

# *World Trade in the Service of the Poor*

*A study by the Group of Experts on  
“World Economy and Social Ethics”*

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*Published by the  
German Bishops' Conference  
Research Group on the  
Universal Tasks of the Church*

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Brief notes on the  
publisher and the authors of the study

### *The publisher*

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The Group of Experts on "World Economy and Social Ethics" is a specialised section of the Research Group on the Universal Tasks of the Church of the German Bishops' Conference. It was formed in 1989 to advise institutions within the Catholic Church on aspects of global economic development. The members and aims were chosen with a view to securing an appropriate blend of economic and socio-ethical expertise.

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# 1 Introduction

Globalisation has solidified and accelerated cross-border economic relations. This has led to an intensive, and in some instances even emotional discussion on whether and if so to what degree world trade is contributing towards creating more prosperity and reducing poverty worldwide. One side holds the opinion that open markets are a motor for economic growth and greater prosperity because they increase competition and market efficiency. Worldwide division of labour and specialisation allegedly create larger sales markets for the countries and the possibility to produce goods in larger numbers, leading to lower prices. Inclusion in world trade is said to offer the countries of the South and East the opportunity to improve their economic development through more exports, increased direct foreign investment and the deployment of new technologies coming from abroad.

The other side, by contrast, alleges that there is an ever-growing divide opening up between the developing countries and countries in transformation when it comes to their economic power and social indicators. The starting positions for involvement in the world economy are therefore said to differ widely. Furthermore, world market integration is said to entail considerable problems and risks, in particular for the weaker economies. Open economies are said to be more exposed to outside influences (world market prices, exchange rates) and to be subjected to constant adjustment pressure. This is said to cause particular problems for countries which only export a small number of products since they are highly sensitive to fluctuations on the world market. This therefore offers fewer possibilities for poorer countries to protect themselves against external influences and structural crises.

It is therefore not sufficient for the countries of the South and East to merely open up to the world market in order to promote their economic development sustainably. World trade integration must instead be justified by higher principles that are primarily ethical in nature, and it must be formed in accordance with these principles. This study is concerned above all with stating the requirements for ensuring that world trade makes an effective contribution towards overcoming poverty and underdevelopment. Since its impact on the economy and on the living conditions of the population primarily depends on the

national framework, the individual countries must themselves create a foundation to successfully combat poverty by following a development-friendly policy. One should also bear in mind here that poverty signifies not only a lack of income, but is also frequently linked to social marginalisation, lack of access to basic social services (education and health) and inadequate social participation.

Many global networks and dependencies admittedly result in a situation in which the structures of the world economy increasingly restrict the scope for development-friendly policy at nation-state level. For this reason, world trade needs a fair administrative framework to enable it to benefit everyone, and in particular the small and poorer countries. Equally, institutions and tools are needed in order to make it possible to effectively limit the negative impacts of world market integration, particularly on the poor. Because of its restricted scope, the study deals primarily with the question of how world trade structures can be formed to support development-friendly national policy, or at least not to hinder it. National development strategies and economic policies, as fundamental and important as they are, do not therefore form the focus of this study.

Recent decades have also seen the creation of major *elements of a world trade order*. This includes a large number of trade agreements between two or more states, as well as multilateral rules governing world trade, the process of agreement and refinement of which has been underway since 1947 in the framework of the General Agreement on Tariffs and Trade (GATT). This process has most benefited the industrialised nations in trading between themselves, whilst the most important exports of many developing nations (agricultural goods and textiles) continue to encounter high import barriers among the industrialised nations. In addition, the latest negotiation round in GATT, known as the Uruguay Round, has produced improvements in some areas only. An administrative framework for world trade has been established and expanded to cover new sectors, while in certain areas such as agricultural trade, the poorest countries are however still placed at a disadvantage by the continuing protectionist policy pursued by many industrialised nations.

Regardless of these problems, there are no convincing alternatives to a multilateral world trade order, which should however be more closely orientated towards development. The “Doha Development Round” negotiations currently underway within the World Trade Organisation (WTO) demonstrate the political

difficulties encountered in implementing such a development orientation. If the intention is to achieve the ambitious goal of concluding this trade round in 2006, it will be necessary to undertake a great deal more endeavours than was the case at the most recent WTO Ministerial Conference held in Hong Kong at the end of 2005, which reached only a minimum consensus. Above all, the specific needs of the poorest countries must take on much greater prominence in the political debate. It is all the more important to seek convincing ethical and political proposals for the form that tomorrow's world trade will take.

On the basis of this goal, the study will first of all take stock of current world trade (Chapter 2), before going on to develop ethical standards for a development-friendly world trade order (Chapter 3) which are to form the basis for critical reflection by the WTO, as well as for examining prospects for reform (Chapter 4). It closes with a discussion of some fields of action for trade-related development policy (Chapter 5) and for the Churches (Chapter 6).

## **2 World trade and economic development: a stocktake**

### **2.1 The WTO as the main pillar of the world trade order**

The main pillar of today's world trade order is the World Trade Organisation (WTO), which emerged in 1995 from the General Agreement on Tariffs and Trade (GATT). GATT, which was signed in 1947 and has been administered from Geneva since 1948, was for a long time a temporary international law measure because it was impossible to agree in the wake of the Second World War on the planned international trade organisation. The primary goal of the GATT from the outset was to *liberalise cross-border trade*. A considerable reduction in customs duties and other trade barriers was gradually agreed in eight GATT negotiation rounds, forming an important basis for dynamic growth in world trade.

The latest multilateral trade round in the GATT was the "Uruguay Round", which started in 1986 and ended in 1994 with the Marrakech Final Act. This was a milestone, not least because of the establishment of the WTO in 1995, in which the GATT was integrated. This most challenging reform of the world economic order for decades set the ball rolling for a more comprehensive

*framework for the whole area of world trade*, which goes much further than reducing customs duties, and in some cases indeed beyond trade-related issues.

Most importantly, the set of WTO agreements has been expanded to cover new aspects of world trade. Two new agreements have been included in the WTO at the insistence of the industrialised nations, namely on trade in services (GATS) and on trade-related aspects of intellectual rights (TRIPS). In return, agricultural and textile trade were included in the GATT, something which had long been a concern of the developing nations. Central issues of world trade are being discussed not in isolation, but in the context of extensive negotiation rounds. In addition to these agreements, which are binding on all 149 members of the WTO, there are two other plurilateral agreements (trade in civil aircraft and government procurement), which are binding only on the respective signatory states.

The world trade order has also been refined in *institutional terms*, particularly by means of arrangements which continue to apply to all three agreements (GATT, GATS and TRIPS). The procedure under the Dispute Settlement Understanding, elements of which were already included in the old GATT, has been enhanced to include more unambiguous procedural rules. In the event of rules being broken, the Agreement Establishing the WTO also permits sanctions relating to other agreements. What is more, the mechanism for examining individual countries' trade policies has been given concrete form. The Agreement expressly includes in its Preamble the new goals of protecting the environment and the special accommodation of the least-developed countries.

The set of WTO rules includes *general obligations, rules and principles* which have been transferred largely from the old GATT, and which apply with restrictions to GATT, GATS and TRIPS. A central principle is most-favoured-nation treatment, in accordance with which advantages given to one country must always be granted to all other members. A second golden rule is equal treatment, meaning that – apart from customs duties – foreign goods must be afforded equal treatment in comparison to domestic goods when it comes to other charges or legal provisions. Apart from this, the WTO agreements establish reciprocity in reducing trade barriers. Customs duties are basically permitted, but should be reduced as far as possible with a view to the superior goal of trade liberalisation. By contrast, quantitative restrictions, dumping (sale of goods below their production costs) and export subsidies are absolutely prohibited.

Having said that, the WTO (rather like the old GATT in some respects) makes possible a number of *exemptions from the general principles*. For instance, regional integration agreements, such as customs unions or free trade zones, may deviate from the most-favoured-nation principle if this does not create new external trade barriers. The principle of “Special and Differentiated Treatment” fundamentally also recognises that special measures are necessary for poorer countries. These can constitute exemptions from general principles, such as most-favoured-nation treatment or reciprocity, or indeed from certain WTO obligations. The General Agreement on Trade in Services enables all members to designate services to be exempt from most-favoured-nation treatment. Equally, any country can choose for itself the services for which it grants equal treatment to foreign providers.

## **2.2 Growth in world trade**

*Marked growth in world trade* has been noted since the mid-20th century. Especially in the nineties, the export of goods increased much more rapidly than worldwide gross domestic product. For instance, annual growth in worldwide exports averaged 6 % (in real terms) in 1990-2000, whilst worldwide production only went up by 2 %. These impressive growth rates should not be overestimated, however. On the one hand, growth was higher still at the beginning of the 20th century. On the other hand, the relationship between goods exported and worldwide GDP reaches only about 20-25 %. What is more, a major regionalisation process has taken place in world trade in recent years, i.e. a considerable share of the growth is due to intensified trade between the countries within a region. Finally, the lion’s share of world trade still takes place between the industrialised nations.

The strong growth in world trade is caused above all by the fact that *political and economic trade barriers* (protectionism) in their many forms have been reduced considerably in recent decades. This applies in particular to protective customs duties which shore up national markets against foreign competition. Whilst the industrialised nations’ average customs rates for industrial goods were as high as 40 % in 1945, they had come down as far as 4 % by 1995. Having said that, protectionism is still highly widespread in other areas (e.g. among agricultural goods and certain labour-intensive finished goods), and there are very high customs rates for individual products which are also significant to

developing nations.

Trade between the countries of the North differs considerably from that between industrialised and developing nations when it comes to the *goods structure of world trade*. In the former case, similar goods form the majority today, and these compete with one another via product diversity, for instance by differing in quality, design or brand name. Countries therefore create competitive advantages for themselves above all through their human capital or their research and development capacities. Poor countries cannot keep up here, and in most cases continue to export primary goods (agricultural goods and raw materials), amongst other things, in order to use them to fund imports of technology- and capital-intensive goods. Most developing nations' exports have clearly shifted in recent decades from unprocessed goods to processed goods and services, but the countries differ from one another in major ways, since the poorest countries generally continue to depend on exporting agricultural goods and raw materials. For instance, the share of raw materials among the total exports value averages more than 50 % in Africa, whilst it is less than 10 % in Asian developing nations.

The widespread presumption that *services* are increasingly becoming the major component of world trade is only partly correct. It is true that trade in services continues to increase, not least due to improvements in international communications (telecommunication and aviation), but the service sectors are much less internationalised than manufacturing industry. The growth rates in the service sector, at roughly 6 %, were overtaken in the mid-eighties by those of goods trading, so that the share of world trade accounted for by the service sector is stagnant at about 20 %, although considerable shifts have taken place. Above all the areas of information and communication technologies, infrastructure (energy and water supply) and financial services (particularly insurance) have increased in importance. Industrialised and threshold countries have clear competitive advantages in this area in comparison with poorer countries. The latter increasingly benefit from tourism, a sector which is expanding throughout the world.

### **2.3 Growing share of the developing nations in world trade**

The *developing nations* were able to increase their share of world trade considerably in the nineties, namely from 25 % to 32 %. The export rate (the

share of exported goods and services among GDP) increased from 24 % to 33 % in 1990-2002, averaged over all developing nations, while in the industrialised nations it increased only from 18 % to 21 %. This growth was extremely uneven, however, both regionally and in terms of development status. Whilst the low-income countries were able to considerably increase their share of global goods exports, from 3.7 % to 6.3 %, the share accounted for by the poorest countries (least-developed countries), most of which are in Africa, fell to 0.5 %, even though 7 % of the world's population live there.

*Trade between the developing nations* as a whole is still small in relation to world trade, but has become much more significant in recent years. There are also major differences here, however: The trade networks in the South are largely focussed on a small number of threshold countries in East and South East Asia, above all those which are making advances in economic terms.

Regardless of this partly positive development, the developing nations remain confronted by a number of *structural problems*. In many, for instance, the share of imports from industrialised states is disproportionately high, so that they are heavily dependent on external influences such as fluctuations in exchange rates or prices on the world market. However, heavy dependence on exports can also be a problem for poorer countries, particularly if they only export a very small variety of goods, most of these being raw materials. World market prices for raw materials are subject to very considerable fluctuations.

A structural problem for many developing nations also lies in the remaining *trade barriers*. The customs rates are frequently even higher in South-South trade than the international average. Problems are caused in trade with the industrialised nations above all by the fact that customs rates increase with the level of processing (customs escalation), meaning that the richer countries frequently shore themselves up against more highly-processed industrial and agricultural products from the developing nations. Furthermore, there are a lot of other trade barriers. These are political requirements to protect domestic industries and jobs which cannot be compensated for by reducing costs or prices. Examples are prohibitions (or requirements for approval) of imports, or quantitative contingents (e.g. of textile imports from China). This also includes technical, medical-health or environmental standards, the implementation of which poses major problems for less well-developed countries in particular. They are also not easy to control, even if the WTO has separate agreements for this purpose with some obligations in respect of transparency and justification

(e.g. on technical trade barriers and on sanitary and phytosanitary measures). The industrialised nations issue them to protect consumers, but they do admittedly have a protectionist impact, be it deliberate or not.

A particularly important area for the developing nations is worldwide *trade in agricultural products*, even if they only account for a share of roughly 15 % and agriculture is becoming less significant in most countries. The economic structure of the poorer countries in particular nonetheless remains largely typified by agriculture, and a large number of the poor live and work in the agricultural sector. Despite this, many poorer countries have become food importers in recent years in particular. In Africa, for instance, the share of agricultural goods among imports, at about 16 %, was much higher in 2003 than in all other regions of the world. The structures of international agricultural trade are hence particularly important for a large share of the poor since they exert a strong influence on the framework of rural development, and hence also on the fight against poverty.

Agricultural trade has taken on an exceptional position since the inception of the world trade order because farmers have successfully lobbied for the implementation of political measures in the industrialised nations to grant them competitive advantages against competitors from the South. This was achieved by protecting domestic markets, as well as by setting up a comprehensive system of export subsidies and aid for domestic agriculture. As a result of this, distortions on world agricultural markets are much greater than in other branches of trade, where the barriers have been reduced continually over the decades. It was only with the establishment of the WTO that the agricultural sector was included in the GATT and a gradual reduction of trade barriers and subsidies was agreed, albeit from a very high starting level, so that worldwide agricultural trade is still gravely distorted today.

## 2.4 Links between trade, growth and poverty

There is an unmistakable worldwide North-South and West-East divide if one uses real per capita income as a standard. For instance, the average per capita income in high-income countries in 2001 was sixty times as high as in countries with low incomes. Precise figures on the *development of the worldwide income gap* however show a more differentiated picture. In recent years, above all the income gap between the richest and poorest 10 % of the world's population has increased considerably, whilst that between the richest and poorest 20 % has only grown slightly. If one compares the richest and poorest 25 % or 33 % of the world population, by contrast, a slight closing of the prosperity gap can be observed, which is caused above all by rapid economic growth in China and India, where altogether roughly one-third of the world's population lives. A similar picture emerges from a country-related comparison of the annual growth rates in per capita income. The developing nations have achieved somewhat higher average growth rates in the last 25 years than the industrialised nations, whilst the poorest countries show much lower growth rates, showing that it is above all the income gap between the developing nations which is becoming wider.

It is not clear how *worldwide trade relations influence* this development. In order to estimate their significance, it is important to distinguish between trade orientation and trade liberalisation, i.e. between state promotion of international trade and the framework in which it takes place, and the reduction of customs duties and other trade barriers. Those countries which can integrate better into world trade by deliberately promoting their exports of processed goods have achieved major growth successes. This is shown above all by the countries of East and South East Asia which in the last 25 years have been able to achieve above-average growth rates in world trade and in per capita income. Having said that, among those countries where exports have remained restricted to unprocessed raw materials, no country – with the exception of those countries which export crude oil – has been able to achieve growth effects. Empirical studies prove that countries which are unable in the long term to participate in world trade do not experience continuous economic development. This by itself does not however prove that this is a consequence of trade liberalisation since export successes and growth are not achieved simply by opening markets, but also depend on well-functioning institutions and targeted trade policy strategies. This is one of the reasons why the empirical findings on the growth impacts of

trade liberalisation are less unambiguous than those on the trade orientation. Trade liberalisation can consequently be a motor for growth in the long term, but does not present an adequate framework by itself.

Another important aspect is the *internal impact on distribution* exerted by expansion in cross-border trade. One must therefore analyse for each country whether trade-promoted growth also has a broad impact and makes a real contribution towards reducing poverty. It is especially those population groups that benefit from foreign trade which have production factors for which there is greater demand in foreign trade. In the export-orientated developing and threshold countries, it is above all these workers whose wages tend to increase. Conversely, the income position of poorly-qualified workers worsens in the industrialised nations as a result of cheap, labour-intensive imports.

As world trade integration advances, structural change is also accelerating in the developing nations, generally entailing considerable *adjustment problems*. Increasing numbers of companies close down if certain production factors or traditional establishments are no longer competitive, and this causes greater unemployment. Even where conditions are favourable, i.e. if countries convert their production relatively quickly to new sectors and are thus able to obtain new competitive advantages, it is the better trained who benefit most. As a consequence, those with few vocational qualifications are also among the losers in economically-successful developing nations if they are unable to obtain additional skills. What is more, it is frequently only individual regions within developing countries that are involved in world trade, and which hence benefit from the prosperity effects, whilst other regions remain largely isolated. This can be seen for instance in China, India or Brazil, and is a major reason why inequality has not decreased in these countries despite high growth rates. Experience to date also shows that where income inequality is particularly prevalent, the poorest benefit less from the expansion of trade and the growth it causes. Growth contributes less to poverty reduction if it is spread highly unevenly.

Particular problems are caused by the fact that the poor are especially prone to suffer from short-term downturns in growth. Economies which perform less well are virtually unable to protect or safeguard the poor against risks which arise as a result of fluctuations in prices on the world economy and greater competition pressure. Whilst most industrialised states opened up to foreign trade at the same time as expanding their welfare states, relatively few of the poor in developing

and even in threshold countries have access to social security systems which are able to alleviate the negative consequences of an economic crisis or of rapid structural change.

It is possible to conclude that the growth which is caused by more intensive trade has a broader impact where countries are better able to differentiate their export structures and build up political and social institutions which help to ensure the adjustments caused by opening up to foreign trade. Furthermore, all reforms, such as the opening of the labour market, should take place gradually and accommodate the respective economic circumstances, as this facilitates more positive employment effects.

## **2.5 The significance of free trade and other trade policy strategies**

The connection that has been referred to between cross-border trade, growth, prosperity and distribution can be underpinned by theoretical considerations. Inclusion in the international division of labour permits greater specialisation and a larger sales market, in turn facilitating lower unit production costs. If the individual countries use their specific locational and productivity advantages and participate in the free exchange of goods, this can be of benefit to all concerned, albeit not necessarily to the same degree. According to the *theory of comparative advantages*, foreign trade is even worthwhile if a country is unable to produce an item more cost effectively than other countries, but specialises in producing goods where it has the lowest cost disadvantage. If all involved in the exchange do so, worldwide trade on principle offers the opportunity to achieve greater economic growth to all countries, including the weaker ones.

A refinement of this theory of comparative advantages known as the *neoclassical world trade theory* comes to the conclusion that countries make intensive use of those production factors which they have in abundance, and that they should use them as a locational advantage by specialising in such export products. By contrast, they should import goods which they can only produce themselves at a high price. The conclusion was drawn a long time ago for the world economic division of labour that the countries of the South should concentrate on exporting raw materials, agricultural goods and labour-intensive products, whilst the industrialised nations by contrast should place the emphasis on new products requiring capital, highly-qualified labour and technological

expertise. Free trade is hence said always to be the best strategy for all concerned.

This is a purely *static view*, however, which says little about the possibilities to achieve dynamic growth effects via targeted trade policy, and therefore expects most poor countries to be forever satisfied with manufacturing raw materials and simple industrial goods because this is where they have a comparative advantage. This may be of short-term benefit, but it has major disadvantages in the long run simply because the prices of such simple export goods are subject to marked fluctuations, and frequently tend to fall. Even greater problems occur by virtue of the fact that this kind of specialisation entails a risk of neglecting independent industrial development and foregoing developing an ability to produce and export higher-value goods.

In order to become internationally competitive, it may indeed make sense for countries to restrict free trade and *to pursue other trade policy strategies* during a specific time-limited transitional development phase. This includes targeted export promotion, and possibly also import substitution, i.e. time-limited protection of domestic markets, in order to be able to build up internal competitive industries. It must be admitted that this can have negative consequences if the protection measures are calculated wrongly. The success of such measures is contingent on knowing which sectors need to be promoted in each individual country. These sectors should be developed, and this in turn makes it necessary to develop appropriate technological knowledge, human capital and public infrastructure. Export promotion is the only realistic strategy for small countries. Import substitution, by contrast, can only be considered for larger countries, and has always been successful only if it was linked to export promotion. As soon as competitive industries are built up, one should move to more free trade in order to take advantage of the profits this entails. Many of today's industrialised nations, including Germany, have made use of such trade policy measures in different ways, thereby deliberately dispensing with free trade for a time. This also applies to the successful "tiger states" in East and South East Asia, and to other threshold and developing nations such as Mexico, Brazil, India or Viet Nam. This has enabled them to very quickly climb the ladder in international competition to higher-value industrial goods and services.

### **3 The ethics of world trade**

An analysis of the structures of world trade has shown that world economic integration has both positive and negative effects, especially regarding overcoming poverty and underdevelopment. Cross-border trade can provide vital momentum for the promotion of growth and prosperity, whilst on the other hand the individual countries and certain population groups benefit to widely differing degrees, and there are also losers. This is caused by the circumstance that both the opportunities and the risks of the expansion of trade and trade liberalisation are very unequally spread. This makes it all the more important to make worldwide trade relations as fair and just as possible so that the broad population, and the poor in particular, can benefit to the full from its prosperity effects. To this end one needs a normative standpoint which reaches further than a purely economic view, without at the same time neglecting the economic contexts. For this reason, social-ethical principles are to be developed and reasoned which are able to provide an orientation in order to shape and control world trade and the integration of the poorer countries in the world economy.

#### **3.1 Poverty reduction and participation**

The starting point of the ethical founding (or grounding) of this study is the *human dignity* to which all people without distinction are equally entitled. This dignity forms the basis of general human rights, which encompass both the civil and political rights of the International Civil Covenant and the economic, social and cultural rights of the International Social Covenant. In the logic of such a standpoint lies a priority option for all who are excluded from these rights. From this point of view, world trade is not a means in itself, but should be judged above all as to whether and by what means it helps to guarantee the various dimensions of human rights and reduce poverty and underdevelopment. The political measures employed to shape world trade at national and international level are hence to be observed by preference from the point of view of the contribution which they make to poverty reduction, or conversely by the benefits which they offer for the poor.

There has been increased talk for some time in development economic circles, and in the United Nations context (including at the World Bank), of fostering broad growth to reduce poverty or to benefit the poor (*pro-poor growth*). The

concepts that are the subject of discussion under this heading are still rather vague, however, and the recommendations for action derived from them vary greatly in some cases. There is hence a need for criteria for such a concept by which economic policy measures can be judged. These criteria can be directly derived from the human rights arguments. Accordingly, the contribution made towards growth and the fight against poverty should be very important, and the poor should benefit more than average from growth. What is more, the income distribution and above all the requirements of the poorest are particularly to be taken into account. Nevertheless, it also remains important to judge the macroeconomic results as a whole.

Furthermore, if one wishes to shape a world trade policy which is particularly concerned with the poorest countries, there is a need to observe the *unequal starting conditions* of the individual economies. These are not necessarily negative from an economic point of view because they form the basis for comparative advantages. In reality, these inequalities however frequently prove themselves to be a problem which is difficult to overcome. Firstly, there is a risk of underdevelopment becoming permanently entrenched if poor countries only export unprocessed goods (cf. 2.5), whilst secondly developing nations can frequently not make any use at all of their comparative advantages because stronger countries alter the competition conditions to their advantage by applying import protection and export subsidies. Furthermore, the developing nations need to integrate themselves into world trade much more abruptly than was the case in the past for today's industrialised nations, which were able to develop for themselves the structural preconditions for their successful inclusion in the world economy during its very long inception phase.

Human dignity also means that people themselves should be the starting point, bearer and goal of all development. This requires "development from below", which entails both rights and duties for those concerned. This basic principle corresponds to the principle of *participation*, which is not only an ethical principle, but also a precondition for long-term economic development, which must be carried out not only for but also with and by people. To this end, people must certainly have a fair chance to participate in market and exchange processes, and thus also in their wealth-creating effects. Frequently the poor cannot create the preconditions for this by themselves, but depend on aid and supporting institutions. These are above all political, legal and economic framework conditions which shape worldwide trade relations in such a way to

promote and strengthen the potential and the initiative “from below”, starting with people and communities, through to states and regional groupings. All these administrative policy measures must aim to create structural and institutional incentives for independent efforts, as well as to support individual and community initiatives from below.

In structural terms, the principle of “development from below” corresponds to the principle of *subsidiarity*. The right to participation, as well as the duty to help people to help themselves, are two aspects of real subsidiarity, and are hence interdependent. They are the standard by which competences are to be institutionally ordered and attributed. A world trade order must, firstly, offer the countries of the South and East the necessary scope for independent development, whilst at the same time creating instruments to support them if their own strength and economic potential are insufficient.

### **3.2 Criteria of justice**

A world trade policy which has an ethical foundation must in particular be orientated in line with the standard of *justice* in its various dimensions. International justice is based on solidarity in the sense that people understand themselves to be a worldwide community built on solidarity and on a desire to create fair structures together which embrace all. This is above all a matter of creating fair world trade policy coupled with a just general framework. This is on the one hand a matter of transactional and procedural justice. On the other hand, the situation of the poor must become a reference point since the individual countries are only able to pursue a policy of combating poverty if world trade does not prevent them from doing so, but supports them in their endeavours wherever possible. While doing so distributive justice, justice of opportunity, gender equality and justice between the generations play a major role.

Fair world trade policy must therefore start by complying with the principle of *transactional justice*. Weaker market participants in particular depend on participating in macroeconomic prosperity effects in line with their performance. The world economic framework conditions should thus guarantee fair economic exchanges. Current practice however indicates considerable institutional shortcomings and structural disadvantages. For instance, the agricultural subsidies of many industrialised nations, which distort competition, run counter

to transactional justice since they guarantee the status quo of individual interest groups in the rich countries to the disadvantage of the poor countries.

Justice within general framework structures depends heavily on how framework conditions come about and who decides what regulations are to apply or to be abolished at what time. The principle of *procedural justice* is thus of decisive significance. It is only if it is ensured in institutional terms that poor and smaller countries are able to participate much more than has been the case in building the world trade order that there is a hope that the interests of the poor will find a voice.

Having said that, a trade order which respects the principles of transactional and procedural justice does not by itself guarantee effective poverty reduction, given that poverty by no means only has economic causes. Political participation rights, legal certainty or access to education, healthcare and social security systems are equally important preconditions to enable the poor and disadvantaged to take part at all in economic exchange processes and to benefit from their prosperity effects. The more all this is guaranteed, the greater are the chances that macroeconomic growth will benefit broad groups of the population and the poor in particular. A multilateral trade order may not therefore excessively restrict the political scope for development-friendly policy in the individual countries. The rules of the WTO are hence to be examined for the degree to which they restrict the scope for important poverty-relevant areas such as services for the public (electricity, water, education) or access to seed and medicines. The standard that is applied here must be the principle of *distributive justice*, in accordance with which the satisfaction of fundamental human needs always takes top priority. This justifies for instance the exemptions for the protection of human health and life which are in principle also provided for in the WTO.

Another major precondition for independent development is *justice of opportunity* in economic competition. Since many poorer countries have far worse starting conditions, with poor technological infrastructure, economic problems and institutional shortcomings, without any doubt it is possible to give ethical justifications for time-limited “positive discrimination”, in other words for preferential treatment in individual WTO regulations. Similarly, opportunities for people and groups who previously were largely excluded are to be made stronger at national level. Their frequently latent economic potential should be made useable by improving their access to training, savings and loans or legal

assistance, to enable them to contribute towards development.

Closely linked to this is the principle of *gender equality*, since women are frequently subject to multiple disadvantages, being poor, women and sometimes also as members of ethnic or religious minorities. They not only have less access to economic resources, education or rule-of-law institutions, but in many cases they are even excluded from decision-making processes which affect them directly. Conversely, it is they who do more to combat poverty and ensure a supply of food for their families than do men. It is therefore a matter of urgency to enhance the role of women in economic and political processes and to examine precisely what impact greater world economic involvement has on their situation.

The shape of world trade, finally, also has a time-related dimension, in conjunction with the principle of *justice between generations*, signifying essentially that policy must also include in its calculations the resources needed by coming generations. This includes a responsibility to go sparingly with environmental assets, as well as to conserve and refine the social and cultural environment in its diversity.

These are all important aspects of global well-being which world trade must include in its orientation. It is therefore important for the WTO to recognise the guiding principle of sustainable development not only in its Preamble, but also to use it to form the orientation for the shape and interpretation of its rules, for which the industrialised, and increasingly also the threshold countries bear the main responsibility because of their high consumption of resources. Permitting the developing nations to play a more effective role in world economic growth in the interest of poverty reduction, without endangering humanity's natural resources, will be the major challenge facing economic policy in all countries and of any policy for a world order.

#### **4 The need to reform today's world trade order and what can be done**

When the WTO was established in 1995, the structural framework of world trade was broadened in its substance and its institutions were made more

profound. This strengthened multilateralism against tripolarity (North America, Europe, East Asia) and created greater global legal certainty. This undisputable progress should however be seen in light of a whole series of problems. If one measures the WTO by the above ethical standards, the balance one reaches is not satisfactory. This applies in particular to the goal of improving the trade prospects of the least-developed countries identified by the WTO itself. A whole spectrum of structural deficits remain here, which by no means speak against the WTO or free world trade as such, but which do indicate that there is considerable need for reform.

#### **4.1 Regional agreements as a pillar of a multilateral world trade order**

The number of bilateral and regional trade agreements has increased by leaps and bounds in recent years, giving rise to questions as to the relationship between such agreements and the WTO. On principle, the WTO permits customs unions and free trade agreements between its members, and under specific conditions allows corresponding *derogation from the most-favoured-nation principle*. Regional trade agreements are permitted according to GATT (Art. XXIV) if they do not raise new external barriers to trade and do continue to reduce the unavoidable discrimination of third states gradually by generally opening up trade. Regional agreements frequently also include further provisions, relating for instance to intellectual property, direct investment or services which are not to contradict the WTO Treaty. Time-limited derogation from the most-favoured-nation treatment principle is accepted because it is hoped that economic integration between neighbours or countries with a historical affiliation can take place more rapidly than at world-wide level. If this progress is generalised in the multilateral trade rounds, the regional agreements may prove to be the cornerstones for the construction of an ever more stable multilateral order.

Experience however shows that the conditions set by the WTO are frequently not met in practice. Either they are not sufficiently controlled, or there are no unambiguous criteria making it possible to determine whether they are consistent with WTO law. In view of transactional and procedural justice, it is particularly questionable that countries that are politically and economically strong increasingly appear to prefer bilateral and regional trade agreements

because they believe that these better serve their interests than agreements reached in the framework of the WTO. Many countries now belong to several such groupings, so that a complex network of overlapping agreements has come into being which tends rather to undermine than to promote an imperative world trade order.

Poorer countries in particular however depend on a reliable multilateral system of rules since it offers them better prospects to defend their interests than bilateral and regional agreements. Since a stable, reliable world trade order is ultimately in the interest of all concerned, all members should recognise that it would be worthwhile to *refine the WTO*, and should show greater willingness to enter into cooperation in the ongoing negotiations. This applies to the industrialised nations in particular, but also to influential threshold countries.

## **4.2 Improving preferential treatment for poorer countries**

Exemptions from central WTO principles such as most-favoured-nation treatment or reciprocity can lead in principle to greater justice of opportunity for economically weaker countries, particularly if they are time-limited. A discussion has therefore been going on for quite some time as to preferential treatment of developing nations, made possible in the framework of GATT by a variety of tools. Part IV “Trade and Development” was included in GATT back in 1966, aiming to grant special trade advantages to developing nations. The 1971 “General Preference System” permits unilateral customs preferences for developing countries, and was enhanced in 1979 to include a separate principle of “Special and Differentiated Treatment” (cf. 2.1). The industrialised nations were authorised to grant preferential market access to imports from the developing nations. Furthermore, poorer countries may under certain conditions be exempt from individual GATT obligations and receive aid to promote their trade capacities.

All in all, the various forms of preferential treatment have so far only brought limited advantages to the poorer countries. The WTO expressly holds on to the principle of preferential treatment, but the measures envisioned are insufficiently adapted to the real problems of the poorer countries, and are also lacking in transparency. It is for instance the importing countries which establish the preferences unilaterally, and for their part display varying degrees of generosity (authorised countries and products). In some cases, the preference systems are

also abused for political purposes, if for instance preferential treatment is made contingent on political conditions. They are also linked frequently to complicated documentation of origin, thus making it much more difficult for the poorer countries to use preferential market access. An essential argument against such preferential treatment is that it provides false incentives, and may thus cause necessary structural reforms to be postponed and delay international competitiveness. Above all, preferences which are only granted for individual products promote a one-sided export structure in the long term.

All these aspects make it clear that preferential and differentiated treatment of poorer countries by no means offers a guarantee of successful integration into world trade. Nonetheless, these justified objections do not simply obviate the value of this tool in principle. Rather, it is a matter of shaping the WTO's exemptions to increase the transparency and predictability of this system and provide an impetus for development-friendly integration into world trade. At the start of the current world trade round, which influential industrialised nations somewhat pompously dubbed the "development round" in November 2001 in Doha (Qatar), the contracting partners have explicitly undertaken to examine, refine and make more effective the conditions for preferential and differentiated treatment of poorer countries in the WTO.

Thus it was fundamentally recognised that trade rules can be adjusted to the state of economic development and the needs of the countries in question. Exemptions are important above all for poorer countries which are faced by an insuperable dilemma when it comes to their integration into world trade. On the one hand, they need reliable trade rules, whilst on the other they need room to manoeuvre in their political activity to permit them to follow a development strategy adapted to their own needs and to shelter them from those risks which arise from increased international competition pressure. The WTO Committee on Trade and Development, which is responsible for this revision, has so far only achieved very small results in this respect. The results of the Ministerial Conference held in Hong Kong at the end of 2005, which are decidedly deficient in this sense, also appear to confirm the impression that the development orientation only plays a minor role in the ongoing world trade round.

If one takes the social ethical standards from Chapter 3 as a basis, the rules and measures on preferential treatment of poorer countries are to be measured primarily by whether they make a proven contribution towards safeguarding basic needs. For instance, therefore, they would justify one-sided external

protection for “special products” in order to safeguard food security and promote rural development. Agreement was nonetheless reached in Hong Kong that the developing nations themselves can decide which important domestic products they wish to protect by means of import restrictions.

It can also be necessary to derogate from the principle of reciprocity with a view to improving the competitiveness of weaker countries. The paths taken by threshold countries towards development show clearly that targeted and time-limited measures to protect domestic economies were among the cornerstones of their successful integration into the world economy. What is more, all the modern industrialised states only opened their markets gradually. By contrast, the many WTO rules place restrictions on such a differentiated “development ladder” today. It is equally dubious that considerable pressure is currently being applied on the poor countries to open their manufacturing markets quickly and completely, which makes it much more difficult for them to establish and maintain their own competitive industries. Having said that, rules permitting one-sided protective measures to be taken by poorer countries, particularly as to South-South trade, must not further entrench trade barriers or create new obstacles.

The industrialised states and also the threshold countries, conversely, should grant the poorest countries a maximum of free access to their markets in order to improve their trade prospects. For instance, the EU has granted to all poor countries customs- and quota-free access to its Internal Market for all products with the exception of arms in the framework of its “Everything But Arms” initiative. All in all, the industrialised nations assembled in Hong Kong were only able to bring themselves to open their markets for 97 % of their products for imports from the poorest countries by 2008 because countries such as the USA and Japan wish to continue to reserve the possibility to protect individual production sectors. So far, the threshold countries have proved virtually unwilling to make concessions when it comes to the question of preferential market access for poorer countries.

Experience shows that many poorer countries have been able to considerably increase their exports in certain areas thanks to one-sided trade advantages. Such preference systems admittedly only work as long as the markets in question are not completely liberalised. This preference advantage is lost if the general level of trade barriers falls as a result of WTO agreements. Conditions being equal, structurally-weak poor countries in particular are scarcely competitive

internationally. One example of this is the textile trade, where the general level of protection has fallen considerably since the beginning of 2005, on expiry of the Multifibre Arrangement. As a result, for instance, Bangladesh and some African countries have recently suffered considerable losses since they were able to build up their textile industries above all by virtue of preferential market access to Europe and the USA. They are losing out as a result of multilateral liberalisation in the textile trade, whilst countries such as China and India particularly benefit. This is not an argument which fundamentally counts against generally dismantling trade barriers, but it does show that the poorest countries at least are currently losing out in multilateral liberalisation.

In order to prevent liberalisation leading to an increase in poverty in the poor countries, as it did on the expiry of the Multifibre Arrangement, these countries need suitable forms of support in order to be able to cope with and compensate for the structural change emanating from the loss of their preferential market access. One possibility is to increase financial and technical aid in order to enhance international competitiveness, for instance by targetedly promoting export infrastructures. This by itself is hardly likely to be sufficient in most cases, so that one should also consider other means of affording preferential treatment to poor developing nations in the industrialised states' trade policy. This aspect should certainly be included in the corresponding WTO negotiations. One possibility would be for the industrialised nations to subsidise imports from these countries for a limited time. This tool is not without its problems since it involves bureaucratic effort, creates new distortions of competition, and is likely to meet with considerable resistance from interested groups in the rich countries. Nonetheless, such transitional aid is to be examined since otherwise the poorest countries will lose out in multilateral liberalisation in the long term.

It is true for all forms of preferential and differentiated treatment that they are only justified if they do indeed bring benefits for the poor. This is contingent on *greater differentiation* of the individual countries in terms of their state of development, given the inadequacy of the WTO's current country categories. Ignoring wide gaps in economic capacity, the system distinguishes between only three categories, that is industrialised nations, developing nations and least-developed countries – LDCs. It only grants preferential treatment to the LDCs, but not to the poor countries which do not belong to this group, but which in economic terms are frequently scarcely better off, so that they can argue

similarly in favour of preferential treatment. For this reason, the WTO should shape its tools for preferential and differentiated treatment such that they can also apply to low-income countries. To this end, other development indicators such as food security should also be accommodated in addition to the usual income criteria. Furthermore, in addition to time limits, the expiry of exemptions could also be made to depend on reaching certain development indicators. It is only to be hoped that many of the economically stronger developing and threshold countries, which have now also taken on an influential role in the WTO, will give up their resistance to these proposals.

It would also be possible on the basis of a stronger country-based differentiation to imagine a *situation- or problem-based differentiation* within WTO law making it possible for instance for WTO rules to be adjusted or abolished in order to provide food security in a particular country. Such exemptions are possible on principle in accordance with Art. XX of GATT, but it is largely unclear to what degree trade restrictions can be regulated and implemented in legal and political practice by referring to such goals. In order to make progress in this respect, greater emphasis would have to be placed on a systematic analysis of the impact of certain WTO rules and liberalisation projects on poor population groups. What is more, there is a need to examine the specific consequences on poverty before adopting new trade regulations or further dismantling trade barriers. The European Union has been funding such studies under the heading of “Sustainable Impact Assessment” since 1999, but these studies are being virtually ignored in the trade policy debate. Nonetheless, this is a correct approach and such examinations of the consequences should be expanded and improved. It is however ultimately a matter above all of drawing the right consequences from this for trade policy.

The asymmetry of international trade relations and the unequal starting conditions ultimately also justify refining the WTO to become a trade order which remains multilateral, whilst however permitting integration to take place at different speeds, and not to take on all the rules immediately. The poor developing nations would then be enabled to participate in line with their own needs and development interests in new WTO agreements, or to do without them. Even if there are major, even justified reservations against such a proposal, WTO membership understood in this way (with different rights and duties) would bring about a strong differentiation which would benefit the interests of the poor members. If there are clear, comprehensible criteria for this

concept, such a measure would not of necessity lead to a “two-class society of WTO members”, nor would it undermine the WTO, the particular objection of the industrialised states against such a proposal. It is ultimately a matter of choosing the lesser evil.

### **4.3 Enhancing social and ecological concerns in world trade**

A global world trade order which makes an effective contribution towards the fight against poverty and promotes sustainable development needs well-functioning, democratically-legitimate multilateral institutions. To date, the various world economic institutions are however only partially interlinked and coordinated. This applies very particularly to the organisations and institutions which are responsible for international social, environmental, human rights or development policy. One reason for this is that many states have not signed all the appropriate agreements, and consequently do not consider themselves bound by them. In view of this situation, tensions and conflicts between the regulations and institutions of the various international agreements are virtually unavoidable, and this has a negative impact on their political effectiveness.

Since the WTO is one of the few multilateral organisations with a dispute settlement mechanism that works to some degree, there are repeated efforts to regulate important social and ecological administrative problems which also relate to trade-related matters in the WTO, such as within the framework of minimum social or ecological standards in world trade. This is however hotly disputed since experience shows that expanding the WTO Agenda in such a way not only makes it difficult to resolve the actual trade issues, but can lead to further conflicts when it comes to attributing international agreements. It is also questionable whether the goals targeted can really be improved by such standards, or whether indeed this would not be counterproductive in terms of social or environmental policy.

For this reason, this study suggests the standpoint of not defining such standards within the WTO, but of working to achieve better coordination between the WTO and other international organisations and agreements. The WTO and its members should understand internationally-binding goals such as human rights, the Rio Sustainable Development Convention or the United Nations' Millennium Development Goals as standards by which their own policy is to be measured. The WTO Preamble offers a starting point, given that it recognises

goals such as increasing living standards, the promotion of sustainable development and the protection and conservation of the environment. To this end, for instance, the WTO and other multilateral organisations are to grant one another *reciprocal participation rights* in their committees, steering bodies and general assemblies. What is more, there is a need for regular consultation at senior level.

As international law developed in various fields (such as human rights, world trade and the environment), legal tools were created which compete in a variety of ways, or which even contradict one another. Unlike in national law, international law however has nowhere an authority that can be sought when conflicts arise between various legal provisions. There is therefore a need for *coherent legal tools* in the context of the United Nations so that WTO law does not ultimately become a superior instance. There is also a need for WTO dispute settlement procedures which should be compatible with the relevant international agreements. Above all, dispute settlement should encompass sufficient legal expertise as to elements which are not (directly) related to trade law.

This strategy of better cross-cutting between multilateral agreements makes it possible to seize on social and ecological concerns in world trade without making them into a separate core topic. Instead, the priority should be to ensure as far as possible that the WTO and its members help make international standards such as the core labour standards of the International Labour Organisation (ILO) more valid worldwide. This includes the prohibition of forced labour, combating child labour, non-discrimination at work, the right to organize trade unions, as well as the right to collective negotiations. The WTO also embraces these concerns. For instance, Art. XX of the GATT permits restrictions on trade relating to the products of prison labour (XXe). Also the protection of public morals (XXa) fundamentally offers the possibility for trade restrictions to be imposed in the event of gross disrespect of the core labour standards. The problem of control could be solved by a neutral international arbitration tribunal, which for instance could be supported together by the WTO and the ILO. It also appears to make sense to strengthen the United Nations' Economic and Social Council (ECOSOC), since this would make it easier to coordinate the many activities of its Subsidiary Bodies and Specialised Agencies. The introduction of a duty for the WTO, the International Monetary Fund (IMF) and the World Bank to report to the United Nations could also help

to strengthen social concerns in world trade.

The same applies to the absolute need to enhance environmental protection in the world economic order. There has not yet been a significant conflict between WTO rules and multilateral environmental agreements, but nor is there a formal clarification in order to prevent future conflicts, which would however be necessary as a matter of urgency. Art. XX of the GATT affords preference to environmental protection, and to national prevention measures which can also justify restrictions on free trade, if they are not protectionist in their orientation. This applies both to health-related and environmental requirements for which the WTO's Agreement on Sanitary and Phytosanitary Measures establishes international standards. These are admittedly very much open to interpretation, so that the legal judgments have so far been highly varied in this area, in spite of the gradual development of case-law. It is therefore necessary to state clearly that multilateral environmental agreements in accordance with Art. XX of the GATT can justify trade-restricting measures. It should however be ensured that such agreements do not unilaterally reduce the prospects to compete of poorer developing nations, which frequently find it difficult to adopt stricter environmental standards. They must in turn be enabled to maintain the required standards through appropriate aid.

Another major and currently largely unsolved international problem which has a major impact on world trade, is the growing power of major transnational enterprises in some areas (such as software and the media), which have built up their influence by means of mergers, (hostile) take-overs or strategic alliances. This leads to distortions of competition since by virtue of being so powerful, such enterprises can restrict market access for new competitors, for instance through exclusive access to suppliers or sales partners. For this reason, administrative policy measures are urgently needed in order to facilitate supervision of competition and to limit large enterprises' economic power, in some cases indeed going so far as to impose global merger control. Whether such an international competition system should be anchored in the WTO is hotly disputed, however.

The experience that we are dealing here with contentious questions which are linked to complex packages and negotiated in a policy of give and take, is a cogent argument against regulating administrative policy questions in the WTO (including investment protection, for instance) which are not related to trade policy in the strict sense. This has proven to be particularly disadvantageous for

the poorer countries because they were only able to make progress if they were willing to integrate new topics such as services or intellectual property in the WTO, something which in turn has led to new problems. The industrialised nations have abused these packages again and again to advance their own interests. What is more, regulation on these questions under the WTO umbrella entails a risk of added incoherence since multilateral agreements already exist for some of these “new” topics. For these reasons, following the failure of the WTO Ministerial Conference in Cancún in 2003, it makes sense for some of these questions, such as investment protection and competition control, to be removed from the Agenda of the current “Doha Round” in order not to strain the negotiations or imperil a successful conclusion.

#### **4.4 Ways to achieve greater procedural justice**

The developing nations now account for roughly 80 % of WTO members, and as a consequence have more than 80 % of the voting rights. This by itself however does not guarantee that weaker countries are indeed appropriately involved in the voting processes taking place within the WTO. Most smaller and poorer countries are placed in an unfavourable position in decisions which as a rule are taken in the WTO by way of a consensus. This is a result of obvious procedural shortcomings, which for instance de facto reduce the required consensus of all to an understanding reached between a small number of influential countries. Not least because they lack staff and funding, the weaker countries are virtually unable to attend the large number of parallel negotiation groups in the WTO, to penetrate the difficult contents of the negotiations and to submit reasoned statements. Informal agreements between the well-equipped delegations of stronger countries frequently de facto determine the deliberation and decision-making processes. This shows how important is the principle of procedural justice, which demands transparency and real participation for all countries.

A major tool to improve smaller countries’ negotiating positions is the expansion of advice aid, such as is offered by the United Nations Conference on Trade and Development (UNCTAD), and rudimentally offered by the WTO. Such aid would presumably be much more effective if its providers were to coordinate better. There is also a need for the WTO Secretariat to be given greater competence to work more independently of the direct influence of the powerful countries. Only then can the WTO improve the coordination of its

many tasks and take its own initiatives. This would also make the ongoing work more transparent, particularly in the field of WTO negotiations.

Furthermore, greater inclusion of civil society groups in the deliberation process would presumably improve the transparency of the WTO decision-making procedures. Many non-governmental organisations have not only specialist, internationally-networked competence, but also direct contact with the poor, so that they could make a major contribution towards the WTO's poverty and development orientation. This knowledge should be used by granting them the possibility to take up a position in dispute settlement procedures and examine the trade policy of the members in the reporting procedure.

Over and above this, the establishment of a complaints body could make sense if it were to permit private individuals to highlight the negative consequences of individual WTO rules. This applies above all to indirect consequences which are frequently difficult to assess, and which remain unconsidered in most instances. It might then be possible to recognise and withdraw measures which are inconsistent with WTO goals more quickly.

The WTO's dispute settlement procedure is also in need of reform. Firstly, as already mentioned, better legal coordination is needed with other internationally-binding agreements. Secondly, non-governmental organisations should be granted observer status and permitted to make written statements, not lastly in order to increase the transparency of the proceedings. Thirdly, the willingness of the members to implement the measures required by dispute settlement must be considerably increased.

#### **4.5 Development-friendly reforms in worldwide agricultural trade**

Worldwide agricultural trade was first integrated into the multilateral trade order at the request of the developing nations when the WTO was established in 1995. This is progress, given that it means that trade in agricultural goods has become subject to general rules and some distortions of worldwide agricultural trade have been reduced. Nevertheless, we are still very far away from a substantial reduction of trade barriers favouring agriculture in the developing nations.

For instance, the rich countries have in fact continued to maintain high barriers which make market access difficult for agricultural products from the

developing nations. The increase in customs rates (customs escalation) with the degree of processing is a particular problem, making it difficult to import processed agricultural products from the developing nations. Furthermore, “export competition” is taking place on a massive scale worldwide to safeguard and increase the sales opportunities of countries’ domestic agriculture. To this end, the industrialised nations apply considerable export subsidies, in some cases in the shape of export credits or commercial food aid. It was only possible to agree in Hong Kong that such subsidies would end in 2013. Subsidies for domestic agriculture are much bigger, above all in the industrialised nations, but some threshold countries are also going in this direction. This helps to bring about a situation in which producers in these countries are able to launch their agricultural products on the world market at prices which in some cases are much lower than the production costs. This leads to distortions of competition, even if the subsidies have been deliberately structured in such a way that they are no longer classified as clearly “trade-distorting” according to WTO rules.

All this is in clear breach of the principles of justice of opportunity and transactional justice. The competition distortions not only impair the sales opportunities of the poor countries which are unable to keep up in subsidy competition, but also threaten their agricultural production for their own consumption. Ultimately, poor countries have now had to open their markets wider. They are being flooded in some cases with agricultural products from industrialised nations at prices which, because of the subsidies, are lower than the costs of local production. This means that independent agricultural structures are being lost in many poorer countries. This has helped to ensure that a growing number of poorer countries import more food than they export, although their economic structures remain typically agricultural.

These misdevelopments are in stark contrast with the guideline of independent “development from below” and with the principle of distributive justice. Such agricultural policy does not help to reduce hunger and extreme poverty; in fact it exacerbates them in many cases. A change in strategy must therefore take place in the rich countries, which is to be supported by re-orientating the WTO’s Agreement on Agriculture to become an administrative framework with fair framework conditions. The goal must be to reduce the screaming injustices and distortions of competition in worldwide agricultural trade, and at the same time to take account of the ecological and other non-trade concerns of agricultural activities.

Priority should be given to a *rapid, complete reduction of all kinds of export support* since these make it more difficult to conserve and build up well-functioning agricultural structures in poorer countries and delay the necessary transition to sustainable agriculture in the industrialised and threshold countries. This includes unambiguous agreements to prohibit export credits and commercial food aid. The latter must be restricted to acute emergencies since otherwise they do more harm than good. It should be taken into account however that the removal of export subsidies will pose serious short-term problems for poorer countries which depend on food imports, as this will make their imports more expensive, and as a result domestic food prices will also rise. Particularly the situation of the majority of the urban poor who have so far benefited most from subsidised food is likely to be worsened by this. They will need assistance for a transitional period in order to be able to cope with the higher food prices.

The *question of market access* requires a differentiated approach. The industrialised nations must reduce their still high customs rates for agricultural imports from the South, and must tackle customs escalation above all other things. However, there are considerable conflicts of interest among the developing nations in this area. Whilst potential agricultural exporters, above all countries such as Brazil, Thailand or South Africa, would benefit and are calling for more open agricultural markets in the industrialised nations, this causes considerable difficulties for economically weaker countries. They are at risk of losing their trade preferences if the customs duties are generally reduced since in many cases they already have duty-free access to the industrialised nations. This is not a viable argument against reducing the customs barriers in the agricultural field. Poor countries can also benefit from this in the long term since it creates greater incentives for their farmers to produce more agricultural goods, and they will probably benefit directly in some areas (e.g. cotton).

The removal of preferences however shows that the poor countries need to deal with considerable adjustment and restructuring processes before they can really benefit from across-the-board trade liberalisation. There is therefore a need for clever mechanisms to prevent them losing out from such reforms in the long term. It would be possible to expand development cooperation, which should place greater emphasis on the promotion of sustainable rural development, as this is one of the cornerstones of broad-based growth in these countries. Such co-funding of sustainable rural development by providing targeted development

aid would also be an approach to promote non-trade concerns, such as improved human rights, as well as social and environmental policy conditions. Conversely, the poorest countries in particular require scope to protect their frequently still relatively underdeveloped agriculture against foreign competition. The compromise achieved at the last Ministerial Conference in Hong Kong offers a step in the right direction, allowing the developing nations themselves to determine “special products” which they can exempt from trade policy liberalisation obligations to protect their farmers.

The lion’s share of worldwide agricultural subsidies is used to *support domestic agriculture* in the industrialised nations. These subsidies should be considerably reduced, above all because they are rather prone to indirectly distorting trade. Nevertheless, there are also reasons favouring national support measures, above all to ensure agricultural functions in addition to food production. These include environmental protection, landscape conservation, the promotion of culture, flood protection, the production of renewable raw materials, the generation of renewable energy, and the exploitation of new product areas, above all in the context of regional marketing. In order to safeguard the economic, social and ecological potential of these agricultural activities, most of which are elements of multifunctional agriculture, there is a need for structural reforms which in some cases at least must be supplemented during a transitional phase through limited internal support measures. These should not take place via price or volume, however, but preferably via compensation payments which are not linked to production. Only by these means is it possible to ensure that such payments do not distort trade indirectly, instead promoting structural development towards multifunctional agriculture.

#### **4.6 Carefully opening the service markets**

The General Agreement on Trade in Services (GATS), which was negotiated in the Uruguay Round, aimed to liberalise the international trade in services. Its intention is to reduce political and administrative trade barriers in this sector and to create greater transparency. The increased international competition between service providers is to open up the potential for reducing cost and increasing quality. The developing nations too are increasingly aware of the importance of well-functioning, effective services to increase the efficiency of industry and agriculture. It is no longer possible to successfully participate in world trade

without telephones, faxes and the Internet, for instance. What is more, open markets in the rich countries also offer new export opportunities to service providers from developing nations.

Nevertheless, there were and still are strong reservations in the developing nations against negotiations regarding liberalisation of the trade in services. Firstly, the countries fear that their still poorly-performing domestic providers could be eliminated by foreign competition. Secondly, they are rightly worried that the deregulation of the trade in services restricts their own political room to manoeuvre, such as in securing services for the public.

The developing nations' resistance to negotiations on services was broken down with the prospect of a grand negotiated solution in the context of the Uruguay Round. The industrialised nations promised to open their markets for agricultural and textile exports, and in return the developing nations agreed to start negotiating on this topic and on the protection of intellectual property rights. It was agreed here that GATS does not require across-the-board liberalisation, but that each country may choose for itself the sectors in which it opens its markets, and to what degree, according to the so-called positive list approach.

This positive list approach is fundamentally welcome, but it has been revealed during the negotiations that there is growing external pressure to open as many sectors as possible. The industrialised nations are pushing for the developing nations to open their markets in banking, insurance, telecommunications and transport as well as water and energy utilities. Conversely, they are not willing to make any substantial compromises when it comes to the free movement of workers which would be advantageous for poorer countries.

The developing nations, on the other hand, can certainly benefit from increased competition by modern service providers. Efficient, reasonably-priced services make it easier to run an economy efficiently in the manufacturing sector and promote the international competitiveness of export goods. The impact is similar to that of a modern infrastructure, and in fact the demarcation lines between infrastructure and the service sector are becoming increasingly unclear. On the other hand, the technological and organisational superiority of foreign providers may gravely hinder the development of domestic service providers. Many developing countries are therefore right to be concerned about becoming excessively dependent on international providers and to defend themselves

against excessively rapid liberalisation.

This risk is considered to be particularly high in those services which previously were provided by the state in most cases, particularly water and energy utilities, as well as health and education. It is feared that privatising these areas could further increase the supply bottlenecks for poor groups of the population and in remote regions, since here the prospects of profits for private providers are low. In order to remedy these problems, and in particular the possible abuse of private monopolies, regulation is necessary to promote competition, with which the domestic authorities in many countries are overtaxed. A blanket recommendation for liberalisation in these areas would be naïve and misplaced, however. This gives grounds for criticism of the policy applied by some industrialised nations, which are applying pressure on the developing nations to open their sensitive service markets faster. Every country must be left to decide when and to what degree it wishes to liberalise which service sectors. In view of the many problems, there is still considerable need for clarification and research, so that for the time being at least it is not possible to state that further liberalisation of the international trade in services would be unobjectionable or even helpful in terms of development policy.

#### **4.7 Reform of the Agreement on Trade-Related Aspects of Intellectual Property Rights**

The TRIPS Agreement (Agreement on Trade-Related Aspects of Intellectual Property Rights) served to comprehensively integrate the protection of intellectual property rights (such as patents, copyright and trademarks) into the multilateral world trade order for the first time. Such agreements had been in existence for quite some long time, now collected under the umbrella of the World Intellectual Property Organisation (WIPO). The TRIPS Agreement however considerably tightened up the standards and particularly their implementation. This took place at the behest of the industrialised nations, led by the USA. Research and technology-intensive goods, music and film productions, as well as branded products, account for a major share of the economic added value and exports there, so that the USA has a particular interest in the worldwide implementation of intellectual property rights. The developing nations put up a long fight, and did not agree until they were promised in return that agricultural and textile trade would be integrated into

GATT. Since the content of the TRIPS Agreement largely corresponds to US and approximately to EU law, the necessary statutory amendments required in the industrialised nations are relatively minor. By contrast, the need to reform legislation and the practical implementation of intellectual property rights is considerable for the developing nations.

There are admittedly good arguments in favour of protecting intellectual property rights. This can fundamentally help to increase the incentive for innovation because such protection gives enterprises the certainty that they can use the results of their research largely exclusively for a certain period. This is not possible without intellectual property protection, and in particular if the development of new products is highly laborious but the imitation costs are low, such as with computer programs or in the chemical and pharmaceutical industry. On the other hand, protection rights pose the danger of society as a whole losing out on prosperity. If they are structured such that there is virtually no more chance for imitative competition, or if the right-holder “succeeds” in misusing them for anti-competitive conduct, one must anticipate market supply to be poor during the protection period, and indeed beyond.

In the eyes of many developing nations, problems arise less from the protection of intellectual property per se, but rather from agreeing to expand them to areas which are vital for economic development in general, and in particular for the survival of people, and above all of the poor. Thus, according to TRIPS, *patent or species protection* must be introduced for seed, something which is inconsistent with many legal traditions. It is above all the seed- and food-supplying groups of companies which are interested in this and which increasingly dominate research in this field. Their products are becoming increasingly common, and are pushing out traditional species. This endangers the right to food of smallholders in developing nations who live by subsistence farming. They depend on retaining some of their harvest to sow in the next season (farmers’ rights); many of them cannot afford expensive seed, which species protection law obliges them to do.

Another problem is patents on products which are based on natural substances and whose healing effects have been generally known for a long time in many developing nations. This promotes so-called “biopiracy” if enterprises take this local knowledge on board, and then themselves register patents on substances derived from the plants or on procedures to exploit healing substances from plants. Amongst other things, “novelty” is quoted to justify such patents,

something which is not only a bone of contention, but is extremely objectionable: categorising knowledge as “new” and hence as fundamentally patentable only because it was not previously published in writing. Such access by foreign enterprises to genetic resources and traditional knowledge of natural substances in developing nations is favoured by the lack of coherence between the WTO and international environmental protection agreements. In particular, the relationship between TRIPS and the International Convention on Biological Diversity (CBD) and the Cartagena Protocol on Biosafety is not yet unambiguous. On the one hand, the focus is on commercial use of nature, whilst on the other hand nature is to be protected, and all people are to be involved in its sustainable use.

An equally important topic is *access to medicines*, which in recent years has received considerable public attention in light of HIV/AIDS, particularly in poor African countries. In order to be able to supply the population with the cheapest possible medicines, most developing nations previously had no patent protection for pharmaceuticals. On the basis of the TRIPS Agreement, all countries are obliged to provide such protection for medicines which were developed after 1995. There are exceptions for the poorest countries, to whom an adjustment period was granted until 2016, and in national emergencies, such as a threat to public health posed by diseases such as HIV/AIDS. Compulsory licenses could be granted for the production of imitations, so-called generic products, in accordance with Art. 31 of TRIPS in the event of national emergencies. This is however linked to a number of preconditions which are open to interpretation and are difficult to meet.

The main bone of contention in recent years has been the granting of cross-border compulsory licenses. These would enable poor developing nations which have insufficient or no manufacturing capacities in the pharmaceutical sector, and which consequently cannot grant compulsory licenses to domestic producers, to commission enterprises in large developing nations such as Brazil or India to produce for them much cheaper generics in order to make vital medicines accessible to them. This was blocked for a long time by arguing that it would lead to cheap re-imports to industrialised nations. After tough negotiations, agreement was reached on a temporary compromise which was included in the TRIPS Agreement in Hong Kong in 2005. Accordingly, exporting and importing countries can apply to the WTO for a compulsory licence under exceptional circumstances. However, this mechanism, which is

highly complex because of strict conditions and high bureaucratic obstacles, makes insufficient allowance for the interests of the poor countries, and so far has not been applied in one single case.

In view of such problems, it is difficult to understand that much of the examination of the whole TRIPS Agreement which was contractually promised to the developing nations back in 1999 has still not taken place. The agreement reached at the Ministerial Conference held in Hong Kong at the end of 2005 to report regularly on the progress of the revision of the Agreement is at best a first step. The same also applies to the resolution adopted in autumn 2005 to extend the deadline for the implementation of the TRIPS rules for the poorest countries to 2013. This is fundamentally welcome, but only applies to the 32 poorest WTO members.

It is all the more important to use all possibilities provided within the Agreement, above all by re-negotiating particularly contentious issues. It is particularly urgent to reach a fundamental clarification of the compulsory licensing of patents by formally amending Art. 31 of TRIPS in order to avoid case-by-case rulings which are highly time-consuming and cost-intensive particularly for poor and small countries. Further, the transitional periods envisioned for the poorest countries in particular are to be used and where appropriate also extended several times, which would come close to special status. Above all there is a need for effective agreements to prevent patent abuse and biopiracy by large enterprises. A major precondition for the latter is to coordinate TRIPS and the Convention on Biological Diversity. Finally, the industrialised nations should also temporarily cease lobbying in bilateral negotiations for further tightening up of international protection standards.

## **5 Development policy and world trade**

A development-orientated reform of the WTO is necessary so that worldwide trade can make a positive contribution to overcoming poverty and underdevelopment. These reforms will admittedly by no means suffice by themselves. It is equally important for development policy strategies, firstly, to set the stage for successful world market integration of poor countries and, secondly, to reduce the related risks. The individual states – developing and

industrialised nations – as well as international organisations should make their own contributions here.

## **5.1 The policy of the developing nations**

The policy of the respective countries is also vital for successful integration into world trade since all reforms of the world trade order will have little effect if the states themselves do not pursue a development-friendly policy. A major precondition for this is good governance, which encompasses respect for human rights, the rule of law and legal certainty, as well as the promotion of democracy and political participation by the population. Further, a market-orientated economy is vital to develop the internal economy. To this end, institutional reforms are required in most poorer countries in order to safeguard the efficiency of market economy competition. Other major elements are a just property regime, domestic economic stability and a well-functioning financial sector.

Additionally, measures are needed to improve the *starting conditions of weaker market players* and expand their market opportunities and choices. Hence, “investment in people” (food, health, education) which strengthens human capital is a major precondition for successful participation in competition. This equally applies to social security systems which inter alia increase professional flexibility. All this requires a high-performance, fair tax system in order to open up to the states more options for investment in these basic social services or in infrastructure (transport, efficient administration). It is clear here in particular that economic and social policies are inter-dependent.

Furthermore, *astute foreign trade policy* is called for which considers integration in the world economy not as an end in itself, or subject to the interests of the few, but which places it at the service of the development of the entire country. It is a promising strategy to spread the foreign trade structure related to goods, economic sectors or sales markets. Such a foreign economic strategy however also incurs problems. Obstacles on the demand side include protectionism and the dominant position of the industrialised nations in the areas of production, transport and marketing, which tangibly restricts poor countries’ scope. However, intense competition is also now predominant among the developing nations themselves (e.g. in the textile sector), so that they are erecting not inconsiderable trade barriers among themselves. The problems on the supply

side are at least as pronounced. Many developing nations' production structures are inefficient. Frequently there is no infrastructure for exports, starting with transport and communications, through to quality control or marketing. Export-orientated industrialisation, tax relief, export bonuses or loans, or indeed innovations such as alternative goods and marketable services (tourism for instance) are measures which may help to reduce such obstacles.

Even if trade between the developing nations is still orientated primarily towards the industrialised nations, South-South relations have nonetheless expanded considerably in recent years. Having said that, *South-South economic cooperation* is still relatively underdeveloped in comparison to the advanced integration projects of many industrialised nations (such as the European Union) and in most cases is also less stable. This is partly a result of old political rivalries, and partly also of economic obstacles since it is above all poorer countries which frequently have similar economic structures and a lack of diversification in their product ranges, so that their possibilities for a mutually beneficial economic exchange are restricted.

Despite these incontestable problems, greater *regional integration* particularly offers advantages to countries with economic structures which at least partly complement one another. The poorer countries should certainly continue to promote exports to the industrialised nations where they have comparative advantages. The expansion of regional cooperation however for countries with comparable economic potential can be a sensible interim step on the path towards complete integration in the world economy. A stronger regional network promises a larger sales market and offers opportunities for specialisation and for more efficient use of domestic resources and production capacities. If the countries in question join together in lobbying for their interests at international negotiations, this also enhances their political room for manoeuvre. However, this regional integration should not undermine the world trade multilateral order, and hence should be coordinated with the WTO and its set of regulations.

## **5.2 The policy of the industrialised nations**

The necessary reforms of the world trade order, as well as the implementation of some existing WTO agreements, demand considerable *economic structural adjustments* not only in the developing nations, but also in the industrialised

nations. It is contradictory and implausible of the industrialised nations to make demands and then place considerable obstacles in the way of their fulfilment. For instance, the high indebtedness of many developing nations can only be reduced – as demanded by creditors – if it is at least partially cancelled or if the debtor countries are offered the opportunity to earn sufficient foreign currency to meet their payment obligations. Most of them however have to obtain the necessary currency by earning trade surpluses, primarily with the industrialised nations, which are also their main creditors. Since the latter erect trade barriers and subsidise their own exports, the frequent demand for some of the developing nations to reduce their debt is impossible for economic reasons, so that the call to meet payment obligations previously entered into is ethically unjustifiable.

The required structural adjustments are however difficult to implement against the *resistance of the enterprises and workers* in the production sectors in question. This resistance is at least easy to understand in some instances since such reforms can exacerbate domestic social problems, for example if state subsidies are removed for economic activities which are no longer competitive. It makes little long-term economic sense, however, to protect employees in these areas via subsidies and protection against international competition. What is more, it is inconsistent with transactional justice and justice of opportunity. It is hence not justifiable for the industrialised nations to continue to solve their employment problems at the expense of poorer countries' development opportunities. The difficult goal conflicts between socially-just policy at national and international level which are shown here can be solved differently, i.e. through internal structural reforms and redistribution measures.

The globalised world economy exacerbates the employment problems encountered in the industrialised nations, which poses major challenges for them. Ongoing liberalisation of world trade will presumably lead to the emigration of further production sectors, making it necessary to open up and exploit new product fields innovatively. To this end, it is especially necessary to strengthen human capital because the earning opportunities of poorly-qualified workers tend to worsen as a result of globalisation. Increased investment in education and research are in turn a major pillar of successful structural policy. The industrialised nations need a more highly-qualified active population to be able to react to the change in global competition conditions. In Germany, there is a need above all for targeted education policy for groups with a reluctant view of education and for children and adolescents from families with a migration

background, as otherwise the group of those with few qualifications will become so large that it will not be possible to integrate them into today's internationally-networked economic environment.

However, there are limits as to the innovativeness of an economy and people's vocational qualification. The industrialised nations must therefore also take steps to integrate workers with few qualifications into the labour market by means of structural policy reforms, and to involve them in economic life through regular jobs. The social security systems also need to be reorganised to take account of the worldwide division of labour. All in all, it is a matter of good governance in the industrialised nations to focus above all on the poorer population segments. All types of combinations of market income and supplementary transfer benefits will be necessary for people with few qualifications in order to ensure both successful labour market integration, and to keep them above the subsistence level.

### **5.3 Development cooperation as a supplement to trade policy**

It is not a priority goal of development cooperation to create world economic competence. Nonetheless, such competence can form a sensible supplement to the poorer countries' own efforts to set the stage for independent development and successful inclusion in world trade. This is also in line with the goal of sustainable effectiveness of development cooperation, which relies on supportive and reliable political and institutional framework conditions in the recipient countries. These include influential forces for reform in the partner countries which call for a poverty-orientated development strategy and present this strategy in a plausible manner in the domestic policy debate.

Development cooperation which seeks to put itself out of a job in the long term must always aim to improve the chances of the partner countries in world economic competition. Preferential fields of trade-related development cooperation are advice, helping to build a broader foreign trade structure and supporting trade cooperation with other countries of the South. This includes the promotion of productive sectors, where possible in cooperation with private industry, in order to meet the requirements of the export markets as to quality, prices and reliable deliveries. It is particularly a matter of tangibly increasing the chances for the poor to benefit from trade, be it directly or indirectly. Therefore, development cooperation may not disregard the expansion of basic social

services and infrastructures which specifically benefit the poor and poor regions. The United Nations Conference on Trade and Development (UNCTAD) submitted a concrete proposal in the shape of a Trade “Marshall Plan” for least developed countries in the run-up to the most recent Ministerial Conference of the WTO, held at the end of 2005. Amongst other things, it provides for a separate “Aid for Trade fund” in order to be able to cope with the structural change caused by gradual world market integration.

At the same time, development cooperation must make a contribution towards the implementation of the many new requirements of the WTO agreements as to the partner countries. It should also ensure that the governments of poorer countries can play a more active part in the negotiations of the WTO or regional trade agreements. The need for basic and further training must be accommodated via the set of regulations for the WTO and the implications for the developing nations. Both financial support and an exchange of knowledge and qualified training and advice are needed for all this.

A development cooperation tool which aims to promote trade, but which goes much further, is the Agreement between the EU and its 78 African, Caribbean and Pacific partner states (ACP countries), which was agreed in 2000 in Cotonou (Benin), and which applies until 2020. This Agreement is unique worldwide both in the number of the countries involved and in the scope of the aid. The concept of partnership and the stronger political dimension of cooperation are welcome, as is the realisation that the fight against poverty and the protection of human rights are the main objectives of cooperation. The Agreement also provides for amended regulations governing trade between the EU and the ACP states in order to harmonise them with the WTO agreements. Negotiations are under way on “Economic Partnership Agreements” to be concluded within regional groupings, whose declared aim is to reduce trade barriers and to promote trade on a reciprocal basis. Here, the EU is however calling for the ACP countries to open their markets without sufficiently accommodating the unequal starting conditions of weaker partners. In some cases, topics are being negotiated (such as investment protection) which were removed from the negotiating agenda in the WTO under pressure from the developing nations. This is inconsistent with not only the principle of reliable agreements, but also with the spirit of partnership.

These problems indicate one of the greatest shortcomings of trade-related development cooperation, namely the frequently low level of coherence between

the various policy fields, and between development and trade policy in particular. The factual consequence of this is that short-term particular interests frequently take priority. It is therefore a matter of urgency to better coordinate all the industrialised nations' political measures which have an impact on the developing nations. This is a fundamental principle of integrated development policy. The multilateral organisations, above all the World Bank and the IMF, are obliged to achieve coherence in their many activities. In their projects and programmes, they provide momentum for economic reform programmes in the poorer developing nations and make major contributions towards improving the foundations for economic development. Since as a rule they link the granting of aid to conditions, for which there are good reasons in principle, they also have a major influence on important policy fields within these countries. It is important in the interest of the principle of coherence to accommodate broader growth more comprehensively, and not to push for hasty world market integration. Rather, there is a need to examine the respective situation of the individual countries in detail and to coordinate trade policy recommendations in line with higher goals (such as the Millennium Development Goals).

## **6 What the Churches can do**

The Churches play a major role within society, and are called upon to contribute towards a fair world trade structure. This requires, firstly, that they play an active role in the political debate on the future world trade order. Secondly, they themselves, and the other world religions, are global players which can provide momentum for a world economy which meets human needs through their activities and with their conduct. As a universal church, the Catholic Church is under a particular obligation here because of its self-perception that it may not pursue national interests, but must consider the good of all peoples and people. Even if it does not have, or indeed claim to have, any specific economic competence, it is nonetheless under an obligation to input its central values in this policy field.

The Catholic Church can start with its rich tradition of its social teaching in its ethical thought, in which principles such as human dignity, the common good, solidarity, subsidiarity and the option for the poor are particularly significant.

These standards also apply to designing world trade, even if they do not contain any ready-made recipes. The social ethical standards developed in this study can be directly linked to these principles and to a corresponding theological reflection. These goals, which are common to all the major religions, thus offer a high motivation for their respective members. This is important in order to ensure that the ethically-required structural reforms, which repeatedly encounter resistance from vested interests, are given the broadest support possible. The Church is called upon in the debate for such difficult reforms to contribute a global perspective and to act as an advocate for the poor, whose interests are only very unsatisfactorily considered in the political process as a rule.

The Catholic Church in Germany has been taking a stand on trade policy issues for many years, frequently together with the Evangelical Churches, above all in the Joint Conference on Church and Development (GKKE). It is possible to link to this commitment by devoting more resources at local church level to a debate on the issues related to creating a just world trade order. Lobbying work which incorporates the positions of the Churches in the political process is equally important, as has been successfully practised for many years for instance by the German Commission for Justice and Peace and the Church's aid agencies such as Misereor or the protestant Church Development Service (Evangelischer Entwicklungsdienst). This lobbying work could be expanded through ongoing dialogue structures between the Church and the political arena or between the Church and the business community in order to draw attention to the positions of the Churches.

Specific topics play a major role at local church level. Different campaigns have repeatedly emphasised selected world trade-related problems in recent years, such as the "*Fair-Spielt*" (Fair Toys) campaign, drawing attention to the issue of fair working conditions in the East Asian toy industry. Targeted activities carried out by church parishes, associations or One World groups form another element of involvement, such as in campaigning for poor farmers' traditional seed ownership rights or for compliance with minimum social standards in producing goods for the world market. This also encompasses advertising products with suitable labels, such as a quality seal for carpets which were manufactured in compliance with environmental, labour and social standards (e.g. no child labour). Corresponding campaigns and activities remain a major element of the Churches' commitment in order to create an awareness for world trade-related problems and to foster development-friendly consumption habits

among a maximum number of people.

It is also necessary to promote the commitment of the local churches in the countries of the South on matters related to the world economy since they in particular frequently have access to concrete information on the situation encountered by poorer population groups and on the impact which trade structures have on them. Even greater use should be made of this civil society potential in order to enable the Churches' lobby work to really take as its orientation the actual needs of the poorest. One possibility would be to develop and strengthen commissions such as *Justitia et Pax* in the countries of the South and East.

Increasing use should also be made in the political arena of linking concrete experience and systematic reflection at universal church level. For instance, the Vatican sends an envoy to the WTO, who has observer status there. The Catholic Church therefore has direct access to the political process of forming the world trade order. It could take even greater advantage of such possibilities in order to represent the interests of the poorest. Another possibility is offered by international groupings and cooperation efforts between Church groups and aid agencies which today already collect information and draw up positions on major trade policy topics. International Cooperation for Development and Solidarity (CIDSE), a combination of 15 Catholic development organisations from Europe and North America, deals with topics related to the WTO negotiations and draws up church positions on them.

One example from the area of worldwide trade relations, linking all these aspects, is fair trade, to which many Church parishes and groups have been committed for decades. The intention is to show alternatives to the customary sales channels and commercial trade organisations. This takes place through direct purchasing of food (such as coffee) and other products from trade partners in developing nations which are sold within a network of "One World shops" or Church parishes. Their activities have also been expanded over the years to include mail order trade, major consumers within the Church, trading in health food and commercial trade, where these products are sold with the "Transfair" label.

Such fair trade in its multifarious forms serves a variety of functions. The most important is probably awareness creation, in that it indicates to customers through the products on offer that world trade as it is being operated at present is

having a negative impact on many people in the poor countries because it does not enable them to benefit fairly from the advantages of worldwide trade. Fair trade goes further, however, and attempts to mobilise consumers to demand fairer trade structures. In this sense, this movement also has a major political potential which should be strengthened and put to greater use. This also includes creating an awareness that the primary or indeed exclusive orientation of providers and consumers towards finding the lowest possible purchase prices frequently leads to a situation, particularly with products from developing nations, in which the incomes of the poorest people fall, thus reducing the contribution made to development. Purchasing fair trade products can hence be emphasised as a contribution towards poverty reduction in developing nations because the more successful this market becomes, the more it makes it possible to transfer more resources to the developing nations via trade.

Fair trade also has an economic significance, although it would not be advisable to overstate its impact, given that its overall volume is very small. The most positive case applies to coffee, where fair trade accounts for a notable market share in a small number of countries (maximum 5 %). The Church in the North should nevertheless focus on its positive economic effects. Supporting cooperatives with which regular exchanges are maintained opens up more positive trade perspectives to at least some of the poor. Having said that, providers in the countries of the South are made aware at the same time through the transfer of information and cooperation that they should become accustomed to trading under normal conditions in the long term in order not to suddenly find themselves unable to keep their heads above water should the support from the North cease to flow.

The Churches are by no means the only active players in almost all these areas of activity, but there are also many other participants from civil society. The Churches would hence do well to endeavour to expand their cooperation with these players at national and global level with a view to achieving such joint goals. A special opportunity is offered by the close contacts which have been established between the local Churches in the North and many other local Churches in poorer countries of the South and East. These connections within the universal Church constitute valuable social capital which can be particularly used to seek viable solutions for a fair world economic order in a spirit of partnership and dialogue. The partner Churches will certainly have a lot to learn from one another in this exchange because of their different experiences.

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