

Global governance and poverty reduction

How does global governance relate to poverty and development? Which issues should be dealt with globally and which regionally or locally? How can international institutions be reformed to contribute to poverty reduction? And what should be the role of the EU in this process? These are just some of the questions that have occupied centre-stage in recent debates on global governance and poverty reduction. This EU-LDC Brief seeks to contribute to the debate by bringing together a variety of perspectives on these issues.

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Introduction

Issues of global governance have assumed great significance over the last years. With a growing sense of interdependence, international treaties and international organizations have come to play important roles in many issues and policy areas. Global governance is also closely linked to poverty reduction, since poverty reduction does not only require action on national or local levels, but also on the global level. International organizations, like the World Bank, have played key roles in this regard. Moreover, even if they are not specifically aimed at poverty reduction, global governance institutions may have an important effect on poverty and development policies, as is witnessed for instance by the debate surrounding TRIPS, the WTO Agreement on intellectual property rights.

At the same time, the functioning and legitimacy of global institutions have come under increasing criticism from various sources. On the one hand, critical NGOs have mounted massive protests against global institutions such as the World Trade Organization (WTO) and the World Bank, demanding greater transparency and checks on globalization. On the other hand, the support for multilateral approaches in the United States seems to have dwindled since September 2001.

Global governance will therefore be a crucial and pertinent issue in trade and development policies for the coming years. Calls have been made to make the new negotiating round of the WTO into a 'development round', while the role of the UN system may also undergo redefinition as priorities change and relations between countries are shifting.

The European Union (EU) is likely to play an important role in these developments. Although the EU is still coping with its place in international politics, it has firmly established itself in the area of trade and development, as a leading power alongside the US. As a consequence, part of the debate will evolve around the role of the EU in global governance.

Three questions

Next December, the EU-LDC network will hold a conference discussing the interactions and linkages between trade, global governance and poverty reduction, and the role of the EU therein. During this conference, key questions are:

- Which poverty and development issues should be dealt with at the global level?
- How can existing global institutions be reformed in order to contribute to development and poverty reduction?
- What role could or should the EU play in these issues?

This EU-LDC Brief contains a number of contributions discussing these questions, thereby providing input to the debate. The first contribution, by Bezanson, focuses on which issues should be dealt with at the global level, discussing the concept of 'Global Public Goods'. Subsequently, Javed makes the case for global initiatives to address poverty and development, providing the link to the second question on how global institutions should be reformed.

The next four contributions discuss various reform issues with regard to global institutions. Vander Stichele and Shnief present the general case for reform of multilateral institutions, Van den Broek discusses the most important questions raised in debates on the WTO, while Mishra focuses on reform of the TRIPS Agreement, one of the most contentious global governance issues in recent years.

Finally, Ratchford presents the European Commission perspective on the role the EU should play in global governance, and UK Secretary of State Short discusses the role the UK government plays in strengthening developing countries' voice in international organizations.

Princen, Plaisier and Molle will react to one or more contributions relating to each of the three questions discerned above. A concluding article will draw together some threads from these contributions and formulate a number of questions that seem to be of particular importance in this debate. You are also warmly invited to contribute to this debate at the December conference or on the EU-LDC's website.

Global Public Goods: opportunities and threats

The concept of Global Public Goods has become central to debates on global governance and poverty reduction. This article gives a review of the various claims made in the name of Global Public Goods, and whether they are supported by a critical examination of the concept. Although the concept holds great promise for development policies, a fuzzy application may undermine its use.

Introduction

A recent feature in debates and discussions on international governance is the growing dominance of the idea of 'global public goods' (GPGs). The enthusiasm of at least several international development agencies is such that they have announced GPGs as the new frame of reference for official development assistance that can revitalise the political commitment to aid.

But there is also considerable disagreement on the value and potential of a GPG approach to addressing global concerns. The expressions of enthusiasm from one side are met with expressions of concern on the other. Indeed, some scholars and policy makers are alarmed about claims made in the name of global goods and about what they view as the 'fuzziness' of the concept of a GPG, especially when inscribed into policy processes.

Thus, one leading North American scholar has stated that "during the Cold War, the United States and its allies provided the *global public good* of containment, investing trillions of dollars to stop the spread of communism" (Sachs, 2001). A former international public servant has declared that 'the international monetary system may be seen as a *global public good*. It is essentially the same system for everyone' (Camedessus, 1999). Many would take exception to the first statement, and the second glosses over the huge asymmetries that characterise international financial relations. Both are made without acknowledging that there are widely different – and equally legitimate – perspectives on these issues. Yet another example of imprecision (fuzziness) in invoking the term GPG, is seen in the claim that: "The means to preserve the conditions for a globally sustainable development for each individual and its community must be regarded as *global public goods*, independently of whether the source of production and the reach of effect is local, national or global" (Banca Etica, 2001) (emphases

added in the above quotations). From this perspective, there is little that would not qualify as a GPG and that would not be a matter requiring some type of global governance arrangement.

This leads to a range of difficult and basic questions, the most basic of which is: to what extent is it appropriate to use the term GPG? The concept of a public good is rooted in economics where it has been assigned reasonably tight boundaries. Should such a precise concept be applied to the broad range of emerging international challenges confronting, at the same time, small villages in poor developing regions and the community of nation-states? What are the financial and institutional implications of adopting a particular definition of a GPG? How and with whose participation and consent should decisions about defining and providing GPGs be made? What can decision-makers draw upon in making public policy choices in response to expanding and competing claims for financial resources in the name of GPGs? Will attention to GPGs divert scarce resources away from the urgent national needs of the poorest countries and into areas that are of most immediate consequence to the citizens of richer countries?

The concept of Global Public Goods

The extrapolation of the rather precise concept of 'public good' from economics to broader contexts, specifically those in which development policies and interventions take place, requires considerable conceptual stretching. The actual delivery of an international public good involves both 'core' activities at the global and international levels in a restricted sense, and a much broader set of 'complementary' actions at the national, regional and local levels. Core activities would be the primary responsibility of the international community of nations, associations and corporations, while the complementary activities would fall under the purview of national entities. Drawing a line between these two sets of activities has numerous operational and financial implications. Increasingly clear as a major concern of poorer countries is that resources now allocated to development assistance (which overlap to a large extent with complementary activities) will be diverted to finance the provision of GPGs.

A highly topical example of these difficulties is apparent in current debates about the provision of HIV/AIDS treatment for infected persons. Clearly, no reasonable individual would question as a desirable outcome the provision of adequate treatment to persons infected with HIV/AIDS. There is, however, considerable disagreement on the extent to which such treatment should be approached on the basis of considering it a GPG. One school of thinking holds that the GPG component involves the knowledge about how to produce treatment drugs or vaccines,

and that the GPG challenge is to ensure that such knowledge is made available at low or no cost to those countries and firms that can produce it for local consumption, and even for export to other developing countries. A second school goes much further by proposing the actual delivery of the drugs to infected persons as a GPG. This second school would not necessarily require disclosure of the knowledge for drug or vaccine production, but would require in the name of GPGs the putting in place of all the arrangements required for purchasing, distributing and administering treatment drugs to all infected persons. There is a third, although less known, school that argues that, however terrible and devastating the disease may be, this is simply not a global problem, that there are other health priorities for developing countries, and that these concerns are primarily local and national and do not qualify for the label of a GPG.

To take another example, similar concerns emerge with the conservation of biodiversity. Because of its importance for evolutionary resilience, the provision of ecosystem services and the potential for leading to new drugs and other useful products, biodiversity conservation is claimed as a GPG that also requires global governance arrangements. Biodiversity, however, is a highly localised phenomenon, with a few 'biodiversity hotspots' accounting for a very large share of the diversity of living organisms in the planet. Countries where such sources of abundant biodiversity are located could well argue (and they do) that it is up to them to use this natural resource as they see fit. Since its inception, the Global Environment Facility (GEF) has been confronting the issue of which proportion of biodiversity conservation projects should be financed through its grants, and which part should be covered by national or local organisations (or by development assistance). The difficulties involved in drawing a precise distinction are enormous and, after a decade of experience, the GEF continues with efforts to refine its definition of what are called 'incremental costs'. This concept is used to identify those aspects of a biodiversity project that generate global benefits, and are thus eligible for GEF funding, separating them from the financing of activities that produce primarily local and national benefits.

Other examples of the difficulties involved in the concept of GPGs are easily provided from current debates on climate change and greenhouse gas emissions, ensuring financial stability in a globalising world economy, ensuring global water supplies and preserving watersheds, preventing deadly conflicts, and so on. What is clear is that, whatever its potential merits, policy application of the concept of GPGs raises contradictions, issues of how to reconcile highly variable perceptions and asymmetries of power and a host of challenging questions that are not easily answered. Yet it is in this difficult and confusing con-

text that a virtual explosion of demands is occurring in the name of GPGs (see box following).

Opportunities and threats

This situation has attracted the attention of economists and scholars from other disciplines and this has yielded a recent and fast-growing range of studies aimed at introducing greater conceptual clarity into this situation. These studies involve classification schemes that categorise public goods along the three dimensions of range of spill-overs, degree of excludability and degree of rivalry, and also along other dimensions such as sector, aggregation, technology, type of benefit, and whether the public goods are tangible or intangible.

Helpful as these studies are, they have made even clearer that the transition from acknowledging that a good, service or outcome is desirable, to declaring that it is a GPG is not straightforward or automatic. It is heavily influenced by public awareness and political decisions, and requires collective action at the level of the international community (which includes not only national governments, but also private corporations and civil society organisations). It also begs the question of 'desirable for whom?' Nevertheless, the

outline of a broad consensus is emerging around the fact that GPGs must be related, in some form or another, to world-wide poverty reduction, and to a more equitable distribution of the benefits of social, economic and technical progress. Indeed, it has been suggested that achieving equity at the international level and between generations may be considered as a GPG. Thus, the contribution of a particular good, service or outcome to poverty reduction and to improvements in international equity could be used as one of the main criteria to decide on whether it should be considered as a GPG.

Moreover, given that GPGs, or indeed any commodity, resource or service, has to be ultimately produced, utilised or provided by some individual or agent in a specific location, it is necessary to specify how far down the continuum from global to local to draw the line between what is a GPG and the host of regional, national and local activities and policies that are necessary for it to materialise. There is also the need to specify the extent to which supranational entities are supposed to arrange for the provision of the GPG, and to what extent should they intervene in regional, national or even local affairs to ensure this happens.

Some recent claims of GPGs^a

Related to the international and global commons

Reducing greenhouse gas emissions	Maintaining the evolutionary resilience of biodiversity
Protecting the ozone layer	Reducing acid rain
Curbing air pollution	Safe disposal of nuclear and toxic waste
Preventing and reducing desertification	Controlling and reducing soil erosion
Conserving nature parks	Ensuring global water supplies
Maintaining access to and operating waterways and transportation networks	Maintaining the stock of global fisheries
Maintaining access and regulating the exploitation of seabeds	Ensuring the peaceful use of outer space
Operating/maintaining communications satellites in geostationary orbit	Operating and maintaining remote-sensing satellites
Preserving cultural heritage	

Related to international or global policy outcomes

Ensuring financial stability	Preventing deadly conflicts
Curbing organised international crime	Improving global equity
Reducing world poverty	Ensuring globally equitable labour standards
Preventing nuclear accidents	Preventing the spread of infectious diseases (e.g. HIV/AIDS, tuberculosis, malaria)
Providing HIV/AIDS treatment	Providing immunisation for all children
Ensuring global food security	Ensuring good governance of international institutions
Expanding/integrating international trade	Ensuring fully democratic participation in establishing GPG regimes

Related to international or global policy outcomes

Conducting research and providing statistical data on social, economic, political, scientific, technological, environmental and cultural indicators	Agricultural research and extension
Producing and disseminating knowledge and technologies relevant to developing countries	Creation of vaccines for diseases endemic to tropical areas
Disseminating information for weather monitoring and forecasting	

a. Table adapted from Sagasti & Bezanson, 2001.

The difficulties associated with and inherent in the notion of GPGs are formidable and these have recently been compounded by an explosion of claims made in the name of GPGs. The lack of precision, the absence of conceptual clarity and the inattention to how such goods are to be provided and financed establish the possibility that the concept itself may soon be discredited and subsequently discarded as a feature of public policy. This would be a pity, for GPG approaches hold considerable potential to address global common concerns and to introduce greater consensus into debates on global governance. Indeed, by focussing attention on the limitations of current political, legal, institutional and financial arrangements for addressing global problems, the GPG approach has already made an important contribution. For policy makers the current situation should make all the more urgent the need for a conceptual framework that integrates the key factors affecting the definition, delivery and consumption of GPGs and that is constructed in specific recognition of the fact that it is not possible to escape values, preferences, interests, asymmetrical knowledge and power relations in defining GPGs and in arranging for their provision. Without policy processes that take all these

factors into consideration, declarations that something is a GPG will essentially remain empty rhetoric. Viewed positively, the potential payoffs from such a framework could be seen in better and more effective policies to address common concerns. Viewed negatively, the lack of conceptual clarity could lead to misguided policies and involve high opportunity costs, and could prove especially damaging to the interests and needs of least developed countries.

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Comment: who needs Global Public Goods anyway?

The concept of Global Public Goods occupies an important place in recent debates on global governance and poverty reduction. This raises the question why this concept has been introduced and what we are to gain from applying it to global poverty reduction and development policies.

In his article, Keith Bezanson discusses the concept of 'global public goods' (GPGs) and its use in debates on international governance. The main part of the text is concerned with the question what qualifies as a GPG. It presents an interesting overview of attempts to apply this concept to development issues, and it seeks to clarify its meaning.

This discussion raises the question, however, why the concept of GPGs has been introduced in the first place. In principle, there are two reasons why a concept may be used: for analytical purposes or for political purposes (not meant in a pejorative sense here). Analytically, a concept may help in understanding issues and may point to potential solutions. Politically, a concept may help in raising support for or opposition against some policy. Explicitly making this distinction may clarify some of the confusion that surrounds the concept of GPGs.

In economic analysis, the concept of a 'public good' is useful because it says something about the problems in providing a good (e.g. free riding and under-provision) and potential solutions for these problems (e.g. government subsidies or provision of the good). This

could also be useful in a global context, and it may explain many of the problems involved in, for instance, agreements to address climate change (cf. Kaul, Grunberg & Stern, 1999).

As far as I can judge from Bezanson's paper, however, the use of the concept of GPGs seems to be informed more by political than by analytical intentions. Calling an issue a GPG seems to express that 'we are all in it together' or that it is something that 'we should all be concerned about'. As Bezanson notes in his opening paragraph, the concept of GPGs is then seen as something 'that can revitalise the political commitment to aid'.

If this is so, it explains much of the confusion surrounding the concept. In fact, it may not be very useful to attempt a clarification of the concept, since this will not address the underlying (political) rationale for applying the concept of a GPG.

Nevertheless, a critical examination may be useful because a fuzzy application of the concept of GPGs may lead to bad policies, something Bezanson highlights in the closing sentence of the article. Such an examination diverts the focus away from the political purposes (is the concept helpful in garnering support

for a given policy?) to the analytical purposes (how can we best address certain problems?). Bezanson shows that the concept of GPGs has been used for a wide variety of issues, and he rightfully doubts whether all of these issues can count as a 'public good' mentioning a number of problems involved in the application of the concept. However, it is subsequently argued that 'the outline of a broad consensus is emerging around the fact that GPGs must be related, in some form or another, to worldwide poverty reduction, and to a more equitable distribution of the benefits of social, economic and technical progress'.

In relation to the preceding discussion, this is a surprising conclusion. Why should poverty alleviation count as a public good? How does poverty affect the welfare of people in developed countries and how would alleviating poverty and a more equitable distribution of benefits improve their welfare? Such a link should at least be substantiated and be fairly strong in order for poverty reduction to count as a public good. If poverty is nevertheless to count as a public good, then almost all claims listed in the table would also be public goods.

Of course, it can be argued that (people in) developed countries have a moral obligation to alleviate poverty and that the world would be a better place without poverty, but this is quite a different argument. It refers to distributive motives, and stands closer to the political use of the concept referred to above: essentially, it states poverty is something we should all care about. That may be right, but it has little to do with public goods in an analytical sense.

Another line of argument would see the fulfilment of this moral or political objective as a benefit to people in developed countries who care about poverty. Thus, the welfare in developed countries could increase when poverty in developing countries is reduced. Similar arguments have been put forward in relation to the protection of endangered species in other countries. This would, again, make all claims in the table qualify as a public good.

Moreover, what does the concept of GPGs add to our understanding of poverty and policies to alleviate it? The concept has often been used to justify development aid, but such an approach does not necessarily flow from a public goods analysis.

Therefore, the paper raises important questions about the use of GPGs and it brings out an important ambiguity in the use of the concept. On the one hand, a narrower and more analytical use may yield substantial benefits. On the other hand, a consensus seems to emerge that is at odds with its analytical meaning. It is doubtful whether the concept will be more than a passing trend if its analytical underpinnings are not further strengthened.

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Global governance for an interdependent and poverty-free globe: revisiting the challenges

Poverty is a global phenomenon that inhibits the progress of humanity - one segment of humanity cannot live in sustained affluence along with another part of humanity living in perennial poverty. It is the task of the new global governance to ensure the establishment of a mechanism for such a sharing and caring of global community of nations.

Introduction

Global problems, and consequently, challenges that originate in managing such problems are growing fast: environmental degradation, climate change, deforestation, destruction of biodiversity and ecological imbalance, unsustainable and unplanned use of natural resources, refugee influx, international terrorism, ethnic clashes and drug abuse and drug trade, to mention but a few. With the growing interdependence among countries and people, driven by economic globalisation and revolution in communi-

cation technology, these emerging challenges call for shared concern and shared responsibility. In fine, these challenges require the pursuit of better governance beyond boundaries.

Once viewed primarily as a matter of intergovernmental relationship, the concept of global governance has now acquired a broader perspective and dimension. This entails not only the relationship between governments or, for that matter, governmental institutions, but also the interface and cooperation between the different nongovernmental entities. There are several areas where international

governance could play a crucial role in terms of coping with the increasing global economic inter-dependence in a manner capable of bringing about substantive reduction in poverty levels.

Balancing international trade

Though the World Trade Organization (WTO) was established to govern world trade through a rule-based trading system where all countries, including the LDCs, would be integrated into the world economy from a position of strength – the share of LDCs in global export has come down to around 0.4 percent at end of the 1990s from about 0.7 percent at the start of the decade. Therefore, to ensure sustainable governance on global trade that would truly contribute to poverty reduction, a thorough review of the developmental experience in this era of globalisation must be carried out urgently before the LDCs become devastatingly marginalized. The concept of Special and Differential Treatment for LDCs has hardly made any progress in terms of implementation. Global governance of trade should be geared towards a meaningful implementation of the S&DT provision to address challenges facing the LDCs both on the supply side and the demand side.

Capacity building

Developing countries failed to respond to external shocks in the past both because of wrong economic policies and lack of adequate external support. Weak global economic governance only exacerbated the economic shocks, hindered the development prospects and worsened the poverty situation. Often, in the name of international cooperation, difficult and extremely painful structural adjustment programmes were imposed on those countries. In many instances this led to deepening of poverty for some, if not all, LDCs. The failure of Bangladesh in reducing poverty despite the donor-driven policy reforms justifies the point that there must be an institutional mechanism and concerted work programme at both domestic and international levels to enhance policymaking and implementation capacity of the economically vulnerable countries and regions. Nevertheless, policy reform initiatives must come from within the concerned country or region and global governance mechanism can just play the supporting role in this regard. Global governance should, therefore, be directed towards the establishment of indigenous ownership over the reform agendas so as to ensure that the concerned country or region is in a capacity to reject prescriptions that do not address real needs of the people. A poverty audit of all reform agendas is an essential prerequisite for reforms to succeed. Only a home-grown and demand driven reform agenda is capable of adequately addressing the poverty issue.

Supporting the regional initiatives

Regional trade liberalization in favour of weak and small partners is expected to facilitate trade within the bloc without causing any sort of negative consequences to the regional leaders. Most of the least developed countries have, however, yet to come up with any concrete framework for the establishment of a regional free trade zone. In South Asia, for example, persistent non-tariff barriers are the stumbling blocks to economic integration in the region. Therefore, in their attempts to influence regional economic relations that would dovetail with enhanced global trade, global economic leaders and institutions should exert pressure on the developed countries within regions for removal of all trade distorting practices affecting the poorer neighbours. In line with the EU-EBA initiative, all other developed economic blocs should offer quota free and zero tariff market access to the poverty stricken regions of the world, with special attention to the extremely poor regional partners.

Setting of global agenda

A striking fact is that though the global economy has expanded five-fold over the last four decades it has not rooted out dire poverty nor reduced its prevalence. Even countries with relative success have not managed to eliminate poverty completely and as a consequence, a sophisticated, globalised, increasingly affluent world currently co-exists with a marginalized under-class. This very inhuman trend of poverty calls for a concerted attack upon poverty from all possible fronts: local, regional and global. This is to say that global poverty reduction requires appropriate interventions from the global governance apparatus side by side with the national and regional initiatives. A global agenda for poverty reduction, underpinned by appropriate strategies and supported by adequate financial back-up, has become a must. In this regard the establishment of coherence between the currently functioning country-specific Poverty Reduction Strategy Papers (PRSP) and the global poverty reduction strategies would be an important step in the framework of global governance.

Creating governance structures

There are two types of disparities: absolute and relative. Absolute poverty reflects the trend of growing number of people below the poverty line; relative poverty shows the growing gap between the rich and the poor. Both types of disparities show rising trends. Thus, we find deprivations at two levels – at the level of countries: some countries are much poorer than other; and at the level of people: the majority of people in these poorer countries live in conditions which are precarious compared to their rich fellow countrymen. Inequality is increasing in

both rich and poor countries. This needs to be addressed through concerted global initiatives.

Relevant evidence demonstrates how severely human security is jeopardized even after five decades of Bretton Woods, Dumbarton Oaks and San Francisco. According to UNDP statistics, as many as 1.3 billion people in the developing world live below the poverty line, and over a billion have no access even to basic services like primary healthcare, basic education and safe water. In 19 countries per capita income is lower than it was as far back as 1960. It is believed that the unchecked and ungoverned interdependence between countries and people, a result of the liberal economic policies of countries, often largely contributed to the vulnerability of the weak, through uneven distribution of gains and unsustainable pressures on natural resources and environment. Recognizing this vulnerability of the poorer parts of the world, a recent UNDP publication admitted that the challenge is not to stop the expansion of markets, but to find the rules and institutions for stronger governance to maintain the advantages offered by global markets and competition and also make certain that globalization works for poor and not just for profit. In order to bridge the gap between the global haves and have nots resulting from growing global disparity, fresh international initiatives need to be taken for proper mobilization of global resources.

Reforming global economic governance

Currently there are a number of organizations including the Bretton Woods institutions, the G-7, the

OECD and ultimately the WTO which play a critical role in terms of developmental governance in the world. The credibility of these institutions in terms of playing the leadership role for the management of global economic affairs has been questioned by a majority of the concerned stakeholders, partly because of the malfunctioning of these institutions and largely because of their failure in providing adequate guidelines for sustainable economic interaction among the states and corporates. On the other hand, the MNCs and TNCs are becoming less accountable, driven by their own agendas and profit motives. Here lies the need to evolve responsible global governance that motivates these corporates to assume responsibility towards the eradication of global poverty. With a view to continuously assessing the state of the global economy and the interaction between the key policy areas, necessary reforms must be carried out within the existing institutions. As part of such institutional reforms and their democratisation, adequate representation from developing countries must be seen as a crucial necessary factor, though not sufficient, for global poverty alleviation, economic emancipation of people and sustained development of countries. The feasibility of establishing an Economic Security Council, which has been mooted by some, as an apex global economic body within the UN system to deal with key matters relating to international economic relations, ought to be seriously examined in this context.

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A northern NGO view on global governance imbalances

Many non-governmental organizations (NGOs) that have been working with colleagues worldwide for more equity, environmental sustainability and democracy in international institutions – such as the UN, World Bank and WTO –, have recently become known as ‘anti-globalists’. This article argues that the ‘anti-globalist’ label obscures an important difference that exists between political and corporate decision-makers on the one hand and civil society on the other in their views on the governance needs of the global system, and it reviews some of the contributions from the ‘anti-globalists’ to the global governance debate.

Competing models and priorities

Current globalization is not ‘just happening’. It is driven by corporate strategies of expansion through competition as well as decisions at national and international level to let business compete in a world wide market, assuming that this will increase efficiency

and economic growth. The rules and decisions – to put a model of competition in place – are taken at the World Bank, IMF and World Trade Organization (WTO) and are translated in national legislation and policies of free market systems. They give business the right to enter markets and provide guarantees that governments will not take decisions that harm

their profitability. If World Bank and IMF contracts, or WTO rules, are not honored there are dire economic consequences.

These strong international economic rules are based on the principle of self-interest, profitability and competition by all. They contrast with the rules for international governance set out by the UN some fifty years ago. UN decisions and agreements are based on the principle of solidarity and differentiated responsibility aiming directly at respect for human rights, eradication of poverty and sustainable development. While the international economic rules aim at integrating all countries in the world economy, even if their economic capacity to compete globally on a 'level playing field' is unequal, the UN institutions are based on a model of cooperation that aims at integrating developmental, social, environmental and cultural policies and agreements with economic equity and democracy.

The rapid replacement of the model of cooperation by the model of competition is one, which raises many concerns and disagreements on how the global system is now being run. Especially the impact on those who loose out in the worldwide competition between unequal economic and political actors is being debated. Setting the basic principles right is important because, whatever the global governance structures, it must be made clear what globalization should achieve, for whom and by when. If equity, respect for human rights and sustainability are not direct priority aims but are assumed to result from economic competition, then civil society has no guarantees that global governance is in its favor.

Imbalance in rights and obligations

A major difference between the decisions taken at the Bretton Woods institutions and the WTO, with those at the UN is that the former are enforceable while little international action is taken when UN agreements are being violated. As a result, there is an imbalance at international level between economic agreements on the one hand and social, human rights, environmental or cultural agreements on the other, while in many national democracies there are much better check and balances of these various needs within society. It is argued that the negative consequences of economic globalization should be off set by national regulation. However, that underestimates the reality of the economic power of global economic operators such as transnational corporations and the international institutional set up.

For instance, WTO rules can circumvent UN agreements and programs that aim to promote Human Rights, development and environmental protection. In other words, the right to trade can have precedence over Human Rights. One example that reached the political level, after more than ten years

of campaigning by NGOs, is the WTO agreement on intellectual property rights (TRIPS), which undermines access to medicines (e.g. to combat AIDS) and the human right to good health for all.

Thus it is the viewpoint of civil society that there is an urgent need for UN organizations such as the World Health Organization to be strengthened and to set the landmarks within which WTO can develop trade rules. The WTO, World Bank and IMF need to respect the social, developmental and environmental objectives agreed in the UN bodies as well as national democratic institutions. When they fail to do so, the International Court of Justice should be enabled to decide on the conflicting rules between the different organizations as well as decide on issues of hierarchy and priority of international rules. Starting the national and international debate on hierarchy should avoid leaving it to judicial system to take the decisions. The current refusal at political level to acknowledge the conflicting rules and agreements is no solution.

Another major imbalance in current global governance is that the rules of the competitive model strengthen international economic rights of business, while the social, developmental and environmental rights of citizens (including workers and consumers), or the national and international institutions that promote those rights, are not being strengthened at the same time. There is no balance in the right and obligations of the different users of the global trade system. For instance, the Bretton Woods institutions and WTO agreements push governments from developing countries to open up their markets and to be more transparent in their legislation, but these countries have no guarantee that the rich countries will open up their markets for their products or allow the Southern governments to have an equitable say on WTO agreements of vital importance such as agriculture. While the rules and agreements on free market and competition provide companies the right to move freely at the global level and implement strategies that increase their profitability, they have no obligation to reach the expected results of more efficiency, lower prices and more access to products and jobs by citizens. Neither are there international obligations for companies on competition policy, labor rights, environmental protection or transfer pricing. Even the OECD guidelines on the behavior of multinational companies while investing abroad are not legally binding.

At the same time, citizens have no rights in international economic institutions to be informed about, and to influence, macro-economic policies and rule-making, to get more jobs, to work in good labor conditions, to have equal access to basic goods and services or to be guaranteed access to justice when harm is done to them by foreign companies. Neither are there obligations to (Northern) citizens to inter-

national solidarity and less consumption and pollution.

A rebalancing of rights and obligations for the different actors at the international level should be done by strengthening and making international rules more legally binding in areas that are currently governed by soft law or voluntary agreements, i.e. codes of conduct for multinational corporations (minimum: by making the OECD guidelines legally binding in international institutions), competition policy (minimum: make the UN Set of Principles on Restrictive Business Practices legally binding), UN agreements and treaties on social, developmental and environmental aspects and Human Rights. Currently, the EU and others recognize the need for 'flanking policies' to accompany new liberalization and rules at the WTO. But the EU still pushes for new liberalization or rules in the current WTO negotiations despite the fact that these flanking policies are not in place.

Good governance at international institutions

The difference between the institutions of the 'competition model' (WTO and Bretton Woods institutions) and the cooperation model (UN) is also visible in their decision-making structures: while the UN's decisions are taken on the principle of one country one vote, the former have decision making structures that reflect the economic power of a country (one dollar one vote). Neither principle seems to work well.

A move forward in improving global governance would be to increase good governance in decision-making at international institutions. International relations and decision-making at international institutions are dominated by the power politics (veto's and block votes) of rich countries. This reality is something that many citizens in the world do not want to accept any longer, especially as more decision-making moves to the international level.

Many steps that can be taken to improve decision-making on international/global issues:

- Better coordination within governments. This could sometimes be arranged through better management, information and coordination between ministries, although it is often also a matter of power relations in which ministries of trade/economics and finance have more decision-making power.
- More transparency and accountability to parliaments and citizens to increase their capacity to analyze and provide informed input.
- More grip on corporate lobbying. This now often results in strengthening those international institutions and agreements that enhance corporate rights and weaken those that strengthen corporate obligations towards consumers. This could be

done through new laws (with inspections and sanctions) at national level and rules at international organizations on corporate behaviour, on corporate reporting, on openness of lobby activities, and on behavior of officials with lobbies.

- Better coordination between international institutions (note that the WTO is not part of the UN and feels no obligations to UN agreements and does not allow all UN institutions as observers). One way would be to put more political monitoring and pressure from governments on international institutions to cooperate and be more coherent with other international organizations. The coordination role of ECOSOC with all international institutions should receive new impetus. If this does not work, it might be necessary to create a new institution that supervises the priority of human rights and sustainable development in all international institutions. Such a new institution would have to be based on principles of good governance: equity, transparency and accountability at international and national level which allows all stakeholders, and especially the poor and marginalised to be taken into account.

With such improvements in place, a serious start could also be made with implementing the principle of subsidiarity: not all decisions and activities should rapidly or slowly move towards the international level. Many environmental and developmental decisions are better taken at the regional, national and local level even if it means not participating in international economic activities. The key issue is that governance at global, national and local level be based on a model of cooperation and not on the principle of corporate competition.

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Global Governance and the reform of multilateral institutions

A review of the multilateral system in terms of its structure, purposes and rules from the viewpoint of development and the interests of both developing and developed countries alike is imperative for sustainable and equitable economic growth. When formulating international economic agreements, their impact on growth, equity and development should always be the centerfold of deliberations. These agreements should be considered as the means to achieving equitable growth and not as the ends to which all countries must strive regardless of the unequal impacts on their economies.

Reform in multilateral institutions

For Nobel Laureate and Economic Research Forum (ERF) Trustee Joseph Stiglitz, the solution lies in *creating more democratic institutions*. The decision-making process in international organizations should be democratized. NGOs should be empowered to contribute more actively in the deliberation process to ensure broader interest representation. Decision-making in the World Bank and IMF still remain biased in favor of member states with high contributions. Greater public accountancy and increased transparency would enhance the credibility of their policies. The decision making process in the WTO should become more transparent and democratic. For the WTO to be truly representative and enforceable, *Green Room* meetings, which are restricted to a few developed countries must be abandoned. All member countries alike should participate in whatever deliberations are taking place. Member countries should have representation in WTO headquarters in Geneva to ensure their participation in WTO built-in-agenda. Unfortunately, only 12 out of 29 least developing country members have representation in Geneva (UNDP 1999).

A next issue is *capacity building*. Consolidating the influence of developing countries in multilateral trade negotiations starts with building their capacity to negotiate more effectively. A common stance should be developed towards multilateral trading issues and their bargaining positions should be enhanced through South-South integration. Moreover, in the area of capacity building, development of the South policy research capacity in order to better equip them to defend their positions is very important. Some countries do not have the information necessary to participate actively in the multilateral negotiations. Donors should channel funding to think tanks and regional institutions in the South.

The strengthening of the *special and differential (S&D) treatment* for developing countries in all topics and through specific paragraphs in the Doha Ministerial

Declaration is a positive indicator. What remains to be seen is the actual implementation of existing mechanisms for S&D treatment. The General System of Preferences in the WTO provides an opportunity to utilize trade preferences to promote development. However, countries that have benefited most from these preferences have been high-income developing countries. There is a need to better target these preferences by widening product and country coverage and by including transparent and specific eligibility criteria. In the area of technical barriers to trade, sanitary and phyto-sanitary measures and safeguards, the special needs of developing countries needs to be taken into consideration. Extension of transitional periods, especially related to TRIMS and TRIPS, is needed to assist developing countries to implement commitments, which require significant financial and technical resources.

Implementing and complying with existing commitments by developing countries requires that *technical assistance programs* be effectively targeted, implemented and monitored (Safadi 2002).

Developing countries' capacity to *proactively participate* in the global trading system depends also critically on a concerted effort to develop their productive capacity. According to UNCTAD Secretary-General, Mr. Rubens Ricupero, technical assistance to support the negotiating capacity of developing countries will not be sufficient if they do not possess the capacity to overcome supply constraints. Building linkages between trade negotiations and steps needed to develop productive sectors is crucial. Unless that takes place, the trade opportunities emerging from the negotiations will have no development impact (Raghavan 2002).

There are signs that the developed countries do indeed take these and other ideas for reform seriously. An example is US Congressman Bernie Sanders, who drafted a document envisioning far reaching reforms of the global economy (Sanders 1999). The document is a synthesis of a wide range of proposals that have emerged in the international dialogue among

NGOs, social movements, and scholars for reforming various aspects of the global economy. The document proposes:

- Reforming voting systems in international economic institutions so that they are based on population rather than wealth.
- Increasing the openness of their decision-making procedures, and explicitly including in their deliberations various representatives of civil society in each affected country.
- Creation of Commissions on the Global Economy at both domestic and international levels to encourage broad public debate on globalization and alternative possible futures.
- Cancellation of debts owed by the poorest countries, and reorientation of international financial institutions toward domestic economic growth and full employment rather than domestic austerity and export-led growth.
- Conclude enforceable codes of conduct designed to establish public control and citizen sovereignty over global corporations.

Priority areas

The Human Development Report (1999) suggests that the institutions of global governance currently in place do not adequately meet the challenges of the 21st century. It sets forth a set of recommendations (long-term and short-term), that would assist in making global governance more responsive to the needs of people in terms equity, justice and enlarging choices, to mention some:

- Empower the UN to play a more proactive role in social and developmental dimensions of international relations. The UN and its agencies represent the principles of partnership where richer countries are expected to share the burden of development in developing and LDCs. For the South as well as the international community to make progress towards redressing the basic inequities in the international system, the UN must be able to make the leap from merely offsetting the social fallout of unequal structures and liberalization, to fighting against the basic causes of poverty, inequities, social tensions and unsustainable development (Khor 2001).
- Establish a number of new institutions, such as a global central bank (a lender of last resort), a worldwide environment agency, a world investment fund with redistributive functions
- Support developing countries taking collective action on the regional level to enhance their bargaining positions in multilateral negotiations of direct relevance to their development agenda; set up a high level group to coordinate policy on globalization; debt relief from donor countries and re-targeting aid towards human development priorities; and establish an independent legal facility to support poor and weak countries within the WTO.

Furthermore, building on the Monterrey Consensus laid in the Financing for Development Conference, Mexico, March 2002 some more actions are needed in matters of *international regimes*. These comprise:

- Creation of an enabling international economic environment to support national development efforts. More specifically, institutions in the international and regional level are needed to support FDI in infrastructure development, projects to bridge the digital divide and other priority areas in developing and economies in transition.
- International financial institutions should continue support projects that promote sub-regional and regional integration and innovative developmental financing approaches need to be encouraged.

Finally the *developed countries* should:

- Take bold initiatives to ensure increased resources for the Millennium Goals. The target of 0.7 percent of GNP as ODA to developing countries and 0.15 – 0.20 percent in the case of LDCs should be pursued.
- Ensure that they safeguard the principle of sustainable development of those beyond their borders. If something has been learned from the events of the 11th of September, it is the interdependencies between economic and social agenda of the North and South.

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Global Governance of the WTO

The WTO is one of the central institutions in global governance. This article addresses some of the substantive, procedural and constitutional challenges that the WTO is facing, and suggests how its members can help strengthening the organisation.

Introduction

It was of course not without a reason that protesters chose the Ministerial Meeting of the World Trade Organisation (WTO) in Seattle for their Big Bang of anti-globalisation protests. The WTO is without a doubt one of the central institutions in global governance as it exists today and has clearly become one of the main symbols of globalisation. With trade as its core business, the WTO cannot escape at least considering whether or not it should deal with a plethora of other issues such as the environment, labour standards, development policy, investment and competition policy. Seattle was in many ways a failure (though certainly not just because of the protesters). It was also a definite eye-opener and now, in the first year of the Doha Round of multilateral trade negotiations, we have a much clearer picture of the issues facing the WTO, of its role and place in global governance and, last but not least, of the rights and wrongs of the chants of the protesters in Seattle.

Much of the attention paid to the WTO is probably due to the fact that it is such a unique institution in international relations. The WTO has a very wide membership of currently more than 140 countries. Quite recently China became a Member, and with it some one quarter of the world's population was added to those directly affected by the WTO's rules and structures. Many commentators have praised the structure of the WTO and its system of trade negotiations because it allows 'trade-offs' and 'package deals' which allow difficult topics to be dealt with much more efficiently than in other fora. Perhaps even more important than these features is the fact that the WTO has a system of dispute settlement that has really given it 'teeth'. Not only does the WTO's dispute settlement system have procedural rules and strict time frames that shadow most national court procedures by their efficiency and speed. The WTO's system also allows countries to ask for compensation or to take 'retaliatory' measures when another country loses a WTO case and does not comply with its obligations. Since the WTO's inception some 7 years ago almost 250 cases have been brought, and in many more cases a negotiated solution was reached at an early stage of the procedure. By comparison, the International Court of Justice only deals with about 2 cases a year! As a result, however, the WTO is also faced with some unique substantive, procedural and constitutional challenges that are due, not in the last place, to its own success.

The 'trade and...' debate

It should not come as a surprise, that the WTO, founded at the end of the Cold War and at the conclusion of the Age of Extremes (as coined by historian Eric Hobsbawm), and much like its predecessor the GATT that came into being immediately after the Second World War, is not only a major engine for economic growth, but also an important actor in international relations in general.

In today's world we are faced with many new problems: terrorism, environmental problems, overpopulation, problems related to the rapid growth of the global financial system, biodiversity and what to do with genetically modified organisms, how to deal with issues of international competitiveness and how to deal with numerous issues related to development. Many of these problems cannot be resolved domestically but require international action, and if (unilateral) domestic actions are taken, they risk leading to conflicts with other jurisdictions. Many of these issues in some way or other, and at some point or other relate to trade. It is thus inevitable that the WTO, as a core institution of international trade, is faced with many problems that go beyond its traditional core business of trade liberalisation. There is a raging debate on whether WTO negotiations should explicitly deal with these new issues, but very often, the WTO simply does not have a choice. Its dispute settlement bodies are simply faced with situations where their judgement – necessarily – has an impact not just on trade relations, but also on other issues. Thus, for example, the WTO's Dispute Settlement Body has struck down US unilateral measures that aimed to protect the endangered sea turtle, but did so in a discriminatory way. Also, in a recent case, the WTO condemned a number of US tax measures because they resulted in unfair advantages for certain US companies over their foreign competitors, and a number of years ago, the WTO was asked to deal with the legitimacy of certain distribution networks in the Japanese film business. That this multidisciplinary, which is inherent in international trade, often works out very well is clearly shown by the case of China's recent WTO membership, which, first of all, is proving an important and very strong engine for domestic economic and political reform. However, its membership also brought up issues ranging from the fear of cheap labour and unfair competition, to human rights, (regional) financial stability and the environment.

Thus, especially in dispute settlement, the choice of whether the WTO should or should not deal with non-trade or 'trade and...' issues is often not reasonably available, not in the last place because negotiators have failed to deal with many of these contentious issues that go to the core of the sovereignty of national governmental policies. The question now facing WTO dispute settlement is therefore rather how a balance can be struck between trade and non-trade issues and between sovereignty and global governance. An important aspect in this regard is also the way in which WTO law and the WTO as an institution relate to other legal systems and institutions in international relations such as the World Bank and the IMF, but also to multilateral environmental agreements, bilateral investment treaties, agreements on co-operation in competition law matters and development. The WTO will most likely have to become a truly open system that is part of general international law and we should think about the structures that organise its relationship towards other regimes and non-trade issues, and about its place in the networks of international institutions, agreements and regimes that exist in today's world and that will define global governance in the future.

... and the procedural and constitutional issues facing the WTO

Whether in the end some of these new issues will be dealt with in the WTO or not, the WTO is faced with a number of important procedural and constitutional challenges. Some of the most important ones relate to decisionmaking, private party access and transparency, and developing countries.

The eminent WTO scholar John Jackson has pointed at what he calls the 'seven mantras' of WTO law as constitutional issues that need to be given specific attention. Among other things, he questions whether a strict consensus rule can be maintained in all negotiations, or whether some intermediate form between voting and consensus is thinkable. Next to that, it is important to think through whether it is in all cases possible (or necessary) to see trade negotiations as a 'single undertaking' or whether in some cases it would be wise to allow for more issue specific negotiations that could lead to faster results. In certain cases, one might also consider plurilateral agreements between some WTO Members, where consensus among all WTO Members cannot be reached (think for example of issues such as competition policy).

Another issue that is directly related to the role of the WTO in global governance is the way in which the organisation should deal with 'its subjects'. Whereas only states are actual WTO Members, private parties and non-governmental organisations (NGOs) are often directly affected by WTO rules and decisions.

Clearly, NGOs and private parties should not have the same position as Member states. However, they should not be underestimated as 'subjects' of world trade law. Thus, it is important first of all, to think about the position private parties (including NGOs) should have at the WTO itself. Should they be allowed to submit Amicus Briefs to present their opinions in dispute settlement procedures? Should they be allowed to voice their opinions in special sessions surrounding negotiating rounds (though without actually giving them a vote)? Or would all this give them disproportionate power? Similarly it is important to think about the position of private parties who are often directly affected by obligations imposed by WTO law and by sanctions under WTO procedures, and who are often the main beneficiaries of its rules for market access. What should be the possibilities for these private parties to defend their rights? What information should they have access to? In the EU, private parties can use the so-called Trade Barriers Regulation to try to get the European Commission to deal with foreign trade barriers, and the European Court of Justice has over the years slowly started opening the door for private parties to rely on WTO law in domestic (European) legal procedures. Should it also be possible for private parties to go to court to hold the EU to its WTO obligations directly? Or would all this, like the 'trade and...' issues, potentially endanger the fragile sovereignty of modern nation states?

Last but not least, the position of developing countries should feature high on the agenda of the WTO as an institution of global governance. One question is, for example, to what extent developing countries are able to participate in negotiations as extensively and as actively as developed countries. Developing countries very often do not have the means to attend all negotiating meetings, nor to be as well prepared and knowledgeable on all topics. The fact that capacity building is now on the table in the Doha Round is at least a first step in the right direction. Similarly, developing countries do not always have the same possibilities in using the WTO's dispute settlement system. Again, the WTO's new Advisory Center is a first step, but much more is still needed. Finally, the WTO's system of compensation and retaliation needs reform, in order to allow smaller and poorer nations to use it as effectively as the large trading blocks, for example by increased possibilities to receive compensation, by better methods of setting the levels of compensation and retaliation, and by better surveillance of implementation.

Conclusion

To conclude, there are two issues that are of particular importance on a more systemic level for the WTO and its role in global governance.

- First, it is important to realise that in any system (domestic or international) some rules will develop through the power of the majority or through the power asymmetries inherent in all political relations. It is therefore of prime importance that legal structures such as those of the WTO ensure that the rights of the smaller actors (be they nation-state governments, interest groups, private companies or individuals) are properly protected.
- Secondly, it is up to all those involved in a system such as the WTO to take their responsibility. Thus, large trading blocks such as the EU and the US should behave rationally in trade disputes such as those over steel, Foreign Sales Corporations or hormones and should take up their leadership roles in negotiations. But it is also up to the smaller players (individual developing countries or groups of countries) to participate as actively and con-

structively as possible in trade negotiations, to hold the larger players responsible for their acts, and to ensure implementation of WTO rules through the active use of the WTO's dispute settlement mechanisms.

It is only when all players take their responsibilities that the system can develop in a balanced way, and in a way that is equally beneficial to all Members. It is also in this context that the title of this article is to be read. Global governance should not only take place through the WTO. We should all take our responsibility in ensuring also the global governance of the WTO.

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TRIPS, pharmaceuticals and health: a third world perspective

With the signing of the WTO Agreement in 1995, developing member countries are committed to making their IPR regimes TRIPS-compliant in the near future. For India, with respect to pharmaceuticals, this implies, inter alia, shifting from a patent regime that granted only *process patents of seven years duration* (Indian Patents Act, 1970) to one that, by January 2005, must provide for *product patents of twenty years duration*. This shift, from process to product patents for pharmaceuticals, has generated intense debate, and understandably so, given the critical, life-death nature of the issues at stake here.

Product versus process patents

A key objective of policy makers in the developing world is to ensure the availability of new medical treatments, at affordable prices, to patients in the region. The adoption of a process patent regime for pharmaceuticals helped in meeting this objective. It allowed pharmaceutical firms in developing countries to specialize in the production of cheap, generic versions of on-patent drugs for domestic markets, as well as for export to other developing countries where similar patent regimes were in place. The move to product patents, however, will make such production and commerce illegal. As a consequence, the price of newly patented drugs is set to rise sharply in the region, imposing significant social and economic costs on these countries. Nonetheless, as developed nations have argued, higher prices are necessary to ensure the delivery of new medical treatments in the future. Product patents, and the legal monopoly rights that they create, enable patent-holding pharmaceutical companies to price above marginal cost, and thereby, to recoup the large, fixed research and development costs incurred

by them in developing new drugs. By affording inventors this right, product patent regimes ensure incentives for future research and innovation activity.

'Cancer' and 'Malaria'

There is, undoubtedly, a trade off here – higher prices now for new, and improved, medical treatments in the future. But, in a world in which the developed countries already provide strong intellectual property protection, it becomes germane to ask whether the shift from process to product patents in developing countries will provide any *additional* stimulus to research, over and above that already provided by the rich, patent-protected markets of the North. In addressing this issue one needs to make a distinction between medical research and development related to 'global' diseases, such as cancer, that have a significant presence in both the North and South, and research related to 'poor-country specific' ailments, such as malaria, tuberculosis, HIV/AIDS etc., which are found primarily in the South. For global ailments, the introduction of product patents in LDCs is unlikely to provide any additional stimulus to the development

of new drugs, given the relatively small economic size of these markets. The chief impetus to research here comes from the high-income, patent protected markets of the North. Hence, research on medical treatments for these diseases is likely to continue apace, regardless of the patent regime in place in developing countries. For poor-country specific ailments such as malaria and TB, in contrast, there are no significant markets in the North. Consequently, stronger intellectual property protection in the South is likely to be critical to inducing new and better medical treatments for these ailments. But, this by itself is unlikely to do the trick, because the small, low-income, markets in the South cannot support the price-volume combinations needed to make such research and development projects commercially viable.

Thus, for 'global' diseases, product patents will imply higher prices for new drugs in developing countries, with little or no offsetting dynamic gain, in the form of higher rates of medical research and innovation. In the case of 'poor country' diseases such as malaria and TB, on the other hand, stronger intellectual property protection, while *necessary*, may not, by itself, be *sufficient* to induce new, improved and affordable medical treatments for these ailments. Given this prognosis, it is imperative that participants in the international debate on patents and pharmaceuticals, such as the EU, be willing to (re-) consider two distinct sets of TRIPS-compliant options/mechanisms that would enable patients in the developing world to access new treatments at affordable rates. The first set relates primarily to 'global' ailments, where R&D is already supported by the North, and includes options such as compulsory licensing and 'tiered' pricing. The second set of initiatives is aimed at 'creating markets' for treatments relating to poor country specific ailments, in a manner that allows affordability without endangering incentives to future research and innovation. I consider each in turn.

Compulsory licensing

Compulsory licensing refers to a situation where a government allows an agent to produce a patented product without the consent of the original patent owner. Article 31 of the TRIPS Agreement permits such authorization, subject to certain conditions aimed at protecting the legitimate interests of the patent holder. It requires, for example, that prior attempts be made to obtain such rights at reasonable commercial terms from the patentee and, where these fail and a compulsory license is issued, that adequate remuneration be paid to the original rights holder. These requirements, however, are waived or diluted, in case of 'national' or 'other circumstances of extreme urgency', or where these are issued for 'public non-commercial use' (Article 31, clause (b)). The issue of compulsory licensing is, of course, subject to the WTO's dispute settlement mechanism, but prima facie, it provides developing countries with a

bargaining chip that can be used to negotiate better terms with multinational pharmaceutical companies. The recent South African experience in this regard is instructive. By threatening to authorize a compulsory license for importation of the AIDS-triple therapy from Cipla-India, South Africa was able to bring down the prices offered by MNCs for this treatment from US\$ 10,000, per patient per year in May 2000, to approximately US\$ 700 per patient per year by April 2001. However, it is important to note that in the South African case, the threat to import worked only because, at present, some developing countries still have process patent regimes in place, and thus firms located here are able to supply cheap generic versions of on-patent drugs for export. Whether they will be able to continue to do so, post-January 2005, is not clear. While Article 31 of TRIPS permits compulsory licensing for imports, it does not, unambiguously, allow the authorization of such licenses for exports. Subsection (f) of this Article states that "...any such use shall be authorized *predominantly* for the supply of the domestic market of the Member authorizing such use", leaving the issue open to considerable legal uncertainty. Consequently, at Doha, developing countries asked for a liberal judicial interpretation/amendment of this, and other, sub-clauses of Article 31, in line with the *Principles* set out in Article 8 of the TRIPS Agreement which endorses Member countries' freedom to 'adopt measures necessary to protect public health and nutrition'. As they argued, unless guided by this latter 'spirit of the law', the compulsory licensing safeguard built into TRIPS would be of little use in promoting access to medicines in low income developing countries, particularly in those countries that have limited pharmaceutical manufacturing capabilities of their own. To ensure that the spirit of the Doha *Declaration on the TRIPS Agreement and Public Health* is preserved and carried forward to the next round of negotiations, the contribution and support of the EU and its member states is likely to be critical.

Tiered pricing and parallel imports

The second option, referred to, interchangeably, as 'tiered' or 'differential' pricing, calls for price discrimination based on income. Drug prices, it is suggested, should be set close to marginal cost in the least developed countries, with a successive ratcheting up of prices, as one moves from low to high income countries. Standard equity notions clearly support such a pricing structure. On economic grounds also, this makes sense as the demand for medicines is typically more inelastic in high-income, as opposed to low-income countries. In such a situation, total (world) consumer welfare is maximized by charging a higher price in the former, and a lower price in the latter set of countries. More to the point, such discriminatory pricing also serves to maximize the profits of a monopoly patent holder. Consequently, one would expect to see pharmaceu-

tical companies employing such pricing strategies in practice. Empirical evidence, however, suggests that while pharmaceutical firms do price according to income, this link is at present fairly weak. One reason for this may be that for tiered prices to be forthcoming, markets must be segmented, with arbitrage trades, from low to high priced markets, severely restricted. Absent mechanisms to limit such reverse flows, tiered pricing strategies are unlikely to be observed in practice.

In TRIPS parlance, the issue of reverse flows relates to parallel imports. Parallel imports are products made and marketed by the patent owner in one country and imported into another country without the approval of the patent owner. The legal principle here is the 'Exhaustion of Rights' doctrine, according to which, once a company has sold its product, the patent is exhausted and it has no further right over what happens to the product. At issue here is the domain of exhaustion allowed – 'national' versus 'international'. Countries that afford 'national exhaustion' give patent holders the right to restrict parallel imports of their products into the country. In contrast, where 'international exhaustion' is upheld, patent holders do not have this right. For tiered pricing to work, developed countries need to move, in concert, to 'national exhaustion' legislation, thereby setting the basis for an effective segmentation of low and high-income markets. However, while the WTO-TRIPS Agreement *allows* member states to legislate to this effect, it does not *compel* it. Article 6 states, quite explicitly, that "for the purposes of dispute settlement under this Agreement, nothing... shall be used to address the issue of exhaustion of intellectual property rights", (the Doha Declaration reiterates the WTO's 'hands-off' stance in this regard). Consequently, for such legislation to be enacted and, for tiered prices to be forthcoming, garnering public support for this proposition, amongst consumers in the developed world, is likely to be key.

Creating markets

Both the above options entail developing countries free-riding, to a greater or lesser degree, on the richer markets provided by the developed world. Their successful, non-litigious use, therefore, requires the complicit support of consumers in these countries. However, even if this were forthcoming, it is important to emphasize that mechanisms such as compulsory licensing serve only to ensure the affordability of new medicines for global diseases. For these medical treatments, because R&D costs can be recovered from high-income consumers in the North, prices in the South can be reduced to more affordable levels, without in any way diminishing incentives for future research and innovation. For drugs related to poor country specific diseases such as malaria and tuberculosis, however, there are no large markets in

the North to free ride on. The inducement for discovery research, and the development of better treatments for these ailments, must come from the markets in the South. The provision, and enforcement, of stronger intellectual property protection in developing countries is likely to be very important in this regard. However, as noted earlier, patent protection by itself is unlikely to be enough because few patients in the South can afford the prices needed to cover R&D costs and ensure reasonable returns on investments made here. In other words, at the prices needed to induce the development of new or improved treatments for poor country ailments, markets in these countries fail to exist.

The issue here, thus, is one of 'creating markets', and is fairly similar to the 'orphan drugs' problem reported in the US in the early eighties. The term 'orphan drugs' refers essentially to those drug treatments which, despite having been discovered and patented, are not developed and brought to market, because the small size of the ailing population limits the commercial viability of this activity. The US responded to the problem by enacting the US Orphan Drug Act, 1983, which provides a slew of incentives, including exclusive marketing rights, and subsidized clinical testing, for all new medical treatments brought to markets where the number of sufferers is less than 200,000. Similar policy packages need to be considered to promote the development of improved medical treatments for 'poor' country ailments. International organizations, in partnership with national governments (developed and developing), non-governmental organizations, pharmaceutical firms, and public and private aid foundations, have already floated several initiatives in this regard, of which the one attracting the most attention at present is *bulk purchase pre-commitments*. Bulk purchase pre-commitments entail contractual, binding agreements, offered by sponsoring agencies to buy effective medical treatments for poor country ailments that are known to exist but which, for commercial reasons, are not developed and brought to market. A typical example here is the offer to buy, in bulk, the HIV/AIDS vaccine, as and when it is developed – an initiative supported by the World Bank AIDS Vaccine Task Force. By offering to buy in bulk, sponsoring agencies can negotiate a reasonable price for these therapies, while ensuring incentives for their commercial development. The treatments thus purchased are to be made available to developing countries at subsidized rates, the subsidy being financed via global funds collected explicitly for this purpose. Initiatives of this kind merit the contribution and support of the EU, for they hold the promise of ensuring the availability of new, and improved medical treatments for poor country specific ailments at prices that can be afforded by low-income patients in these regions.

Health delivery

Affordability, however, is only one part of access. The other is an effective health delivery system to ensure that the medical treatments made available through the above initiatives reach the targeted patient populations in these countries. Thus, while LDCs should engage in international negotiations to ensure the affordability of medical drugs, they must at the same time take steps to strengthen their domestic health delivery system, perhaps along the lines suggested by the successful Tamil Nadu (TN) initiative to control AIDS. In 1994, the State Aids cell of the TN government was converted into an autonomous society, the TN AIDS Control Society (TNSACS) in order to make the programme more broad based, flexible and participatory in nature. The TNSACS includes on its Executive Committee members from related ministries and directorates (Health, Education, Finance, Social Welfare and Planning), medical professionals, as well as representatives of three NGO's actively involved in AIDS control efforts in the state. In recent years, one of the three

NGO slots has been reserved for an HIV infected person. As Ramasundaram et al (2001), note, "The NGO members participate in the EC meetings and contribute to the decision-making process. This active involvement of NGOs has played an important role in the successful implementation of AIDS control activities in Tamil Nadu". Such successful examples of cooperation, between government institutions, the private sector, and participatory NGOs, need to be flagged, publicized, and emulated widely. For, unless this is done, regardless of favourable outcomes at the international level, the poor in India are likely to remain out of the loop.

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The role of the WTO in global governance – some comments

The WTO, as the principal institution to govern international trade, has received considerable attention in the debate on global governance. While the organisation has been successful in many ways, it gets increasingly criticised. This article focuses on two aspects of the debate, namely on how to deal with 'trade and ...' issues, and on the role of developing countries and NGOs in international organisations in the context of poverty reduction.

The 'Trade and...' debate

Partly as a result of its own success in straightforward tariff reduction issues, the WTO now has to deal with more difficult problems in international trade. These problems are often associated with trade under imperfect competition, e.g. in the area of services or intellectual property rights. This implies that the WTO has an increasing impact on national and international regulatory regimes (Vines, 1998). The most significant example of this is the TRIPS agreement, but also the agreements on services (GATS), on Sanitary and Phytosanitary (SPS) measures, Technical Barriers to Trade (TBT) and Government Procurement (GP) affect national regulation. A number of developed countries are asking for multilateral rules in new areas, like competition, investment, environment and labour standards. Extending the agenda in this direction may provide an argument to change the way in which the WTO functions. So far, the WTO has relied on negative integration, i.e. it has set limits to what its members can do, for example in the SPS, TBT or GATS agreements. It has not set standards itself, an option referred to as positive integra-

tion (although the TRIPS agreement is an exception to this). It is doubtful whether the new, more difficult trade issues, such as regulation, can be dealt with without a degree of positive integration, or harmonisation. This may be necessary to achieve full trade liberalisation, but also to achieve minimum protection of non-trade interests. A similar process has taken place in Europe, where the integration process started with negative integration, but in the course of time, European standards have been set in a number of areas, for example in competition, but also in some environmental areas. This would drastically alter the nature of the WTO, however, and give the organisation much more power. In addition, the question is whether the European experience is replicable in the context of the WTO, given the different institutional frameworks.

The question arises whether the WTO, when keeping its negative integration strategy, is capable of handling a large amount of new and difficult issues. This is not only a problem of capacity within the WTO, but more importantly, of the WTO's constitutional architecture. In the WTO, every member country has one

vote, and most decisions are taken by consensus¹. The failure to launch a new round of trade negotiations in Seattle showed that reaching consensus is not a simple task anymore. One important point of debate is expanding the agenda. Developing countries feel that the results of the Uruguay Round have been limited to them relative to the benefits for developed countries and have difficulties implementing the agreements. Some developing countries did not want to expand the agenda before the developed countries made progress in the implementation of the agreements in areas relevant to developing countries, notably in the field of Special and Differential Treatment. In Doha, a new round has been launched, but the September 11 attacks may have played an important role in that process. It can be questioned if, without some international crisis leading to a feeling of solidarity, this is likely to happen again in the future. Considering the growing number of WTO member countries, and the controversies on adding new items to the agenda, there are doubts about whether a system of consensus will be sustainable. Rather than changing the constitutional structure of the WTO, a strong argument can be made for limiting the agenda, focusing on pure trade issues.

Van den Broek notes that the WTO often has no choice of whether to deal with new, only partly trade-related issues, because its dispute settlement bodies are faced with cases where their judgement on these issues is required. In many cases, trade concerns seem to have been more decisive than non-trade concerns in dispute settlement. For example, in the shrimp-turtle case, and earlier in the tuna-dolphin case, there was criticism on the way the dispute settlement panel and the Appellate Body have sought to balance trade and animal protection issues. Hertz (2001) notes that in all disputes on trade and environmental issues, the WTO has judged in favour of trade arguments. Bringing non-trade issues under the WTO therefore seems to give unduly powers to the lawyers of the WTO. Key in "balancing trade and non-trade issues", as van den Broek puts it, would be the strengthening of international organisations working in the field of these non-trade issues. This idea has also been put forward by Supachai Panitchpakdi, the designated Director General of the WTO. For example, the ILO could be given the mandate for sanctions on labour issues, UNEP for sanctions on environmental issues, etc. The WTO could then in its trade rules refer to existing standards of other bodies, like it now already does in its agreement on Sanitary and Phytosanitary measures, referring to the Codex Alimentarius. In most cases this would require the establishment of enforcement mechanisms in these other institutions. At the same time, these institutions have to take the requirements of the WTO into account in their development plans. In other words, more coherence is needed between the different institutions. Improving coherence is crucial for improving global governance. In addition,

solutions should be found for possible conflicts between different institutions.

The role of NGOs and developing countries

When talking about increasing attention to poverty reduction in global governance debates, it is often suggested that NGOs and developing countries should have a greater say, not only in the WTO, but also in standard setting bodies or other international organisations. Also in most contributions in this Brief that address the role and functioning of the WTO, NGOs are put forward as important players, and it is noted that the capacity of developing countries should be increased. It seems that often harmony is assumed between the interests of developing countries and NGOs. There may be some important conflicts between the two parties however. For example, a number of Western NGOs support measures that would impose environmental or labour standards, which would negatively affect certain developing countries' comparative advantages. Even if the inclusion of these groups would not lead to greater awareness in the global institutions about the issues facing developing countries, it can be argued that it is nevertheless useful or important that their opinions are heard and taken into account in international decision-making. This points to a potential conflict between democratisation and the interests of developing countries in global institutions. More generally, one can wonder about the extent to which NGOs are democratic, in the sense of reflecting the general views of society. A more democratic solution in the context of poverty reduction would therefore rather be to strengthen the position of developing countries themselves.

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Hertz, N. (2001) *The Silent Takeover*, William Heinemann.

Note:

1. The WTO Agreement envisages four specific situations involving voting:
 - An interpretation of any of the multilateral trade agreements can be adopted by a majority of three-quarters of WTO members.
 - The Ministerial Conference can waive an obligation imposed on a particular member by a multilateral agreement, also through a three-quarters majority.
 - Decisions to amend provisions of the multilateral agreements can be adopted through approval either by all members or by a two-thirds majority depending on the nature of the provision concerned. But the amendments only take effect for those WTO members which accept them.
 - A decision to admit a new member is taken by a two-thirds majority in the Ministerial Conference, or the General Council in between conferences.

EU objectives and actions

The EU has a clear interest in promoting global governance as a means of achieving the core of objectives of sustainable development, security, peace and equity, objectives no territorial actor can achieve alone. Positive transnational cooperation should be improved and the EU should show willingness to experiment to improve it. The Commission has recently published its views on the improvement of global governance. In this contribution we sketch the essentials of the proposals and give some idea of the follow up work that is now underway.

The EU White paper on Governance

The EU White Paper addresses the way in which the EU uses the powers given by its citizens¹. It proposes opening up the policy-making processes to get more people and organisations involved in shaping and delivering EU policy. It calls for greater openness, accountability and responsibility for all those involved. Yet, the White Paper does not restrict its deliberations to internal EU issues: it looks beyond Europe to consider the EU's contribution to global governance and how the EU should seek to apply principles of good governance to its global responsibilities.

The White Paper argued that in order to enhance the case for change at an international level the EU's first step must be to reform governance successfully at home. In an ever more inter-linked world, the objectives of peace, growth, employment and social justice pursued within the EU must also be promoted outside for them to be effectively attained at both European and global level: transnational 'others' such as climate change and terrorism cannot be tackled by the EU acting alone. This message became all the more obvious after the attacks of 11 September. The White Paper also saw a more active role at international level as responding to citizens' expectations for a powerful EU on a world stage. Moreover, successful international action reinforces European identity and the importance of shared values within the EU.

Objectives and action points

The White Paper identified four specific areas where the EU could apply the principles of good governance to the EU's global responsibility.

- Firstly, the EU should *take into account the impact of its policies on other countries* and should be more accessible to governmental and non-governmental stakeholders from other parts of the world. This is already part of its sustainable development strategy but must be combined with a commitment by such stakeholders as to their representativity and that they will assume their responsibilities in responding

to global challenges. Yet, although third country actors should have access to the deliberative process this does not mean that they should be involved in decision making itself. At the same time, it is necessary to see how EU policy can respond adequately to domestic constituencies without being perceived as trying to impose EU values on third countries. This question goes to the heart of the so-called PPM (process and production methods) issue, which many see as central not only to the trade and environment debate but also key to ethical questions.

- Secondly, the EU should *improve the effectiveness and legitimacy of global rule making*, notably by working toward modernising and reforming international and multilateral institutions in the medium to long term. The goal should be to boost the effectiveness and enforcement powers of multilateral institutions. In the short term, suggests the White Paper, the EU should build partnerships with other countries in order to promote greater co-operation and coherence between the activities of existing international organisations and increase their transparency.
- Thirdly, the EU should *encourage the use of new tools for governance*, such as soft law (codes of conduct), corporate social responsibility (CRS) and non-hierarchical governance. The White Paper included many ideas which could be tested at global level, such as peer review of progress made towards internationally agreed targets or the development of co-regulatory solutions to deal with aspects of the new economy. As in the EU, these approaches should complement successful elements of international public law, most notably the World Trade Organisation and the International Court of Justice.
- Finally, the EU needs to *speak more with a single voice*. It should strengthen its representation in international and regional fora, including in relation to the environment, development and competition policy, and economic and financial governance where, despite the introduction of the euro, the EU could be said to punch below its weight given the medley of organisational constellations by which it is represented in international fora. Often, important improvements can and should be introduced

under the current Treaty, and would considerably improve the visibility of what the Union is doing at the global level. In some areas, like finance, a change in the Treaty is required.

The White Paper set out for each of these objectives an *action point* for the Commission. These are to:

- Improve the dialogue with governmental and non-governmental actors of third countries when developing policy proposals with an international dimension.
- Promote a discussion in 2002 on how the Union can contribute to a comprehensive reform of multilateral institutions and improve co-operation and openness of international organisations.
- Promote the use of new tools at global level as a complement to 'hard' international law.
- Propose a review of the Union's international representation under the existing Treaties in order to speak more often with a single voice and propose changes at the next Inter-Governmental Conference.

Follow up work

DG Trade was given co-responsibility for following up these action points. Among the sources feeding into DG Trade's follow-up work, the DG Trade held a seminar on 24-25 June 2002 to examine the inter-linkages between global governance, trade and sustainable development. The seminar addressed the first three action points. Commissioner Lamy invited MEPs, representatives from academia, NGOs, industry, international governmental organisations and from third countries to what effectively was a one and a half day brainstorming session with Commission officials. Despite the range of participants – some thirty nationalities drawn from the five continents – the number had been kept small in order to ensure that everyone had the opportunity to be fully and actively engaged in the discussions. The results of the seminar will be fed into the Commission's broader deliberations on the wider context of the linkages between governance, trade and sustainable development, especially with a view to the upcoming World Summit on Sustainable Development (WSSD) in Johannesburg.

The Commission's reflections extend beyond 'governance' *stricto sensu*. The reasoning is simple: governance cannot be tackled in isolation of its effects on people and on the world in which it operates.

Governance has an effect on trade – the WTO is the most obvious example whereby successful international rule making for the conduct of trade has made trade liberalisation possible. The expansion in trade this has created has in turn implications for sustainable development both in terms of helping to lift people out of poverty and of possible negative side-effects. Here, the Commission continues to lead the field in the development and application of a new tool of governance, Sustainability Impact Assessment

(SIA), which examines the effects of trade liberalisation and proposes flanking measures to further improve or offset impacts as required.

Conclusion

What is already clear is that the links between global governance, sustainable development, globalisation and trade liberalisation are multiple and complex. The Commission is committed to addressing the action points on global governance contained in the White Paper not in the abstract but in a way that takes into account the interplay between global governance and sustainable development, globalisation and trade liberalisation. If the relationship between these other three elements is the subject of debate, one thing does seem certain: good governance, at global, national and sub-national level, is essential to achieving sustainable development, globalisation and trade liberalisation. Without a sound framework of governance in place, any attempts at pursuing these other objectives will be built on sand. In particular, sustainable development cannot be attained in the absence of good governance: much more than merely a buzzword for the new century, good governance is the foundation for sustainable development.

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Note:

1. European Commission (2001) *European Governance, a White Paper*, COM(2001)428final, 25 July 2001.

New ideas on international governance

The European Union has published a White paper on governance. A working group has given a number of interesting suggestions on the improvement of governance beyond EU borders¹. In this contribution, we will assess the chances of a successful implementation of these ideas. Leading thought in the framework of the EU-LDC relations is of course whether it is possible for the developing countries to put these ideas into practice and to what extent they improve the position of the developing countries in the global institutions.

Regionalisation

The EU itself is a clear case of regional integration. For a long time international organisations such as the WTO, the IBRD and the IMF have been opposed to such regional ventures. They have gradually been accepted as a middle station on the road to worldwide integration. The EU has always been convinced of the merits of this form of integration, also outside Europe. It has supported the creation of regional trade arrangements in several parts of the world by giving technical advice on the set up and by giving financial support to the ensuing restructuring of the economy². The present proposal of the working group for regional cooperation reaches much further, however. In practice it implies a three-layer hierarchical structure (global, regional, national), in which the middle part deals with regional matters for the nations and represents the national part on the global level. Its main advantage would be to simplify coordination and decision making on the global level and to improve the voice of (groups of) developing countries on the global level.

The present situation is very far away from this vision. Let us give a brief overview per regime:

- Trade. The WTO is the farthest developed international organisation with clear objectives and a relatively strong institutional set-up; notably its dispute settlement procedure stands out in this respect. On the regional level most ventures that have been set up deal with trade and related matters. Realising the EU vision would imply a strengthening of the missing elements in the puzzle and providing them all with the power to deal with WTO matters.
- Macro-finance. The IMF plays an important role in a direct line between the global organisation and the nations. There is no equivalent structure on the regional level. The Economic commissions of the UN are far from assuming a role as relay between the global and national level. The EU is the only regional organisation having competence in these fields. Moreover, most authors have doubts about the capacity of regional organisations such as ASEAN to reform themselves so as to be able to

cope effectively with financial crises (e.g. Park and Wang 2000).

- Aid. The WB deals directly with all countries involved. Next to it exist a number of regional development banks. The EU proposal would come to a confederate structure of these institutions, whereby the regional banks would be the operational arms and the WB would play a role in worldwide redistribution and the exchange of information.
- Environment. The UNEP deals in a somewhat disparate manner with a list of global environmental problems, which has resulted in a series of individual international agreements. Kyoto on climate change is a case in point. Next to it are a host of regional agreements. These are all specific legal regimes, showing a great diversity as to geographic coverage, forms, instruments etc. The EU is also the exception here, in the sense that as a regional organisation it has extensive powers in matters of the environment. Anyway the value added of regional institutions for the environment that assume responsibility for harmonising regional matters and for preparing the ground for global regimes is not evident.

The creation of effective regional organisations, notably of the more encompassing ones, is not an easy task. The conditions that the EU venture could fulfil and that made the EU a success³ are very difficult to fulfil in other parts of the world (indeed, one need but look at the situation of interests in a region such as Asia with two countries with a population of over a billion). So, the assumption behind the idea that the voice of the developing countries would be heard better and their interests be better represented in global regimes is probably not realistic.

For the time being, the idea seems to show a lack of attractiveness, while the difficulties for implementation are immense. Moreover the list of problems is far from complete. For one, agreement would also have to be reached on the mandate of the regions in the global institutions and on the governance of the new set up (including weighted votes). For another, the regions would have to be determined (where is

Russia, where are the Arab countries, etc). Finally a sort of unifying structure for the various global regimes would have to be worked out.

Open coordination

Coordinated policies tend to be more effective than independent ones. Public administration presents us four different ways in which coordination can take place.

- Inform. A rather passive way, in which one hopes for a behaviour adaptation of the partner on the basis of better knowledge.
- Convince. Active consultation is sought and arguments are exchanged so as to bring both partners to the conclusion that coordinated action is in their common interest.
- Exchange. Although partners' preferences may be different for a specific project, they may be ready to change that preference in exchange for something they value more.
- Coerce. This is mostly done in a hierarchical situation, where orders are given, or in a situation of dependency, where the power of the hegemon is used to force compliance.

Over the past half century, the European Union has been experimenting with all four types of policy coordination. It has broken new ground on many occasions. One of them is the development of the open method of coordination (OMC). The method is basically a variant of 'convince'. It involves elements of monitoring and consultation but also the exchange of best practices and the deliberate willingness to be open to new ways of doing things. The method has proved that it works in the framework of the EU. However, that is a very particular one. First, the institutional framework is well developed, and so is the setting of policy goals. Second, the number of partners is limited. Finally, partners know that in case the light method of convince is not effective, the EU can resort to either exchange or coercion; as these tend to be seen as less attractive, there is a stimulus to make OMC work.

The EU proposes also to use the method as a new tool in global matters. However, it has not yet been tried in such a different institutional environment. In some of the global regimes embryonic forms of open coordination are at work (compare for instance OECD and IMF). Most of this concerns monitoring; that is, the degree to which the behaviour of signatories or members of an organisation corresponds to the rules and objectives set. In some cases this leads to consultations (for instance the IMF). However, given the size of the membership of these organisations, the process rather boils down to exchanges between the country involved and officials of the international organisation.

It seems as if there is quite some room for implementing the idea. The method has the distinctive advantage of featuring flexibility. However, it has a number of drawbacks that may lead to a diminished effectiveness on the global level. First, the lack of specification of policy targets. Next, the differences in ideology (explanations given to system dynamics and target achievement). Finally, the sheer variety of national situations as regards problems and institutional environments. Implementation may be furthered by the fact that it can be done in a gradual way, so that major overhauls of the existing regimes do not seem necessary.

The question that remains, however, is to what extent the use of the OMC would help developing countries to perform better. It would probably not improve their capacity to generate and implement new ideas, but it would certainly help to take into consideration constraints to development.

Conclusion

The conclusion can thus be twofold. First, the idea of the working group on regionalisation seems to be a long shot. Of course, if the rest of the world would be able to get organised more or less like the European Union, a number of problems would be solved. A number of positive signs can be recorded in this respect with the strengthening of a number of regional cooperation ventures. But the chances of realisation of significant leaps in a foreseeable future are rather bleak. Indeed, the experience with international regime building shows that (in the absence of major crises) only incremental steps can be set and that even these tend to take a long time.

Second the idea of using the open method of coordination more often seems to be a more promising line of thinking. As we indicated, here too quite a few barriers need to be overcome but the chances of that becoming successful seem to be rather promising.

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Notes:

1. R Madelin, R.W. Ratchford, D Juul Jorgensen; *Strengthening Europe's contribution to world governance*, report of working group, no 5, Brussels May 2001.
2. See in this respect among others: O. Memedovic, A. Kuyvenhoven and W. Molle (eds) *Multilateralism and regionalism in the post Uruguay Round era; what role for the EU?* NEI/Kluwer, Dordrecht
3. Such as unity of purpose, limited diversity, strong institutional set up, etc. See e.g. W. Molle (2001) *The Economics of European Integration, theory, practice, policy*, (4th ed) Ashgate, Aldershot

Enhancing developing country voice in the IFIs

This contribution from the UK Secretary of State for International Development addresses the need for enhancing developing country voice in the International Financial Institutions (IFIs), and identifies some ways to achieve this.

Introduction

The word partnership is now much used in international development. At the international level, partnership is characterised by recognition of the mutual obligations of developed and developing countries if we are to make tangible progress towards our shared objective of achieving the Millennium Development Goals. Since Monterrey, there is a new compact between us, whereby developing countries commit to improved economic and social governance, and the international community commits to action on trade, debt relief and aid. We will have to work to ensure that the OECD countries keep their side of the bargain.

Capacity building for effective partnerships

At the country level, the Poverty Reduction Strategy (PRS) approach is transforming the development relationship. It puts the country in charge of its development strategy (ownership), requires active consultation with civil society (participation), and because aid supports government strategies, it increases political accountability. PRSs provide the framework for developing country governments and donors to deliver both parts of the compact. The international community has a long way to go to fully implement this new paradigm, but it is a much-improved approach to development. We must work for full implementation.

Some of the larger developing countries already play a very effective role in international institutions, but some of the smaller and least developed countries need further support to strengthen their representation and negotiating capacity. This is important for the policy-making aspects of IFI governance, but we also believe that the institutions and regulating mechanisms of the international system must be held to account for their effectiveness – above all, their effectiveness in managing the forces of globalisation for the benefit of those whose potential is constantly undermined by deprivation and poverty. Therefore, in enhancing developing country voice we should aim for a broad range of actions that will bring tangible benefits to those that need it most: low-income countries, particularly those in Sub-Saharan Africa.

Especially where developing countries constitute the overwhelming majority of the clients of the IFIs, enhancing their voice would increase the effectiveness of aid and relevance of policies. For example, even though the World Bank only lends to developing countries, the current distribution of voting shares sees total developed country shares at 61.8% and total borrowing country shares at 38.2%. In practice, the majority of decisions at the Bank Board are arrived at by consensus and not on the basis of votes, but the distribution of votes remains important because of the perception of influence it implies, and consequently the damage it does to the developing countries' sense of ownership and participation in the policy direction and governance of the Bank.

Structurally, the situation at the IMF is similar, but here too there is a new imperative for change: the increased focus of the IMF on the PRS process through its Poverty Reduction and Growth Facility (PRGF). Currently two Executive Directors (EDs) represent 44 of the 45 Sub-Saharan African members of the IMF, in constituencies of 21 and 23 members each – almost twice as many as some of the Asian and Caribbean constituencies. Given the numbers of active Fund programmes in African countries, it is difficult to see how the African EDs are expected to effectively represent their constituency members singly or collectively. Enhancing their capacity to do so must be a priority.

UK government position

The UK government would support proposals for action at three levels:

- Firstly, to improve the capacity of the poorest countries to represent themselves within the policy and decision-making processes of the IFIs. These could include proposals to expand the staff and other resources available to support the work of the Sub-Saharan African EDs' offices. Others have suggested a one-off increase in the number of Sub-Saharan African chairs from two to three, simultaneously re-drawing the constituencies perhaps along regional lines.
- Secondly, increasing the effectiveness of technical assistance aimed at building capacity in low-income country capitals to lead the policy dialogue with the Bank and the Fund and to co-ordinate appropriate donor responses. For example, we are supporting an IMF initiative to establish two pilot

regional technical assistance centres in Africa. These centres have the potential to enhance the capacity of the African countries covered by them to engage, not only in their own programme and surveillance discussions, but also in wider governance and policy discussions in the IMF.

- Thirdly, focussing continuous attention to the openness and transparency of Bank and Fund programmes. There must be space for the discussion of policy choices and performance benchmarks based on a country's PRS. Different policy scenarios should be elaborated following poverty and social impact analysis; we would like to see country ownership facilitated and strengthened by more streamlined conditionality.

Much of this is already a part of the dialogue conducted by my Department and HM Treasury with the IFIs and with low-income country partners. For example, we continue to support the joint donor Debt Capacity Building Programme, which includes support for countries to negotiate HIPC relief with the IFIs and the Paris Club. But we are also pursuing similar strategies to enhance developing country voice in a wider range of international fora and institutions. Our technical assistance project for the Caribbean Community's (CARICOM) Regional Negotiating Machinery (RNM) aims to strengthen the region's capacity in trade negotiations with the European Union on the Cotonou Agreement, the World Trade Organisation (WTO), and the Free Trade Area of the Americas. Through our membership of the independent, Geneva-based, Advisory Centre on WTO Law, we help to provide free or low-cost legal support to developing, least-developed and transition countries members pursuing cases in the Dispute Settlement Mechanism, as well as seminars on WTO jurisprudence, general legal advice on WTO law, and an internship programme for officials.

Within the framework of the recent Financing for Development Conference, Europe presented a package that included the promotion of developing country voice in international decision-making bodies, and a commitment to significantly increase aid. In the final Monterrey Consensus document the international community agreed to do more to build the capacity of the poorest countries to influence the decisions on policies and programmes that affect the lives of their citizens, and prioritised the identification of ways to do this. The UK has encouraged the Bank and the Fund urgently to put forward new, innovative and pragmatic ways with which to progress this agenda in time for consideration at the Annual Meetings later this year.

Conclusion

Accepting the principles of ownership, participation and accountability as the building blocks of the new

development partnership requires us all to review our policies, practices and institutions. Monterrey has given us a new opportunity to reflect our commitment to a genuine partnership for poverty elimination by enhancing developing country voice in the governance of the IFIs, and in other international mechanisms and institutions. We should seize the moment.

The Rt Hon Clare Short MP
UK Secretary of State for International Development

Global Governance and poverty reduction: an agenda for debate

The contributions to this EU-LDC brief give a lively overview of issues in global governance and poverty reduction. In doing so, they provide ideas and suggestions related to all three questions discerned in the introduction. This conclusion brings together the main ideas from the contributions, and formulates an agenda for further debate.

Global Public Goods

The first question was which poverty and development issues should be dealt with at the global level. The concept of 'Global Public Goods' holds promise for clarifying part of this debate, but it also suffers from a number of limitations and a certain fuzziness in its use.

Important questions raised by the debate over 'Global Public Goods' include:

- How to define a global public good and consequently, what issues are encompassed the definition?
- What is the added value of applying the concept of global public goods?
- If poverty reduction and development are considered to be global public goods, should they also be dealt with at the global level and by which institutions?
- More specifically, what global public goods should the WTO deal with?
- What does the debate of global public goods imply about the most appropriate policies to reduce poverty?

Reforming global institutions

Several contributions related to the second question in the introduction: how can existing global institutions be reformed in order to contribute to development and poverty reduction? Most of these contributions show some remarkable similarities. They express concerns about the balance between economic or trade interests and other interests in the international arena, and the lack of democracy and transparency in international forums.

In doing so, they propose various ways to improve the functioning of global governance institutions. An interesting underlying question is whether reform should be dealt with through a grand design in which a comprehensive redefinition of institutions is attempted, or whether we should rather strive for incremental change. No matter what the answer to this question, some issues are likely to be at the forefront of any reform attempt, such as the relation between the WTO and other organizations, the role of developing countries in international organiza-

tions, and the role of NGOs therein. Reform in one area may well affect outcomes in another, but how they affect each other is still largely unclear.

Two questions are central to this debate: what institutions have proven their worth in the past, and what direction do we want global governance to take? In relation to these questions, some pertinent issues suggest themselves:

- Should we strive for comprehensive or rather incremental reform of international institutions?
- How should the balance between international organizations concerned with trade and those dealing with other issue areas be defined? Should the UN play a greater role or should the WTO incorporate more other issue areas?
- How should the relation between national states and international organizations be defined in various policy areas? Should international organizations assume greater roles and powers or should the focus be more on regional organizations and states?
- How do decision-making arrangements in international organizations affect poverty reduction and development efforts?
- Will increased transparency and democracy, and a greater involvement of (Western) NGOs, lead to more pro-development outcomes or will it work against the interests of developing countries?
- How should decision-making in international organizations be reformed?

The role of the EU

Finally, two contributions related to the third question in the introduction: what role could or should the EU play in global poverty reduction policies? The EU's position in international forums will, to a great extent, determine the limits of reform and policy initiatives. With a series of international meetings upcoming in 2003, this question is therefore key to anyone concerned about global governance and poverty reduction.

The EU and its Member States like to claim they have a special understanding of and sympathy for the needs of developing countries. What, then, could the EU do to enhance global governance in order to address poverty and development issues? And how

do the EU's ideas relate to those in developing countries themselves?

In general, the European Commission's position on global governance seems to reflect the idea that the European integration experience forms an important model for global governance issues. Thus, the European Commission has proposed to introduce elements of open co-ordination and regionalization that have worked well in a European context. It remains to be seen whether these models will prove equally useful in a global context and whether they will command sufficient support from states outside the EU.

On a strategic level, the relation between the EU and its Member States in international forums is often ambiguous. The European Commission itself would like to see a greater role for itself in order to speak with one, thereby louder, voice. What would this imply for the EU's position and for its effectiveness in international negotiations? And equally importantly, what would it mean for developing countries that have to deal with the EU internationally?

The position of developing countries in international forums can be strengthened through capacity building. Yet, this raises some new questions as to whether this will sufficiently strengthen developing countries' positions, whose capacities should be built and who should carry out these capacity building activities.

Hence, several questions stand out in relation to the EU's role in global institutions:

- Does EU integration present useful models for international co-operation at the global level?
- Should the EU assume a greater role in international organizations and the role of its member states be reduced?
- What would this imply for the EU's effectiveness internationally and what would it mean for the position of developing countries in international negotiations?
- Should the EU focus mainly on reforming international institutions or on building capacity in developing countries?
- What role can capacity building play in strengthening the position of developing countries in international organizations and negotiations?
- Is the EU the most suitable actor to engage in capacity building activities or should other, international or non-governmental organizations take the lead?

An invitation to debate

These are some of the questions that seem relevant to the EU-LDC network conference to be held in December. However, some may be less relevant, while others may be equally or more interesting, especially from a developing country perspective. Therefore, you are cordially invited to contribute to the debate, not only substantively but also in order to determine the priorities to be assigned to these and new questions. As from 22 July, the EU-LDC website will be open to your comments and suggestions. Please, let us know what questions you think are most important and help us shape the agenda for the upcoming conference.

Let us know what you think about these issues, and the priorities between them, on the EU-LDC's website:

www.eu-ldc.org/src/fora.asp

The site will open for debate on 22 July!

Colophon

EU-LDC NETWORK

EUROPE - DEVELOPING COUNTRIES

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The EU-LDC Network provides a platform for the exchange of information, research, analysis and views on issues pertaining to the evolution of economic relations between Europe and developing countries, most notably in the fields of trade, investment and aid. Through its activities the Network seeks to support informed discussion and debate, to encourage research, and to assist in agenda building on these issues. The ultimate goal of the Network is to help contribute to the design of effective policies for dealing with problems of economic development and, in particular, to address those aspects with a specific 'Europe-developing country' dimension.

The EU-LDC Network is a non-profit foundation, registered in the Netherlands. Between 1993 and 2000, the Network operated on a less formal basis as the EU-LDC Trade and Capital Relations Network. The Ministry of Foreign Affairs of the Netherlands has provided funding to assist in establishing the activities of the Network.

The EU-LDC Network recognises that to build awareness of the needs and sensitivities of the many parties interested in the economic relations between Europe and developing countries requires broad-based dialogue and sharing of experience. To this end, the Network encourages participation from researchers, policy-makers, civil society organisations and other interested individuals and organisations. Network registration, for which there is no charge, is available on-line via the Network's website.

For more information on the EU-LDC Network and its activities, please visit the website: www.eu-ldc.org

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