to undertake significant structural adjustment to their economies. And, as mentioned above, capacity building may also be necessary. As implementing such reforms and allowing the economy to adjust requires time, the effects of trade liberalisation and accompanying policies and reforms may be very different in the short and long term. In addition, at least in the short term, it is inevitable that there will be some losers as the economy adjusts. And, moreover, there is no guarantee that even in the 'long-run' certain groups will not be left behind by liberalisation.

Two related issues arise in relation to the above. First, even if we make the very strong assumption that the correct policies and reforms are known, there is question of their correct timing and sequencing. Secondly, there is the question of the length of the transition period.

- The social impact of trade liberalisation depends very much on the nature of this liberalisation. The conventional wisdom is that trade liberalisation in favour of labour-intensive goods can help reduce poverty by creating additional employment and additional incomes. This could be the case in textiles and, in particular, agriculture. On the other hand, it is clear that beneficiaries of Special and Differential (s&D) treatment among developing countries could lose their preference margins and therefore might find themselves in a less advantageous position once a new round decides on further multilateral trade liberalisation measures.

Regarding the new agenda items of investment and competition policies, their impact on poverty is seen as largely indirect and often unclear. There is a general view that more competition could work in favour of the poor, but the importance of this impact depends very much on the causes of poverty in individual countries. It is clear that more research in these areas is called for.

- Another issue concerns what may be termed "governance". The key issue here is the integration of trade policies in development strategies, as most governments in developing countries do not appear to think of trade as part of poverty reduction strategies.

There are a number of factors (e.g. macroeconomic stability, labour market flexibility, competition, and regulatory reform) that significantly impact on poverty. It is only where the right policies in these areas are followed, so that all or at least some of the major distortions that exist in the economy are removed simultaneously, that a positive impact of trade liberalisation on poverty can be achieved at all.

## Trade and development assistance

Relative to their resources, considerable effort is required on the part of developing countries if trade

liberalisation is actually to promote growth and ultimately to contribute to poverty reduction. An overriding concern, therefore, is the limited institutional capacity at the disposal of developing countries, and the poorest amongst them in particular. Capacity constraints are an issue in relation to:

- Participation in the negotiations themselves, particularly with respect to areas where the interests of developing countries are unclear or not identified.
- Implementation, where trade liberalisation must often be accompanied by major economic and institutional reforms to remove distortions and to build trade capacity. And for which the issues of timing and sequencing must be addressed.
- Provision of adequate and efficient social safety nets, which are often rudimentary or non-existent, so as to offer protection during the transition period.
- Integration of trade policy with development policy and poverty reduction strategies.

When comparing between developed and developing countries, we can see that an asymmetrical or unequal effort is required to benefit from trade liberalisation. While what is required from developed countries is the removal of tariff and non-tariff barriers plus necessary micro and macro economic adjustments, the accompanying reforms necessary on the part of developing countries are far more wide reaching.

This is essentially the context in which the discussion on aid and trade has its rightful place. Although the most important way in which developed countries can assist developing countries is through strengthening trade flows by granting greater market access and reform of tariff and non-tariff barriers, a second and complementary mechanism is through providing aid to overcome institutional capacity constraints. The EU, as a major donor, can play an important role in this respect. At the same time, careful attention should be given to ensure that it is recipients, and not donors, who define their own interests and priorities, and shape their policies accordingly.

The following papers can be downloaded at [www.eu-ldc.org](http://www.eu-ldc.org):

U. Hiemenz, *Trade and Poverty Reduction: Summary of the conference proceedings*, paper presented at the EU-LDC Network Conference on 'Trade and Poverty Reduction', Rotterdam, May 2001.

## Developing country perspective on a new WTO round

Their experience since the completion of the Uruguay Round has left developing countries sceptical about the WTO process. But, is there more to be gained from holding out for greater implementation of existing agreements before launching a new round, or from pressing ahead with negotiations on a new agenda? If a new round is launched, how should it incorporate the "development dimension", and can this deliver in terms of poverty reduction? Given the great diversity of developing countries, there is a range of opinions on these questions. Moreover, official answers may reveal more about the attempts of governments to set out strategic negotiating positions than about their genuine beliefs. The aim of this section is to identify some of the main issues and concerns of developing countries over a new round, and to ask how these may be addressed.

### Multilateral trade rules and economic development

Trade liberalisation does not offer a panacea for dealing with the problems of developing countries. When discussing the role of more liberal trade policies, and specifically those resulting from multilateral trade agreements, some limitations need to be recognised:

- Many studies have shown that in terms of securing shares of world trade, developed countries have seen greater gains from trade liberalisation than developing countries. And, specifically, many least developed countries appear to have seen little or no gains at all. At the same time it should be remembered that developed countries account for an overwhelming proportion of global trade and they have largely determined the agenda for multilateral trade negotiations. The Uruguay Round was, after all, the first multilateral trade round in which developing countries actively participated on a large scale, not least because agriculture was on the agenda for the first time. Given that the richer nations determined the agenda in the previous seven GATT rounds, it is no surprise that they have been predominantly favoured by the kinds of trade liberalisation undertaken.
- Trade liberalisation, most economists would argue, is necessary but not sufficient for sustained long-run economic growth. Trade liberalisation is complementary to other policy measures to increase long-run economic growth in developing countries but the magnitude of its contribution is less clear. Its contribution will be determined by other domestic conditions and access to markets for developing country exports. It will also depend on the context in which trade liberalisation is undertaken, whether this is part of a negotiated (multilateral, regional or bilateral) agreement or unilateral action. From an empirical perspective, since trade

liberalisation often accompanies other far reaching reforms (e.g. as part of structural adjustment programmes), it is difficult to distinguish the impact on economic growth of increased trade per se from these other reforms.

Despite these limitations, the large number of developing countries who are members of the WTO demonstrates that they believe there are advantages to be gained from negotiated multilateral rules on trade. At the same time, there is a great deal of scepticism regarding a possible new round. On the one hand, developing countries are not convinced that previous trade rounds, and the Uruguay Round in particular, have delivered benefits in line with their expectations. On the other, there is a perceived failure on the part of developed countries to live up to the spirit, if not the letter, of previous agreements. Consequently, the overall impression is that the outcomes of previous negotiations have been weighted in favour of developed countries and, accordingly, if a new round does go ahead it should be one in which the balance of negotiated outcomes should be more favourable to developing countries.

### The Uruguay Round: an unpleasant hangover for developing countries?

Final agreement on the Uruguay Round was achieved partly because promises were made to continue to work on some unfinished issues (e.g. "built-in agenda" items such as agriculture and services). Also, the text of the agreement was littered with Special and Differential (S&D) treatment provisions, the means through which developing countries are supposed to receive more favourable treatment (see Box 1). Many of these were so-called "best endeavours clauses" that basically call upon developed countries to take into account the special needs of developing countries and to act in their best interests. Although

developing countries argue that s&d provisions should be legally enforceable, developed countries take the view that they are only voluntary commitments. Whatever the case may be, the imprecise language used in the "best endeavours clauses" means that they are legally unenforceable. Consequently, they do not provide any legal redress if, as has been the case, implementation by developed countries fails to live up to the expectations of developing countries.

Turning to the two most important sectors for exports from developing countries, agriculture and textiles, the lack of progress in pursuing trade liberalisation for the benefit of developing countries is evident.

- In agriculture, the concessions to developing countries made in the Uruguay Round concerned traditional products (agricultural raw materials and other bulk commodities) that many developed countries have in any case to import. By contrast, there was very little progress on access for tempe-

rate and processed agricultural products, which offer greater export growth opportunities for developing countries. For these products, developed countries have generally continued to maintain high levels of tariff protection, and domestic and export subsidies. Recognising the need for greater liberalisation, agriculture was included as an item in the "built-in agenda" for future negotiations. Although these began in 1999, prospects for significant progress outside of a new round are not overly encouraging. In the face of powerful domestic lobbies, both the EU and Japan now argue that they will only be able to offer further concessions if the agricultural negotiations are pursued within the framework a new comprehensive trade round.

- The Agreement on Textiles and Clothing (ATC), leading to the phasing out of the Multi-Fiber Arrangement (MFA) by the end of 2004, was first seen as an important achievement of the Uruguay round. The subsequent lack of implementation has led it to become a major source of discontent for developing countries. Though developed countries have

#### Box 1:

### Special and Differential (s&d) Treatment

*Non-discrimination is an underlying principle of WTO Agreements. It has two main components: first it requires contracting parties (WTO members) to grant to the products<sup>a</sup> of other contracting parties treatment no less favourable than that accorded to products of any other country (the most favoured nation (MFN) principle); secondly, under certain conditions, it prohibits discrimination between foreign and national goods or services and service suppliers, or between foreign and national holders of intellectual property rights (the national treatment principle). Essentially the non-discrimination principle means that no group of countries may be favoured within the WTO, or earlier GATT legal frameworks.*

*Special and Differential (s&d) treatment provides a mechanism to offset the legal commitment to non-discrimination within the WTO and earlier GATT agreements. Ostensibly the purpose of s&d treatment is to address the particular circumstances of developing countries in international trade. Importantly, s&d provisions provide a basis for developed countries to maintain Generalised System of Preferences (GSP) schemes in favour of developing countries, and for deeper preferences within GSP schemes for least developed countries. They also provide a basis for preference among developing countries within regional or global trade arrangements.*

*S&D provisions within WTO agreements can be grouped into five main categories:*

- Provisions allowing developing countries greater flexibility with regard to rules and disciplines governing trade measures (i.e. in setting trade policies).
- Provisions allowing developing countries longer transition periods for the implementation of WTO agreements.
- Provisions for technical assistance to help in the implementation of commitments under WTO agreements.
- Provisions aimed at increasing trade opportunities through market access (e.g. by allowing developed or other developing countries to charge exports from developing countries at preferential tariff rates, or by giving priority to the elimination of barriers in areas of export interest to developing countries).
- Provisions requiring WTO Members to safeguard the interests of developing country members when adopting protective trade measures (e.g. implementing agreements in a manner favourable to developing countries).

*Certain s&d provisions, such as those providing longer transition periods, are relatively clear in their application. Other s&d provisions are more ambiguous. In particular they use wording which implies that developed countries should take into account the needs and interests of developing countries (i.e. "best endeavours clauses") but are sufficiently vague as not to impose a positive obligation on developed countries to undertake specific actions on behalf of developing countries.*

a. Similar provisions for services are contained in the GATS Agreement, and for the protection of intellectual property in the TRIPS Agreement.

adhered to the legal requirements of ATC, they have taken advantage of its provisions to limit the phasing out of quotas (only 5 per cent so far), and only on those items that are largely irrelevant for developing countries. There is now a fear that this "back-loading" (i.e. leaving all the most sensitive products until the final stage of liberalisation) will create serious problems for many developed countries, which will be used to justify demands for the continuation of quotas after 2004.

In return for the expected but largely unrealised benefits in agriculture and textiles, developing countries made concessions in a number of new areas. Notably, these included the General Agreement on Trade in Services (GATS), Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Investment Measures (TRIMS), Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) measures. These were areas where developing countries had relatively little experience and many would argue that they had not fully understood the implications of the agreements. Certainly, many insist that these agreements, once again, favoured developed countries. To give some illustrations:

- In services, the GATS rules are largely viewed as offering opportunities for companies from developed nations. And, with regard to rules on individual service providers temporarily entering a Member state to deliver services, developing countries with a comparative advantage in labour-intensive services have gained little because hardly any of the commitments made so far extend beyond professional and senior executives.
- Obligations under the TRIPS agreement are weighted in favour of the rights of the patentees, the majority of whom are located in developed countries. Also, protection levels for geographical indicators are often higher for products typically originating from developed countries (e.g. protection is given for wines and spirit but does not extend to tropical beverages and tea). Finally, recent events concerning access to affordable medicines further illustrate developing countries anxieties over the application of the TRIPS agreement.
- Regarding the TBT and SPS agreements, developing countries face wide ranging difficulties in conforming to the standards laid down in importing countries. Here there is a general problem of building capacity in the implementation and setting of both domestic and international standards. Moreover, it does not help that developing countries are poorly represented in the international bodies that set these standards. Unsurprisingly, this leads to concerns that the whole process is geared to meet the needs of developed countries by providing hardly disguised protection.

## Building bridges for a new round

Developing countries recognise that there may be significant risks and opportunity costs of not having a new multilateral round. Regional trading agreements may offer an alternative, but increased regional protectionism may ultimately have high costs in terms of trade diversion. And, there are many issues, such as standards, that are undoubtedly best addressed multilaterally. However, given the underlying dissatisfaction of developing countries with the WTO process, they will not easily be drawn to the negotiating table. If developed countries seriously want to launch a new round, it appears that substantial gestures in the direction of developing countries concerns are necessary. What, therefore, do developing countries require from developed countries to launch a new trade round?

Certainly, the confidence of developing countries in the negotiating process and the WTO needs to be restored. A first step could be made through addressing developing countries' concerns on the implementation of existing WTO agreements, for example in the field of textiles (e.g. more relevant liberalisation), S&D provisions, TRIMS (e.g. extended transition period), and TRIPS (e.g. rights to affordable medicines). However, it is far from clear if this can be achieved without re-negotiation of current agreements, and many developed countries may resist re-negotiation if it takes place outside of a new round. Nonetheless, a number of developing countries (e.g. India, Pakistan and Malaysia) are holding out for some of these issues to be resolved as a "down-payment" for agreeing to a new round.

Another way forward for confidence building, without going to the substance of trade negotiations, would be for the developed countries to provide greater support for capacity building. This could be in a number of fields, for example:

- To undertake research to analyse the effects of proposals coming from developed countries, and to determine their own negotiating position. In certain areas, such as services, it is not clear what are the interests of developing countries.
- For the trade negotiations themselves and for the implementation of WTO agreements.
- To assist in undertaking the necessary economic, social and legal reforms required to adjust to the challenges posed and the opportunities offered by trade liberalisation.

With regard to this last point, developing countries are not always able to take advantage of export opportunities brought about trade reform because of current production and infrastructure constraints. Institutional constraints can also be important in hindering complementary reforms to strengthen competitiveness and provide protection to vulnerable groups (e.g. provision of social safety nets).

## What could be on the agenda?

We already know that reaching agreement on what should be on the agenda of a possible new trade round is going to be difficult. The widely heterogeneous position and interests of developing countries mean that even among themselves they do not share an identifiably common position. Apart, that is, from a shared desire to see that if there is to be a next round it should be a "development round". If common ground is to be found, it will not simply be on developed versus developing countries issues. One such case is agriculture, which is clearly a priority area and one where, for example, the interests of net food importing countries are not the same as those of major food exporters (e.g. members of the Cairns Group, which includes both developed and developing countries).

On the question of whether a new round should have a broad or narrow agenda, many developing countries would prefer a narrow one covering, say, the "built-in agenda" items of agriculture and services, and maybe TRIPS, plus further cuts in the remaining tariffs on industrial goods. Underlying this approach is concern that a broad agenda will be used to distract attention away from the main priority areas for developing countries.

One factor against pressing for only a very narrow agenda is awareness of the situation facing the EU and other negotiators. In the case of the EU, for example, delivering concessions on agriculture - potentially difficult under any scenario - may only be a possibility under a broader agenda. Although the hard-line argument would be that it is for the EU to put its own house in order, the reality is that some ground may have to be given in other areas. What should not occur, however, is that negotiations on a broader agenda are used to provide the EU, or others, with a mechanism to avoid granting worthwhile concessions on agriculture and other areas most important to developing countries.

There are some potential "new agenda items" which do not attract outright hostility from all developing countries. There are countries (e.g. several from Latin America) that would not oppose discussions on multilateral rules on investment and competition policy. Although, it remains the case that the majority of developing countries seem to be against negotiations in these areas.

One area on which there appears to be wide consensus among developing countries is in their opposition to the inclusion of labour and environmental standards on the agenda. This they see simply as a means by which developed countries will be able to introduce new forms of protectionism.

## Poverty reduction: the role of trade policy

Although there is an underlying presumption that inability to trade is one cause of poverty, it appears to be rarely the case that developing countries combine thinking on trade policy with that on policies aimed at poverty reduction. Thus, by and large, developing countries treat trade and poverty as separate issues.

To some extent, the roots of this separation lie in the underlying notion of the "poor" applied in WTO and other trade agreements, which is essentially one that identifies *poor countries* on the basis of average levels of income. Although this may provide an appropriate basis for incorporating flexibility in rules agreed at the level of national governments, it is far removed from ways of identifying the poor that are normally considered relevant for the purposes of poverty reduction measures. In this respect, if trade policy measures do aim to be consistent with poverty reduction strategies, there is a question as to whether s&D treatment is an appropriate mechanism to link trade and poverty (reduction).

A further reason for this separation of policy on trade and poverty is that typically the link between the two is indirect and may not even be that strong. In this respect, developing countries frequently lack any supporting analysis of the impact that trade liberalisation has had so far on poverty, and which may lead to greater attention being given to the interrelationship between them. In any case, governments of developing countries face a range of other pressing concerns (e.g. debt, governance problems, HIV/Aids, etc.) which are seen as having a greater or more direct impact on poverty than trade liberalisation. And, moreover, there are other areas of policy (e.g. housing, education and health) which are seen as being of more relevance for addressing poverty issues. Consequently, when faced by limited capacity and higher priorities in other areas, many developing countries lack the means by which to pursue a combined approach to policies on trade and poverty. Enabling developing countries to achieve greater coherence between trade and poverty policy measures presents, therefore, an area to which development assistance may be usefully directed.

The following papers can be downloaded at [www.eu-ldc.org](http://www.eu-ldc.org):  
Saidi, H., "The multilateral agenda - developing country perspectives: the MEFMI Perspective".  
Hoda, A., "The multilateral agenda - developing country perspectives: The multilateral agenda and India".  
Rappoport, L., "The multilateral agenda - developing country perspectives: Latin America, wealth divide or institutional divide".  
Tingsabath, C., "The multilateral agenda - developing country perspectives: A view from South-East Asia".  
All the above papers were presented at the EU-LDC Network Conference on "Trade and Poverty Reduction", Rotterdam, May 2001.

**Table 1. Summary of perspectives on agenda items, poverty links and research issues**

WTO agreements and "built in agenda" items	European Union perspective	developing country perspectives	poverty-trade links issues for research
Textiles and Clothing	Willing to discuss priority market access issues.	More rapid implementation is needed in product areas relevant to developing countries.	Textiles sector of special importance for developing countries, especially in Asia. Poorer countries may be hurt by full phasing out of MFA and entry of China to WTO.
Agriculture	Provisions were included in AoA in recognition of the special needs of developing countries. But, future negotiations should continue to address these needs. Prefers to discuss agriculture in comprehensive round.	Differences in the situation of developing countries (e.g. food security, net exporters/importers) reflected in wide range of perspectives on liberalisation. Some countries favour application of S&D provisions for non-trade concerns (e.g. rural employment, food security).	Significant part of the poor population involved in agriculture in many developing countries. Can special provisions address non-trade concerns? Are current country groupings used by WTO (e.g. for application of S&D) appropriate for agriculture agreements?
Services	Current imbalance in commitments across countries and service sectors should be reduced. Accepts need to give consideration to the particular situation of developing countries (e.g. in relation to FDI and movement of natural persons (mode 4)).	Few export opportunities for developing countries from commitments given so far. More concessions should be made for temporary movement of service providers (mode 4), and including unskilled workers. Inability to undertake domestic reforms and introduce complementary policies is a limiting factor.	The implications of services liberalisation for poverty remain very unclear. Though domestic regulatory reform and complementary policies are essential, correct policy and sequencing is not known. Lack of evidence for different sectors and modes of supply should be addressed.
Trade Related Intellectual Property Rights (TRIPS)	Necessary and desirable element in building a predictable business environment, supportive of FDI. The TRIPS agreement provides flexibility, but ready to clarify some rules (e.g. regarding access to essential medicines).	Coverage of TRIPS agreement is not balanced and should be extended to indigenous items that are of importance to developing countries. Access of developing countries to essential technologies (e.g. medicines) should be safeguarded.	Does the TRIPS agreement restrict technology transfer to developing countries? Does the TRIPS agreement limit access to affordable medicines for the poor?
Special and Differential Treatment (SDT)	SDT should be made operational by discussing it in a concrete manner and on a case-by-case basis	More action should be taken in this field (especially regarding "best-endeavour" clauses). The legal status of SDT provisions should be clarified.	Do WTO sub-groups have similar interests? Do these justify differentiated rules? What kind of differentiated rules are appropriate and for which countries (e.g. classifications or typologies)?
<b>New agenda items</b>			
Competition & Investment	Multilateral rules on investment and competition will benefit all countries. Development concerns can be taken into account. Possibility for LDCs to opt out of an agreement (e.g. using similar provision to GATS).	Developing countries do not have a common position but the majority appears to be against multilateral rules in these areas. Several countries (e.g. Latin American countries) would not oppose putting these items on the agenda.	The link between these issues and poverty is indirect and to a large extent still unclear. The interests of developing countries have not been sufficiently identified and require further research.
			Is the WTO the appropriate forum for these issues? What are the relative merits of alternative fora?
Social and environmental standards	Existing rules related to environmental issues should be clarified. International rules on social standards are desirable but not necessarily as a WTO agenda item.	Developing countries see multilateral rules in these areas as thinly disguised protectionism and oppose their inclusion in WTO negotiations.	Can multilateral negotiated rules in these areas contribute to development and poverty reduction?

## The European Union Perspective on a new WTO round

Is the European Union serious in its attempts to secure the support of developing countries for a new WTO round? Certainly it heralded the "Everything But Arms" agreement as concrete step towards confidence building, and has stated that the "development dimension" must be a key aspect of future negotiations. Developing countries are unlikely to view these as sufficient, and the EU has already signalled its willingness to discuss their concerns on a number of "implementation issues", and potential agenda and non-agenda items. For the time being, as this section shows, the details of what EU may be prepared to offer developing countries remain sketchy, as is also the case for any initiatives it may make towards the integration of policies on trade and poverty reduction.

### Trade policies towards developing countries

The launch of a new multilateral trade round is a priority for EU trade policy. As a basic working assumption the EU sees trade liberalisation achieved on the basis of multilateral agreements as offering superior long run outcomes to those resulting from liberalisation on a bilateral or regional basis. At the same time, the EU remains a supporter of regional trade agreements and argues that by preparing the way for a "more liberal world" such agreements are consistent with the eventual achievement of trade liberalisation on a multilateral basis. Whether or not this is the case is debatable, as the proliferation of agreements can lead to a complex set of preferential arrangements and distract attention, and the limited resources of developing countries away from a multilateral agenda.

It is also the case that regional agreements between the EU and developing countries encompass areas that go beyond purely trade concerns. This is illustrated by the planned ACP-EU traded negotiations, as laid out in the Cotonou Agreement. Here, the foreseen Economic Partnership Agreements between the ACP (African, Caribbean and Pacific Group of States) and the EU have among their objectives: to strengthen integration between the ACP and the EU, to promote economic liberalisation of ACP economies, to deepen regional integration, to increase access for European companies, to safeguard special treatment of least developed countries etc.

Although developing countries should benefit from enhanced market access under regional agreements with the EU, these also give rise to a number of concerns, not least with regard to the conditionality element of such agreements that implicitly links development assistance to trade reform. Some see the incentives offered under regional agreements as

being at odds with the EU's commitment to a multilateral negotiations framework.

After the failure of Seattle, there is a strong impression that a new multilateral trade round can only take place after support from developing countries has been secured. The EU acknowledges that the "development dimension" should be a key aspect of a new trade round. And, even before a new round can go ahead, there is a need to take measures to restore the confidence of developing countries in the trade negotiation process.

The EU views the recently adopted "Everything But Arms (EBA)" agreement, which grants least developed countries duty-free access to the EU market for all products except arms, as a step in the direction of confidence building. Although EBA only applies to the least developed countries, and includes a long transition period for sensitive (agricultural) goods, the EU argues that it is an important demonstration of its commitment to adopt trade policy measures in the interest of development. In addition, some credit should be given for demonstrating a willingness to confront domestic lobbies, even if this meets with only partial success. In the final analysis, the impact of EBA for least developed countries may be limited, not least because of their own supply constraints. Nonetheless, it is also a signal to other developed countries that presently offer much less favourable trade concessions than the EU to least developed countries.

As a further confidence building initiative, the EU recognises that some additional decisions on so-called "implementation issues" may be necessary prior to the launch of a new round. The EU is, therefore, willing to discuss improvements to existing agreements, provided this is undertaken within agreed parameters (i.e. not an open ended commitment to

look at all existing agreements). Areas where developing countries have expressed their dissatisfaction and on which the EU is prepared to discuss current agreements include:

- Trade remedies (antidumping; subsidies, safeguards), where the EU is prepared to look into ways of making Special and Differential (s&D) treatment more operational.
- Technical barriers to trade (TBT); which the EU sees as a general rather than trade specific problem, and where it would be supportive of greater transparency of domestic and international processes for setting standards.
- Special and Differential (s&D) treatment, with the *proviso* that this should be in a concrete manner and on a case by case basis rather than as matters of principle or in abstract wording;
- Trade related intellectual property rights (TRIPS), where the current agreement provides some flexibility for longer transition periods for developing countries, and the EU is willing to see if certain rules can be better formulated.

Also for services, which are already a "built in agenda" item, the EU acknowledges the need to re-examine commitments on the movement of labour, which is a potentially important mode of supply for developing countries.

Capacity building is another means by which the EU hopes to restore the confidence of developing countries. The EU admits that the focus should not only be on negotiating and implementing WTO agreements, but also on enabling developing countries to capture the benefits stemming from increased trade opportunities. On the one hand, the implementation costs of WTO agreements should be taken into account in future negotiations, and technical assistance programmes ought to be developed in parallel. On the other, the European Commission is pushing for support for a revitalised Integrated Framework and for "trade" to be integrated in national poverty reduction strategies. This should, the EU argues, be part of a collective responsibility of all development partners.

### Items for the agenda

The EU supports a comprehensive trade round, arguing that a broad agenda provides the only means of accommodating different sensitivities by country and by sector. At the same time, the EU has stated its willingness to accommodate developing country concerns both prior to and during negotiations on a new round. In this respect, the EU is prepared to discuss market access for all products, including those sensitive sectors that are of most interest to developing countries (e.g. agriculture and textiles).

At the same time, from a "domestic" EU perspective a comprehensive round is necessary if, for example,

concessions are to be possible on agriculture - a key issue for developing countries. At the moment details of what the EU proposals may contain remain sketchy, however. And, until more clarity is offered, the implications of the EU's position for developing countries remain rather abstract.

The EU would like to see a number of new issues on the agenda, notably investment and competition policy. The argument in support of including these items is that all countries will benefit from multilateral rules in these areas. Agreements on foreign investment and competition would create a more stable investment climate and would help to end restrictive business practices. In both areas, the EU would be open to developing countries having the option to opt-out of a possible agreement if they are not convinced of the development benefits.

Environmental and labour (social) standards are the two most controversial issues that the EU would like to see discussed. Trade and environment are already linked through various instruments (e.g. trade provisions in Multilateral Environmental Agreements (MEAs), eco-labelling and precautionary measures). However, the EU would like to see greater clarity on environment-based rules. For example, it is unclear as to what extent MEAs take precedence over, or are subordinate to, WTO rules. Other issues include the application of the precautionary principle (i.e. where scientific evidence on potential health or environmental effects are inconclusive), and the compatibility of eco-labelling schemes to WTO rules. The EU position is that, even if jurisprudence on these issues is established, it will take time and create uncertainty in the meantime. Therefore, clearer rules are needed rather than reliance on dispute settlement procedures.

Regarding labour standards, the EU position is that they need not be an agenda item as such, but the EU is in favour of a forum for dialogue involving the ILO, the WTO, the World Bank, UNCTAD and other international organisations.

### Poverty reduction: the role of trade policy

The EU sees a new round of multilateral negotiations, with the development dimension as a key aspect, as having a potentially positive impact on national poverty reduction efforts. Essentially the benefits of multilateral rules should stem from the promotion of transparent, non-discriminatory rule-based governance, which limits opportunities for discriminatory policy intervention and rent-seeking behaviour. At the same time, developing countries - and especially least developed countries - require the trade capacity to reap these potential benefits. At the very least, this argues for support to revitalise the Integrated Framework to build coherence between trade reform and poverty reduction strategies.

Within the WTO agreements, s&D treatment provides some flexibility in respect of developing countries, but the EU position is that s&D requires a more operational approach. More generally, consideration needs to be given to design of rules with sufficient flexibility to take into account differences in institutional capacity. Currently, the WTO recognises three main categories of countries: developed, developing and, within the latter category, least developed countries (see Box 2). This raises the issue of whether more flexibility is required, for example through the use of additional country categories when applying WTO rules. And, if so, on what kind of differentiation across countries would be appropriate. The EU recognises that issues such as this warrant, at least, to be analysed further with the objective of providing

a basis for trade policy reforms that can be more sensitive to different development needs and capacity constraints of developing nations.

1. The Integrated Framework for Trade-Related Technical Assistance, including for Human and Institutional Capacity-Building, to Support Least-Developed Countries in their Trade and Trade-Related Activities, generally referred to as the Integrated Framework (IF). For details, see the WTO document WT/LDC/HL/1/Rev.1, 23 October 1997, (97-4650) available at: [http://www.wto.org/english/tratop\\_e/devel\\_e/framework.htm](http://www.wto.org/english/tratop_e/devel_e/framework.htm)

The following papers can be downloaded at [www.eu-ldc.org](http://www.eu-ldc.org): Garcia-Bercero, I. "Trade, Poverty and the Multilateral Agenda: EU Perspectives", paper presented at the EU-LDC Network Conference on "Trade and Poverty Reduction", Rotterdam, May 2001.

## Trade in goods: agriculture and textiles

For many developing countries the sectors of agriculture and textiles account for an important share of their exports. These two sectors employ a large part of the – often poor – population. In both sectors, however, the expected benefits from the Uruguay Round have been disappointing for the developing countries.

### Multilateral trade liberalisation in agriculture

When compared to trade in industrial products, liberalisation in the agricultural sector has clearly been limited. While average tariffs for industrial products have decreased significantly, from around 40 to 4 percent, average tariffs on agricultural products have remained in the 40-50 percent range. Consequently, market access opportunities for developing countries have little improved. In addition, developed countries continue to maintain high levels of domestic support and export subsidies. Further, when the Agreement on Agriculture (AOA) entered into force, many developing countries had either not notified their existing subsidies, or failed to notify that they had no subsidies and thereby forfeited their right to maintain or introduce them.

Recognising that the Uruguay Round had achieved only limited liberalisation in the agricultural sector, it was agreed that negotiations would continue as part of the so-called "built-in agenda". While negotiations are currently taking place, little progress is being made. The EU, supported by Japan, has indicated that it wants to discuss agriculture in the context of a comprehensive trade round.

The issues of food security, which relates to the availability, access and utilisation of food so as to meet dietary needs of the domestic population, is especially important for many developing countries. During WTO negotiations on agriculture, both developed

and developing countries have raised the issue of food security. For richer countries that are net food importers a key question is over the necessity to maintain a balance between domestic food production and the level of trade (imports). For developing countries, which may be vulnerable in a very real sense to the possibility of being unable to meet the food requirements of all their population, the questions are much deeper and encompass policy objectives such as the elimination of poverty and hunger. What this illustrates is that the notion of food security, or agriculture-related non-trade concerns in general, has a very different meaning for developed and developing countries.

In the context of the WTO, there is an underlying question as to whether further liberalisation of trade and agricultural policies may help or hinder food security in WTO member countries. To answer this question requires distinguishing countries not only on the basis of whether they are net-food importers or exporters, but on their level of economic development also. Two specific questions may be raised in the context of food security, but which may be of much broader relevance for analysing WTO issues. First, is the question of how well do the various classifications of countries recognised by the WTO capture food security issues (see Box 2). And, secondly, is the question of whether these categories provide an appropriate basis for differentiated trade rules (e.g. through s&D treatment) or whether a more targeted approach is desirable.

## Multilateral trade liberalisation in textiles and clothing

The Agreement of Textiles and Clothing (ATC), concluded in the Uruguay Round, lays down the framework and procedures to phase out the Multi-Fibre Arrangement (MFA) by the year 2005. From 2005, textiles and clothing will fall under the regular GATT discipline. Here it is not so much the agreement itself, but rather its implementation that has caused conflicts between exporting developing countries and importing developed countries. Although developed countries have adhered to the legal requirements of ATC, they have so far chosen to remove quotas on items that are largely irrelevant to developing countries, and leave all the most sensitive products until the final stage of liberalisation. By adopting this approach, developed countries appear to be storing up serious problems for themselves, and it is feared that these may be used to justify demands for the continuation of quotas after 2004.

Even if the ATC is fully implemented by 2005, there is concern that in the face of rising imports developed countries may adopt alternative protectionist measures available under safeguards, dumping, and countervailing duty regimes. Irrespective of such a possibility, liberalisation of trade in clothing and textiles, combined with the foreseen accession of China to the WTO, is likely to see a major reshaping of trade patterns. This may have important, and even unexpected, consequence for the clothing and textiles sectors of developing countries (see Box 3)

### Links to poverty reduction

As sectors in which they have a comparative advantage, liberalisation in both agriculture and textiles is clearly important for many developing countries. Increased exports will generate employment opportunities and foreign exchange earnings. Further, a large number of unskilled, and often poor labourers are active in both sectors. Accordingly, it is easy to

#### Box 2

##### Country clustering according to food security

*The WTO recognises three main classifications of countries: developed, developing (by self-selection of the countries themselves) and least developed countries (as defined by the United Nations). Importantly, these classifications provide the basis for applying S&D treatment provisions (see Box 1) In addition, through a procedure of the WTO Committee on Agriculture, 19 countries are categorised as net food importing developing countries (NFIDC). Under a Ministerial Decision adopted as part of the Uruguay Round, it was agreed that mechanisms should be implemented to safeguard food aid to NFIDC, along with all least developed countries. And to address difficulties that NFIDC may have in financing commercial food imports.*

*The Agreement on Agriculture indicates that in the "built in agenda" negotiations on agriculture, WTO members should take into consideration "non-trade concerns", with food security identified as an example of these concerns. Diaz-Bonilla et al. (2000) address the question of how well do the categories of countries recognised by the WTO capture issues of food security. They employ various measures of cluster analysis to identify groups of countries categorised according to different measures of food security and to compare these with the country classifications recognised by the WTO. The results of the analysis can be summarised as follows:*

- *The category of least developed countries is composed almost exclusively of food insecure countries.*
- *One third of the countries listed in the category of NFIDC do not fall under any of the food insecure groups.*
- *Several countries identified as food insecure are included neither in the category of least developed countries nor that of NFIDC.*
- *The category of developing countries contains too diverse a range of food (in)secure countries to be useful for handling issues of food security.*
- *All countries in the category of developed countries can be labelled as food secure.*

*They conclude that if the WTO wants to target food security when defining specific rights and obligations the category of least developed countries provides an appropriate starting point, but this may not be enough as it excludes some food insecure countries. Neither the category of NFIDC nor developing countries provides an appropriate complement to capture non-least developed food insecure countries. Accordingly, an alternative method of classification is called for.*

Diaz-Bonilla, E., Thomas, M., Robinson, S., Cattaneo, A. (2000) "Food Security and Trade Negotiations in the World Trade Organization: A Cluster Analysis of Country Groups", International Food Policy Research Institute, TMD Discussion Paper No. 59.

This paper can be downloaded at: [www.eu-ldc.org](http://www.eu-ldc.org)

see the potentially important link between trade liberalisation and poverty reduction.

There are, however, many more factors that should be taken into account when assessing the possible impacts of trade reforms on poverty. Particularly in the case of agriculture, for which the poor may be expected to be especially sensitive to trade liberalisation, there are a number of specific considerations that matter for poverty linkages. These include:

- the often large part of the poor population reliant on subsistence farming who will be largely unaffected by improved market access;
- the possible limited opportunities for the redeployment of unskilled agricultural labour engaged in activities likely to be adversely affected by liberalisation; and
- the large share of food consumption in household budgets of the poor, which implies a strong sensitivity to possible price increases.

It is as a result of the special importance of agriculture for the poor that several developing countries have pleaded for non-trade concerns, such as food security and rural employment, to be taken into account in the AOA. They argue that because agriculture directly affects the livelihoods of the poor, their concerns are fundamentally different from those of the developed countries.

### **Box 3**

#### **Trade patterns in textiles after 2004**

*Spinanger (2001) provides an analysis of the possible changes to trade patterns for textiles and clothing (T&C) that may result from the accession of China to the WTO and the elimination of MFA quotas.*

*Using a numerical model to simulate trade pattern changes, the results indicate that many exporting countries of T&C products will be hard-hit that when China becomes a member of the WTO and is able to enjoy MFN treatment (see Box 1). Poorer developing countries that have developed into production locations for T&C exports are shown to be particularly vulnerable to the combination of the elimination of the MFA quotas and China's WTO accession.*

*Bangladesh, which has profited from the existing quota system and particularly from the more lenient treatment by the EU, is taken as an example to illustrate the consequences of more liberal trade in T&C. Not only will countries such as Bangladesh lose out because of a change in relative prices, but also because there are strong indication that when quotas are finally eliminated in 2005, it will be accompanied by re-location of production to China. A more attractive business environment in China (e.g. stability in the host country, the quality of infrastructure and that of the labour force) is given as an explanation of this shift in production. Overall, if as predicted there are major shifts in T&C trade patterns, those developing countries that are heavily engaged in export orientated T&C production will face a major challenge to restructure their economies and/or to undertake investment necessary to increase their competitiveness.*

Spinanger, D., (2001) "Beyond Eternity: What Will Happen when the ATC Gives Way to MFN Principles beyond 2004?", paper presented at the EU-LDC Network Conference on "Trade and Poverty Reduction", Rotterdam, May 2001.

This paper can be download: [www.eu-ldc.org](http://www.eu-ldc.org)

## Trade in services

The General Agreement on Trade in Services (GATS) has met with only limited success. Developing countries have so far made relatively few commitments under the Agreement, and face serious difficulties in undertaking appropriate complementary domestic reforms. At the same time, developed countries appear to have done very little to open up their services markets in areas seen as offering developing countries with potential export opportunities. Potentially there are important benefits to the poor from services liberalisation, but little research has been conducted on the impact on poverty.

### Liberalisation of trade in services

The standard economic argument in favour of liberalisation of trade in services is that, by supporting the development of well-functioning services sectors, liberalisation can contribute to overall economic efficiency and thereby to growth. Positive effects on growth should also come from increased investment and diffusion of knowledge. Impacts of liberalisation will be most important in services sectors that have strong linkages with the rest of the economy. For example, a well-functioning financial sector is key to an efficient transformation of savings into investment. And telecommunication is at the heart of dissemination of information and knowledge in an economy. Efficiency gains from liberalisation of trade in services may therefore come from (i) traditional gains from comparative advantages, (ii) lower costs of service inputs into production, (iii) economies of scale and scope. In addition, liberalisation of trade in services is often accompanied by the break-up of domestic monopolies. To date, there is only limited body of empirical evidence on the relationship between services trade liberalisation and economic growth, though on balance the available evidence does seem to point to a positive impact.

When applied to developing countries, it is noticeable that the arguments in support of liberalisation stress the benefits in terms of the impact on domestic services provision. That is to say, most of the gains are seen as coming from opening up domestic markets to service imports (from developed countries). By contrast, little attention appears to be given to benefits that developing countries may derive from increased exports of services. This is the inverse of the usual approach adopted in trade negotiations where the focus is on the creation of export opportunities and, hence, on seeking gains from liberalisation in foreign rather than domestic markets.

### GATS and developing countries

For services, unlike goods, traditional cross-border supply is normally insufficient for international trade to take place. Because delivery of services typically requires interaction (proximity) between the service provider and the customer, international trade requires cross-border movements of factors of production. In other words, a foreign service provider needs to be able to enter the national territory of the customer, either on a temporary basis or by establishing a permanent commercial presence. This has two consequences for rules on trade in services. First, the diversity of modes of trade in services needs to be recognised<sup>1</sup>. Secondly, rules and regulations within foreign markets that may limit the free movement of production factors (e.g. labour and investment) become of central importance. For this reason, trade rules in services have more far reaching implications than for merchandised goods since they relate not only “border” measures but also to domestic (i.e. internal) regulations.

The General Agreement on Trade in Services (GATS), concluded under the Uruguay Round, consists of two main elements:

- A set of general concepts, principles and rules that apply across the board to measures affecting trade in services (e.g. the Most Favoured Nations principle, although exceptions are possible).
- Specific commitments on national treatment and market access.

With respect to the specific commitments, each WTO member country can choose which of its sectors will be subject to market access and national treatment disciplines laid down in GATS (the so-called “positive list” approach). For each of these chosen sectors, a country may also decide to keep in place measures that violate either the national treatment and/or market access disciplines. Where limitations on sectors and/or exceptions apply, these must be specified by according to the four modes of supply set out in GATS.

The flexibility of the GATS approach allows developing countries to liberalise only a selected set of sectors and modes of supply. It also explains why, unlike many other WTO agreements, GATS does not include provisions on Special and Differential (S&D) treatment. Nonetheless, some explicit references to developing countries are made in the Agreement. Specifically, the Agreement asks for developed countries' support to increase participation from developing countries in services trade (art. 4), and to provide appropriate flexibility for individual developing country members in the liberalisation process (art. 19). The actual benefits to developing countries of these articles are unclear, however.

To date, high-income countries have scheduled on average about 45 percent of their service sectors under GATS, while low and middle income countries have only scheduled 12 percent<sup>2</sup>. Although developed countries have thus far made more commitments, these have largely been in areas that provide only limited export opportunities for developing countries.

In so far as liberalisation relates to the establishment of a commercial presence (essentially foreign direct investment), questions arise as to the extent of benefits that may accrue to developing countries from enhanced access to services markets in developed countries. In contrast to their counterparts from developed countries, companies from developing countries often suffer from limited capacity to produce and export internationally competitive services. Accordingly, they have little prospects for entering developed country markets. The fact that they appear to be faced by a "one way street" helps explain the reluctance of developing countries to make commitments to open up access to their services markets.

In the area of services trade that many see as most likely to create opportunities for developing country exports, namely labour-intensive services, developed countries continue to maintain stringent rules and regulations (e.g. via quotas, visa and qualification requirements) that restrict the movement of individual service providers. So far, hardly any of the commitments made under *mode 4* (temporary movement of natural persons) extend beyond professional and senior executives to include skilled and semi-skilled workers, let alone low-skilled workers (i.e. the group most likely to include the poor).

### **Complementary policies and regulatory reform**

Liberalisation of trade in services should not be viewed in isolation from domestic regulatory reforms and complementary policies. As many services sectors are characterised by a high degree of regulation,

regulatory reform may be necessary to comply with rules on international trade in services. Complementary policies (e.g. infrastructure development, investment and competition policy) may also be required to secure the benefits from services liberalisation. To give an example, benefits from port services liberalisation in India have been limited because it was not accompanied by investments in infrastructure linking ports to their hinterland. Complementary policies may also be necessary to meet social objectives (e.g. universal services provision) or address abusive practices. Finally, there is an argument that trade liberalisation may, in itself, increase the credibility of such domestic services sector reforms, when there may otherwise be problems with their implementation or enforcement.

Although domestic reforms play a vital role in creating appropriate conditions for effective services liberalisation, policy-makers face two fundamental problems. First, there is no clear prescription of what reforms and policies to adopt. Secondly, very little is known about the appropriate sequencing of reforms.

### **Services trade and poverty**

It seems obvious that those who derive economic (monopoly) rents from incumbent suppliers will lose out if liberalisation results in more efficient service provision. All others, including the poor, can potentially be expected to benefit, however. Indeed services liberalisation should provide the poor with lower prices and improved access. One example comes from the telecom sector where liberalisation allows for the introduction of mobile telephone systems accessible to the poor, thus enabling them to obtain information on market prices for their products. There are also risks that particularly affect the poor. Liberalisation may, for example, entail the elimination of (cross-) subsidies that benefit poor groups. Or private firms may "cherry pick" in such a way that gains from liberalisation may be directed at the rich rather than the poor. This raises the issue of how to address universal services requirements to enhance poor peoples' access to affordable services.

At this moment, little is known about the way service liberalisation affects the poor through employment, consumption and income effects. These effects will differ by sector and by country. So far, research has mainly focused on a limited number of services sectors, notably financial services, telecommunications and transport. These are indeed sectors where poor people can gain from liberalisation, because it often means getting access to services that were formerly not available to them. Other studies point to the importance of sectors such as tourism, construction, health and education for developing countries.

It is clear that more research is needed to precise evidence on the impact of services trade liberalisation on poverty reduction. And, given the very heterogeneous nature of services, this is required at a fairly disaggregated level of analysis. Moreover, in view of its potential importance for developing countries, more attention should be given to temporary movement of service providers (mode 4), for which existing research has largely neglected the case for low and unskilled labour.

1. In the GATS four modes of supply are distinguished: cross border (mode 1), consumption abroad (mode 2), commercial presence (mode 3), presence of natural persons (mode 4).
2. See Hoekman, B. (1995) "Assessing the General Agreement on Trade in Services", in Martin, W. and Winters, L. Alan (eds) "The Uruguay Round and the Developing Economies", World Bank Discussion Paper no. 304.

The following papers can be downloaded at [www.eu-ldc.org](http://www.eu-ldc.org):

Fink, C. "Trade Rules in Services: Issues and Problems", paper presented at the EU-LDC Network Conference on "Trade and Poverty Reduction", Rotterdam, May 2001.

## New agenda items: investment and competition policy

Arguably the WTO is a victim of its own success. Having proved so effective in establishing rules for border measures on merchandised trade, it has reached out to other more contentious issues (e.g. services, intellectual property rights). To widen the WTO agenda even more to include investment and competition policy, would further impinge on roles traditionally considered the preserve of sovereign governments. Even though there are areas in which developing countries could gain from multilateral rules, their best interests are often not clear.

### Items for the agenda?

Investment and competition policy are key items that the EU would like to see on the negotiating table for a new trade round. Along with areas such as services, trade facilitation and procurement, the EU sees multilateral rules in these areas as contributing to a more open and predictable regulatory environment for business. Such an environment would improve the propensity of multinational enterprises to invest abroad. And, by increasing transparency, provide the possibility to fight corruption and tax evasion. Thus, though not aimed at them *per se*, developing countries should benefit from multilateral rules in these areas.

Despite the EU's enthusiasm, there is no widespread support for putting these items on the agenda. Most developing countries, and even some developed countries, are opposed to it. The reasons for the resistance from developing countries include the following:

- Concerns that extending the agenda would divert attention from the main priority areas for developing countries.
- New issues would add to the current lack of capacity to negotiate and implement trade agreements.
- Fear that multilateral rules on these issues would limit developing countries' flexibility in setting policy.
- Uncertainty regarding the benefits of multilateral rules in these areas.

To these can be added the experience developing countries gained from the Uruguay Round, which showed them the risk of agreeing to multilateral rules in areas where they have little experience or lack the capacity to fully understand their implications (e.g. on intellectual property rights). At present, most developing countries feel that the outcomes in such areas have not been to their advantage.

A more fundamental issue is whether the WTO is the appropriate forum to deal with investment and competition matters. First, there is a question of the substance, and whether the WTO should or can take on a role of rule making in areas that deal with private practices and extend well beyond trade considerations; this also applies to other new agenda issues such as labour and environmental standards. Secondly, there is question of enforcement, as the WTO, unlike many other international organisations has at its disposal means of enforcement that proved to be effective, especially the Dispute Settlement Mechanism. Finally, there is a question of capacity, as the WTO has only a limited capacity both in terms of funds and people, and so there is a risk that its effectiveness in dealing with trade disputes may be compromised if it is given a broader remit.

### Investment: current agreement and EU proposals

The Trade Related Investment Measures (TRIMS) Agreement concluded during the Uruguay Round only deals with post-entry treatment of FDI. Its

coverage is, therefore, limited when compared to other investment treaties (pluri-lateral or bilateral). The TRIMS agreement basically refers to two existing articles under the GATT dealing with national treatment (art. III(4)) and quantitative restrictions (art. XI(1)), and provides an illustrative list of measures that are inconsistent with these two articles.

After the Uruguay Round Agreement, the OECD attempted to come to a Multilateral Agreement on Investment (MAI), which would be more encompassing than the TRIMS agreement. After three years negotiations were discontinued, however, because of disagreement between governments on various issues and opposition of civil society.

Leaving aside the WTO, and looking more broadly, the main issues that might be addressed by future negotiations on multilateral rules on investment include the following<sup>1</sup>:

- Standards of treatment for the foreign investors;
- Market distortions created by host governments' policies (entry restrictions, performance requirements, FDI incentives).
- Market distortions created by investing firms (restrictive business practices).
- Investment protection and a dispute settlement mechanism.

It is hard to imagine, however, that a far-reaching agenda on investment would ever be possible within the context of the WTO. Rather, there appear to be three possible options for the development of new investment rules within a new trade round:

- to leave the TRIMS agreement as it is;
- to extend (or reduce) the illustrative list of trade related investment measures; or
- to complement the TRIMS Agreement with new rules on investment.

The EU is in favour of the final option, though it is not aiming at an agreement like the MAI. It proposes an approach along the lines of the GATS model, based on commitments undertaken by each Member so as to allow for sufficient flexibility. For the time being, the EU has not put forward any detailed proposals on what these multilateral rules should exactly look like. The EU does, however, acknowledge that rules on FDI should preserve the ability of all host countries to regulate the exercise of economic activity on their territory, in accordance with basic WTO principles. It also recognises that investments do not under all circumstances contribute significantly to economic growth in both the home and the host country. In this respect, rather than using special and differential (S&D) treatment, the EU favours the incorporation of the dimension of sustainable development into multilateral rules. It is not clear, however, how this would be made operational.

## Competition policy: issues for multilateral rules and the WTO

Competition policy is very much related to rules on investment. Increased foreign investment adds a cross-border dimension to many competition-related issues (e.g. mergers). Competition rules, however, differ greatly across countries and many developing countries do not have such rules at all. This absence provides the basis for one argument in favour of multilateral rules on competition, namely that in view of the increasing global character of competition issues it may be more efficient for developing countries to adopt multilateral rules on competition than to develop their own set of rules.

Developing countries could certainly benefit from having competition rules. Foreign firms entering their economy often acquire a high degree of market power, and without competition policy governments have only limited possibilities to ensure that competition is not distorted. Multilateral rules may have the advantage that firms are more likely to be respectful of international regulations than of domestic laws enacted by weak governments in developing countries.

An important problem in designing multilateral rules is the absence of hard and *per se* rules in competition policy. In most cases a "rule of reason" approach is adopted. This means that there is no absolute right and wrong in competition policy, and disputes have to be looked at on a case-by-case basis. From a WTO perspective, this is likely to cause problems in the dispute settlement process as it introduces significant room for interpretation. Another problem is that competition policy deals with private practices that impede market contestability, whereas trade policy deals with government measures. A basic principle is that the WTO cannot address private practices that restrict or foreclose trade, although limited scope has been introduced under the GATS agreement.

### Can agreement be reached?

It will be very difficult to reach a multilateral agreement on both investment and competition policy. For both subjects there is little support to put them on the agenda. And the foregoing indicates that even if these subjects were to be included in a new round of negotiations, it is questionable if an agreement could be reached. To summarise:

- The negotiations for the MAI showed that developed countries have many unresolved differences. Adding the developing countries to the negotiating table is likely to increase them.
- While the EU is willing to meet the concerns of other countries when designing multilateral rules on investment, it has not proposed concrete rules that incorporate these concerns.

- The WTO cannot address private practices. It will, therefore be difficult for the WTO to address international competition issues.
- There are no *per se* rules in competition policy and competition rules differ greatly by country. Cross-border competition issues are therefore more likely to be resolved through increased co-operation between national competition authorities and a gradual harmonisation of competition rules, than through a multilateral agreement.

### Implications for poverty

The impact of multilateral rules on investment and competition policy on poverty will only be indirect. Such rules can increase the overall efficiency of a country's economy, and the poor will also benefit if, as a result, prices are lowered and access to markets is enhanced. Especially in the case of competition policy, a redistribution of welfare between the rich and the poor may take place if the removal of economic rents that accrued to the owner of monopolies or oligopolies is translated into lower prices and increased supply.

The impact of increased foreign investments as a result of multilateral rules is less clear. Some studies indicate that the impact on growth and poverty is limited or even negative, while other studies find a positive impact<sup>2</sup>. The empirical evidence on the impact on an economy of FDI is at present far from straightforward.

1. UNCTAD (1999) Trends in international Investment Agreements, New York: United Nations.

2. For an overview, see Moran, T. (1998), "Foreign Direct Investment and Development", Institute for International Economics, Washington D.C.

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## Trade and poverty reduction, some concluding remarks...

### On the relationship between trade, economic growth and poverty...

The effects of trade liberalisation on poverty are complex, rarely direct, occasionally strong and often ambiguous. Trade liberalisation involves the reduction of tariffs and non-tariff barriers. It takes place in widely different circumstances. In a negotiated (multilateral or regional) context, trade liberalisation is implemented gradually with often long transition periods. In a unilateral context, trade liberalisation can be fairly drastic, forcing abrupt changes on the actors involved. Often it takes place in situations of acute (macroeconomic) distress. Poverty reduction (or alleviation), on the other hand, is associated with popular housing policies, access to safe drinking water, the provision of basic health care, universal basic education, income redistribution, agricultural policies, and economic growth. It is in the promotion of the latter that trade policy and poverty alleviation come together in a fairly unambiguous manner.

At the macro-economic level, trade liberalisation and poverty alleviation are linked through two mechanisms. First, growth in the incomes of the poor is positively related to a country's overall economic growth. Secondly, trade liberalisation leads to more efficient resource allocation and thus contributes to economic growth<sup>1</sup>. In short, economic growth helps reduce poverty, and trade liberalisation is beneficial

for economic growth: open trade → economic growth → poverty reduction.

However, whilst few would disagree with the above as stated in such general terms, it also leaves a number of questions unanswered, many of which are of utmost relevance for both policymakers and the poor themselves. How strong is the link between trade liberalisation and economic growth; how quickly will poverty reduction follow trade liberalisation, and will *all* see their situation improve; is trade liberalisation a sufficient condition for poverty reduction; and how comprehensive should market opening be to achieve the desired results? These are but some of the questions to which policy makers seek an early answer.

*Trade liberalisation may, but need not lead to higher economic growth.*

Trade liberalisation strengthens the motivation for firms to modernise, but they may lack the means to do so successfully. Small countries, where growth has been restricted because of the small size of their domestic market, should be among the prime beneficiaries of trade liberalisation. But due to technological and other constraints it may take time for these countries to fully realise the benefits offered by scale economies. In any case, these scale economies are normally associated with manufacturing. They may not be so important for poor, primary goods export-

ting countries with a small manufacturing industry. Lastly, the substitutability between import-competing goods and export goods can be low in poor countries. When the import-competing sector contracts as a result of trade liberalisation, this does not automatically release resources for the expansion of other sectors when the differences in the product mix and in skill requirements are wide.

*There may be 'losers' in both the short- and the long term.*

It is now widely accepted that trade liberalisation does not just produce winners. The impact of 'pro-market' reforms on the poor can be negative in the short term. Some developing countries, which have gone from one reform program to the next, have seen drastic increases in poverty. In certain Central and Eastern European countries the incidence of poverty is now higher than it has been in decades. Calling for a 'measured and realistic' approach, the World Bank admits that, at times, reform programmes have failed to deliver as much as expected and that, at times, reforms have failed entirely.

The potentially adverse short-run effects of trade reforms are at the heart of concerns over the impact of trade liberalisation on poverty. In addition there is the fear that greater openness, by increasing the exposure of the economy to external shocks, may result in higher levels of poverty and reduced effectiveness of policy measures for its alleviation. And even if growth reduces aggregate poverty, there is no guarantee that certain groups among the poor will not be left behind. Devaluation may be beneficial to the rural poor (they receive higher prices for their exports) but detrimental to the urban poor (who consume more, and now more expensive, imported goods). Where this occurs there may even be losers in the long run.

*Trade liberalisation by itself is thus not sufficient for achieving poverty alleviation.*

It is the reason why economists tend to plead for 'social safety nets' to accompany trade reform. What such a net should look like is usually ill-defined. Its purpose, though, is manifold. In its crudest form it is a mechanism through which the winners of trade reform compensate the losers. As such it has not only an equity but also a political economy dimension to it: when the losers have been adequately compensated (and *feel* that this is the case), they should have no reason to oppose trade reform. Nonetheless, it is not always clear what such a net should look like, how it should be financed in poor countries, whether the gains from trade can be so easily calculated and, above all, whether the losers of trade reform can be identified in an unambiguous manner.

*And then there is the question of how comprehensive market opening should be. Whilst it is true that avera-*

ge tariffs in the industrialised countries (the main proponents of trade liberalisation) have come down to low levels, it is also true that import barriers for certain product groups are still high. Concern over an adverse impact on the income of their low-income groups is a reason why barriers in, say, agriculture and clothing have remained high in spite of many decades of trade liberalisation. The Republic of Korea that is often held up as an example of a country that managed to combine a successful trade policy and a comparatively equal income distribution opened its domestic market only in a highly selective manner. Viewed from the angle of poverty reduction, the question of how comprehensive (or how selective) the liberalisation of trade in goods (or, for that matter, in services or in investment rules) should be appears highly relevant.

### **On increasing the contribution of 'rich' country trade policies to poverty alleviation in 'poor' countries...**

How can 'rich' country trade policies contribute to poverty alleviation in poor countries? As we saw above, poor countries are meant to apply a combination of trade liberalisation cum non-trade policies ('social safety nets'). Can 'rich' country trade policies also make a contribution? To answer this question it is useful to first define the poor in terms of trade policy. The poor can be identified by their income level (people below 'the poverty line'), by the extent to which they participate in the 'formal' economy (most poor people are found in the 'informal' sector), by geographic situation (urban poor or rural poor), by socio-economic status ('working poor', underemployed, unemployed), by economic activity (many poor people are active in subsistence agriculture), or by country (many people in low income countries are poor).

Trade economists are most comfortable with the notion of poor (i.e. low-income) *countries*. Several schemes exist to give preferential treatment to such countries. Examples are the Generalised System of Preferences (GSP) and the EU's recent Everything But Arms (EBA) initiative. And, within the WTO, the application of special and differential treatment provisions is largely determined by a country's average income level.

A sector-based approach would want to identify those sectors in which the poorest countries appear to have a comparative advantage. Examples that come to mind are those sectors that make intensive use of low skilled labour such as footwear, clothing, travel goods and agriculture. The record on these sectors is far from uniformly positive for developing countries, though. For example, trade restrictions in clothing continue in place many decades after the developing countries first showed that they could supply these goods at competitive prices (but these

trade restrictions may be beneficial to *certain* poor countries).

Most poor people live in rural areas. Stimulating agricultural exports would appear a natural way to help the rural poor to climb out of poverty. However, in high income countries, tariffs on imports of agricultural goods continue to be much higher than those on imports of manufactured goods. Tariffs on agricultural imports from developing countries are not significantly lower than those applying to imports from other developed countries.

More liberal immigration policies in developed countries can make a critical contribution to poverty alleviation in developing countries. Such policies have two advantageous effects: (i) they provide jobs to people from poor countries; (ii) the remittances that these people send home constitute the most efficient financial resource flow to the poor in developing countries. Though immigration policies are not a pure trade issue, rules on the movement of individuals are directly relevant for trade in services. Developed countries, however, continue to apply strong entry restrictions that limit possibilities for developing services trade. This is especially true for low and unskilled labour, which would have the most direct effect on poverty.

Finally there is the related issue of the role of development assistance. Developed countries can contribute to successful outcomes from trade liberalisation by actively pursuing development (aid) policies that are coherent with the trade policy agenda. In particular, this may mean addressing the institutional capacity constraints of developing countries, both in the analysis and formulation of trade policy, and the implementation of complementary reforms, including the provision of social safety nets.

### **On the implications of trade-poverty links for domestic policy...**

To improve the formulation of policy recommendations for protecting or promoting the interests of the poor when faced by trade policy reforms requires:

- A better view of the *mechanisms* at work, and how these interrelate.
- Supporting *empirical evidence* to assess the likely magnitude and relative importance of the various effects.

It is possible to develop relatively comprehensive descriptions of the ways in which trade can affect the poor<sup>2</sup>. This can be done by examining the various channels (e.g. enterprises, distribution sector and government) through which the effects of trade policy on poverty can be traced. It is apparent, however, that for each channel analysed it is possible to identify potentially positive and negative aspects for the

poor. The number of these 'aspects' tends to multiply with the degree of detail or sophistication of the analysis that is necessary to accommodate different sectors, different institutional arrangements, or different groups of the poor. As is also the case when short and longer-term dynamics are incorporated.

The above leads naturally to need for empirical evidence. Unfortunately, however, very little is actually known about how trade has impacted on poverty in particular cases. This is due, not least, to the fact that researchers have only recently begun to address the issue. In addition, a complicating factor is that trade liberalisation is often adopted as part of a package of reforms, making it difficult to disentangle the effects of trade policy from other measures. Poverty in many developing countries has been affected as much by structural adjustment measures under World Bank / IMF programmes and domestic reforms as by trade liberalisation *per se*.

It follows that no general conclusions can be reached on whether trade liberalisation will increase or reduce poverty. In any case, general conclusions would also require common starting points in terms of the pattern of trade restrictions across countries.

Nonetheless, indications can be given of some of the areas where governments need to know more in order to assess how prospective trade reforms may affect the poor. Two things stand out:

- First, with regard to trade policy itself, governments should know the price effects and how the distribution network will pass them on, the employment effects, and the revenue effects.
- Secondly, they need to know how the poor obtain their income, what they consume and how they cushion against shocks.

Once the analysis of the mechanisms through which trade reform affects the poor have been clarified, it is possible to identify areas for complementary policy and institutional reform:

- One set of measures relates to *the general economic policy* setting. As trade reform operates through the transmission of price signals, the right conditions for these to feed through the economy need to be present. This in turn implies, among other things, macroeconomic policies that favour competitive exchange rates and stable prices, and domestic policies that encourage investment and competition.
- Another area for complementary policy is in the provision of *social safety nets*. However, as it is virtually impossible and largely undesirable to separately identify 'losers' from trade reforms, the design and implementation of social safety nets is a general rather than trade specific issue.
- Finally, complementary reforms should be seen not only as a means of protection, but also as a means of *promoting* the poor. For example, as the poor are often to be found predominantly in the infor-

mal sector, measures that increase mobility from the informal to the formal sector (e.g. training, supply of credit) can be important in enabling the poor to take advantage of new job opportunities created in the formal sector through trade liberalisation.

- Complementary policy and institutional reforms are important for protecting and promoting the interests of the poor. Further research is desirable and necessary for improving knowledge of the effects of trade policy on poverty and for guiding appropriate policy.

### And to sum-up.

Where does this discussion lead us? The simple response seems to be that we can reach some general conclusions about the interrelationship between trade and poverty, but are far from addressing the specifics of individual cases. To summarise:

- The way in which trade reform affects poverty depends upon specific country circumstances and the situation of the poor.
- The impact of trade liberalisation on poverty will, in most cases, be an indirect one. Trade alone is not usually sufficient to reduce poverty.

1. See, for example: Dollar, D. (1992) "Outward-Orientated Developing Economies Really Do Grow More: Evidence from 95 LDCs, 1976-85", *Economic Development and Cultural Change*, 40(3); Edwards, S. (1998) "Openness, Productivity and Growth: What Do We Really Know?", *Economic Journal*, 108 (March); Sachs, J. and Warner, A. (1995), "Economic reforms and the process of global integration", *Brookings Papers on Economic Activity*, No. 1. For a more agnostic view on the empirical evidence, see, for example: Rodriguez, F. and Rodrik, D. (1999) "Trade policy and economic growth: a sceptic's guide to cross-national evidence", *CEPR Discussion Paper Series*, No. 2413.

2. See, for example, McCulloch, N. and Winters, A. "Trade Liberalisation and Poverty", presentation for the EU-LDC Network Conference on "Trade and Poverty Reduction", Rotterdam, May 2001 (available at [www.eu-ldc.org](http://www.eu-ldc.org)).

## Colophon

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