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Still Waiting: The Failure of Reform at the World Bank

Bruce Rich

In this essay, Bruce Rich provides a critical assessment of the World Bank's reform agenda for the twenty-first century. According to Rich, World Bank President James Wolfensohn's Comprehensive Development Framework, touted as a new paradigm for development, has failed to deliver any concrete results. He asserts that the World Bank's raison d'être—i.e., environmentally sustainable poverty alleviation—is no longer relevant as the Bank continues to serve the interests of rich countries and their corporate clients. Criticizing the Bank's culture of corruption, corporate welfare agenda, and lack of operational transparency and accountability, Rich argues that the Bank has clearly lost its relevance as a development institution. He provides a sharply contrasting perspective with that of Robert Picciotto in the previous chapter.

When James D. Wolfensohn became President of the World Bank in June 1995, he appeared to be the institution's last, best chance. A cello player, former Olympic fencer, and Medici-like financier, he could also outperform the most self-righteous non-governmental organisations (NGOs) in his public protestations of concern for the poor. In his own words, "the real test of development can be measured not by the bureaucratic approval process, but by the smile on a child's face . . . We must organise ourselves . . . to deliver on that smile."

From his first day in office, Wolfensohn promised to revolutionise the World Bank. He pledged to change the institution's long embedded internal culture from one of loan approval—where staff were rewarded above all for pushing money—to a culture of "development effectiveness" and "account-

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ability," where economic, social and environmental results in the field would be top priorities. Making the World Bank more effective in helping the poor while protecting the environment would mean putting a priority on more intensive preparation, monitoring and supervision of Bank projects, as well as a much greater willingness to halt loan disbursements to governments—the Bank's major borrowers—that do not comply with Bank policies and loan conditions.

However, an effect of many of Wolfensohn's changes has been to make the Bank more amenable to its official governmental and corporate clients and weaken internal mechanisms for quality control. Moreover, the most rapidly growing area of Bank operations in the late 1990s has been in support for the private sector, and over the past two years, in huge, non-project emergency bail-out packages. Both priorities have even less connection to directly helping the poorest of the poor than more traditional Bank project loans. Worse, more and more evidence is coming to light that the approval culture has and is fostering systematic graft and the diversion of billions of dollars by corrupt politicians and bureaucrats in major Bank borrowers.

An Institution in Crisis

James Wolfensohn inherited an institution that was in crisis. Ever since the early 1980s, NGOs concerned with poverty alleviation and the environment have criticised the Bank relentlessly for financing development disasters in numerous countries. New Bank policies on environment and poverty alleviation, and increased staff did little to mute the criticism, since many Bank operations in the field appeared to go forward in violation of these policies.

The principal finding of the 1992 Independent Commission report into the Bank-financed Sardar Sarovar dam on the Narmada River in India, for example, was that the Bank and the Indian Government were culpable of "gross delinquency" in their implementation of the project, particularly concerning the forced resettlement of over 200,000 poor farmers. The Bank was found to be "more concerned to accommodate the pressures emanating from its borrowers than to guarantee implementation of its policies." The Wapenhans Report, released in 1992, confirmed that a "culture of loan approval" was deeply embedded in senior Bank management and had caused a relentless decline in the performance and quality of Bank operations. This was also documented in countless reports of the Bank's internal Operations Evaluation Department (OED), and ignored for over a decade by the World Bank's management and Executive Board. These deep-rooted institutional problems had been brewing for the better part of two decades

Failure of Poverty and Environmental Assessments

The Bank under Wolfensohn responded by trying to address all of these concerns simultaneously. He and Bank management maintained that there was no inherent contradiction in what amounted to promising all things to all constituencies. He thus promised to change the Bank's internal culture to better implement policies and to deliver better developmental results on the ground, but also to streamline Bank lending procedures to shorten loan processing and to increase the volume of lending.

The flaws in this approach soon became apparent in a crucial area. In the summer of 1996, two studies by the OED revealed the massive failure of the Bank to implement effectively its key poverty alleviation and environmental policy instruments—Poverty Assessments and Environmental Assessments (PAs and EAs).

Beginning in 1988 the Bank began to conduct Poverty Assessments of its borrowing nations to serve as a basis for better incorporating poverty reduction elements in the Bank's main country lending strategy documents, the Country Assistance Strategies (CASs). The Poverty Assessments were supposed to promote increased collaboration between the Bank and borrowers in poverty reduction, and to identify specific poverty reduction lending initiatives. The Bank's major donor governments made preparation of these Poverty Assessments, for the period 1994–96, a condition of the $18 billion funding replenishment of the International Development Association (IDA)—the part of the World Bank that makes low interest loans to the poorest countries. Bank staff prepared a voluminous *Poverty Reduction Handbook* to guide staff and management in carrying out Poverty Assessments and poverty reduction lending. By December 1994, 46 Poverty Assessments had been completed.

The OED review, however, concluded that the Poverty Assessments were a failure in influencing lending priorities and project design. The Poverty Assessments had little impact on Country Assistance Strategies—and this impact was supposed to be the single most important reason for their existence. The OED report found that "CASs focused overwhelmingly on broad macro-economic stabilisation and structural reform issues, with few references to the status or causes of poverty, or to approaches to poverty reduction." Not surprisingly, "Poverty Assessments have so far had little influence on the volume of lending targeted on reducing poverty." The OED report indicated that many of the Bank's borrowing governments did not in any case view poverty reduction as a goal or priority.

Perhaps the most interesting insight into the real role of concern for poverty in the Bank's institutional culture can be gleaned from the report's characterisation of comments by Bank staff familiar with the Poverty Assessment initiatives. They [illegible]

> *Poverty Assessments are believed to lack influence with borrowers because poverty reduction is often not the overarching operational objective . . . Within the Bank, Poverty Assessments are not influential because they are believed not to be taken seriously by senior management . . . The Program of Targeted Interventions [increased loans to reduce poverty] (PTI) . . . has little support and generates a degree of cynicism. Too often the PTI designation is merely a label applied to projects that have little genuine poverty-reducing influence to meet an imposed requirement.*

The OED's environmental report's main findings were equally damning, concluding that most full EAs (required for so-called "Category A" projects) "generate massive documents that are of little use in project design and during implementation." Most EAs were undertaken too late in the project cycle, so that "very few EAs actually influence project design"; as a result, public consultation and information disclosure, also required by the Bank's public information policy, was also weak, and when it occurred often happened too late in the project cycle to be effective. Moreover, "most Category A project EAs have failed to give serious consideration to alternative designs and technologies as called for in the Operational Directive, and those that do often explore weak, superficial or easily dismissed options." Recommendations and environmental action plans contained in EAs were often not implemented, and Bank supervision of the environmental components of projects was often lax or non-existent. Environmental Assessments, the report continued, "are often not understood by project implementation staff and, in many instances, not even available in project offices."

The report also pointed out that if the single most important problem undermining the effectiveness of the EAs was their tardy preparation in the project cycle, Wolfensohn's efforts to speed up loan approval would worsen the problem: "if the Bank continues to reduce the number of days available for project preparation and appraisal, finding time for meaningful consultation (and quality control of EA reports) will be increasingly problematic..."

As with other OED reports, the analysis on both Poverty and Environmental Assessments was devastating, but the follow-up by Bank management virtually non-existent.

Amnesia, "Clientitis," and Unaccountability

The new internal review entity called the Quality Assurance Group—touted by Wolfensohn and Bank management as one of the key institutional changes that would bring about the much heralded "culture of development effectiveness"—concluded in April 1997, a year long review of key areas of the Bank's ongoing lending portfolio. It examined 150 projects in detail across 14 major areas. The *Synthesis Report* summarising these reviews

was an indictment of the Bank's chronic, institution-wide inability to learn from past experience, the lessons of which were "well known but generally ignored," the report noted, in new lending operations. In the words of the Quality Assurance Group, the Bank had pervasive "institutional amnesia."

One of the factors behind this was that the thrust of the cultural change Wolfensohn claimed to promote was, once again, contradictory: improved project quality and, simultaneously, more responsiveness to the Bank's clients. But the Bank's clients have always been, and will in large part remain, borrowing governments and government agencies. The crisis of the culture of approval had become so overwhelming precisely because of the Bank's desire to please or not offend its government borrowing clients.

This problem is compounded by the lack of adequate accountability for socially and environmentally detrimental project violations that have arisen as a result. Only the Independent Inspection Panel is willing to undertake credible efforts to hold Bank management accountable for violations. But it has a debilitating Achilles' heel: the requirement that all investigations be approved by the Bank's Executive Board made up of developing country members who lobby heavily not to have the performance of their governments scrutinised.

Thus, when massive violations of Bank policy were alleged in the implementation of the Rondonia Natural Resources Management Project in Brazil, the Bank's Board, in January 1996, rejected a full investigation by the Panel, allowing it to review the project only after periods of six and 18 months. When it did, it found: "Deforestation has continued at high historical levels," and "illegal timber cutting and settlement in protected areas" continue. It also found "little progress in implementing a sustainable health plan for indigenous people." Similar results arose from complaints about two massively mismanaged projects in Brazil and India: the Itaparica dam resettlement project (the single most expensive resettlement project in Bank history, with $63,000 allotted per family, almost all which disappeared in corruption), and the National Thermal Power Sector Loan, (which involved pouring billions into a vast coal-fired power development at Singrauli, with disastrous neglect of resettlement and environmental conditions). Again, the governments of Brazil and India lobbied furiously against inspections of abuses. The Brazilian government succeeded in mobilising all of the borrowing countries in opposing the Panel (after all, any one of them could be the next target of the Panel . . .), as well as Italy, France, Belgium and Korea. The inspection was squelched, with countries holding 52 percent of the Bank's shares voting against, and 48 percent in favour. In the case of Singrauli, the Board approved an investigation, but prohibited the Panel from any site visits in India, limiting it to a desk-bound review of Bank documents in Washington.

The struggles of the Inspection Panel make it clear that the World

senior management, and in a remarkably impervious institutional culture, but equally in the lack of accountability and responsibility of many of its member governments, particularly borrowers. The institutional amnesia, culture of approval, lack of transparency and accountability are in reality comfortable arrangements supported by most governments, for all the wrong reasons.

Corporate Welfare or Poverty Alleviation?

Although he regularly reiterates the Bank's commitments to poverty alleviation and to the environment, Wolfensohn has simultaneously strengthened the institution's shift to supporting private corporations. In what the Bank's 1995 Annual Report called "a dramatic departure from what had been Bank policy for half a century," Wolfensohn has committed the Bank to increase the scale of the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and to devote increasing amounts of IBRD capital to guaranteeing private sector investment, as opposed to direct lending to governments.

The key question is whether growing use of the Bank's financial resources to support such corporate investment is really a good, or optimal use of public funds to help the poor and conserve the environment. The answer, as far as many grassroots development and environmental groups are concerned, is that the growing focus on the private sector is little more than corporate welfare with little direct connection to improving the lot of the poor.

The Bank's private sector financial services do principally help larger corporations, many of them with headquarters in rich donor countries, including some of the largest multinationals on earth. In 1996, 1997 and 1998, MIGA and the IFC approved loans and insurance for Coca Cola bottling plants in Kyrgyzstan and Azerbaijan, respectively. Since 1997 the Bank has been preparing a huge IBRD/IFC project to assist Exxon-Mobil, Chevron and Petronas in oil field development and pipeline construction in Chad and Cameroon. MIGA guarantees have helped to support huge gold mining operations in Indonesian Irian Java and Papua New Guinea run by giant multinational mining operations with execrable environmental records: Freeport McMoran and Rio Tinto Zinc.

In Mexico, a *Wall Street Journal* article in September 1997 noted, "over the past 18 months the recipients of IFC money have been a who's who of the country's publicly listed blue chips." Among several examples, the *Journal* cited a 1997 IFC investment in a fund sponsored by Carlos Slim, a multibillionaire who is one of the developing world's richest men. In Brazil the IFC's latest investments include stakes in multi-billion dollar

companies that are partners of large US multinationals such as Wal-Mart Stores and GTE Corporation.

Another area of dubious developmental benefits for the poor that has attracted IFC (and MIGA) investment is four- and five-star luxury hotels of well-known international chains such as Inter-Continental, Westin and Marriott. One would assume at the very least IFC investments in such hotels would be financially sound. Surprisingly, the IFC Annual Performance Review—FY1998 lists two such investments that have performed so poorly they have required major restructuring: the Camino Real hotel in the beach resort of Ixtapa, Mexico, and two hotels in Zambia operated by Intercontinental Hotels.

MIGA's 1998 Annual Report includes guarantees of about $29 million each for a Dutch beer company to build breweries in Moscow and near Bucharest, and guarantees totaling $34.3 million to construct a Marriott hotel in Miraflores, Lima, one of the richest, most expensive residential districts in all of Latin America. In 1998 MIGA issued four guarantees totaling $75 million to expand Citibank operations in Turkey and the Dominican Republic; four guarantees totaling $64 million to expand operations of the two biggest banks in the Netherlands, the ING and ABN Amro groups, in Turkey and Ecuador; and a $90 million guarantee to expand the branch bank of the Banque Nationale de Paris in St Petersburg. Banco Santander, one of the biggest banks in Spain, was the beneficiary of three guarantees totaling $64.1 million to expand its operations in Uruguay and Peru, and Lloyd's Bank of London also received a guarantee of $13.9 million to expand lending in its Argentinian branch office. These operations accounted for nearly half (48 percent) of MIGA's 1998 commitments.

How indeed were projects like these helping the poor or protecting the environment? The Bank's key argument was that by supporting private sector investment in capital-intensive areas, especially infrastructure, "fiscal space" would be opened up for governments to devote proportionally more resources to social and environmental services. In practice, however, this was often not the case: in many countries where the Bank promoted privatisation, and helped finance private sector investment, governments had cut social expenditures under Bank-supported structural adjustment programmes. The promised land of export-led, private sector growth that would raise the living standards of the poor often receded further in the future with each new Bank loan: Mexico had been a model pupil through the '80s and early '90s, and the living standard of more than half the population was lower in 1996 than it had been in 1980.

The Bank's other standard response, apart from the "fiscal space" rationale, was that its projects promoted growth and created employment—an assertion that could justify almost any project. But even on these grounds the record is suspect. In 1997 MIGA claimed that the 70 guaran-

tees it approved facilitated some $4.7 billion in foreign direct investment, creating 4,000 jobs in host countries. This amounts to $1.175 million dollars in investment per job. If the goal is job creation for the poorest of the poor, this is a bankrupt strategy.

At the same time, it became increasingly clear that using more and more Bank resources for private sector finance is pushing the institution into an area where its record of poor project quality and inability to carry out its environmental and social policies is even worse than in its main lending operations to governments.

The IFC, for example, supports such projects as that of the Canadian Kumtor mining corporation in Kyrgyzstan, which was responsible for three toxic spills in the last two years, the first of which resulted in two tonnes of cyanide pouring into the Barskoon River (the only source of drinking water and irrigation for local communities). The IFC has also supported the Pangue dam on the Bio-Bio River in Chile, about which Chilean NGOs brought a complaint before the Independent Inspection Panel. The Panel has no mandate to examine the Bank's private sector projects, but to Wolfensohn's credit, he called for Jay Hair—President-Emeritus of the US National Wildlife Federation—to conduct an independent review.

Hair accused key IFC staff of "fail[ing] to disclose key documents to the IFC Board of Directors (and perhaps senior management) . . . At each stage of the project approval process, key decision-support documents often did not faithfully or accurately reflect the contents of underlying environmental studies." In fact, "there was no evidence that specific standards or criteria had been established by the IFC or discussed with Pangue SA as to what levels of environmental and social impacts for the Pangue Project were 'acceptable to the World Bank' or IFC." Thus:

> *. . . from an environmental and social perspective IFC added little, if any value to the Pangue Project. Its failure to adequately supervise the project—from beginning to end—significantly increased the business risks and diminished the public credibility for both the World Bank Group (particularly IFC) and its private sector partner. There is no indication at this time (April 1997) that IFC has in place the necessary institutional operating systems, or clarity in its policy and procedural mandate, to manage complicated projects such as Pangue in a manner that complies consistently with World Bank Group environmental and social requirements . . .*

The Hair report's conclusions were an indictment not just of the Pangue project, but of the IFC's ability to contribute to the World Bank Group's stated developmental goals. Certainly a reconsideration of the Bank's private sector financing would be in order, but the Hair Report did nothing to staunch the accelerating pace of Bank private sector lending. Although the IFC has recently clarified its environmental and public-disclosure policies, there is no evidence that its ability to adequately imple-

ment these policies has changed since the completion of the Hair report. Whatever the theory, under Wolfensohn the Bank's poverty alleviation and private sector priorities in practice have grown more contradictory.

The Culture of Corruption

Another major problem with operations at the Bank is the way in which its culture encourages systematic diversion of funds and corruption in a number of the Bank's major borrowers.

The Bank under Wolfensohn, while proclaiming a more visible role in fighting corruption in developing countries, has done little to address the fundamental source of the corruption associated with World Bank lending. That source is the internal pressure to keep lending in spite of poor compliance with World Bank policies—not just concerning poverty alleviation and the environment—but concerning the Bank's most basic fiduciary duty to ensure its funds are not misappropriated from their intended uses. If the Bank is serious about knowing—and changing—how its money is really used, much more is needed than Wolfensohn's initiatives to hire a private accounting firm to conduct spot audits in a handful of countries, and, more recently, firing a few staff caught in acts of flagrant corruption and disqualifying the few companies that are caught red-handed in procurement irregularities.

In the summer of 1997, the consequences of years of Bank complicity in the corruption of its major borrowers finally began to surface in Russia and Indonesia. *Business Week* alleged that "at least $100 million" from a $500 million Russian coal sector loan was either misspent or could not even be accounted for. Noting that the Bank was preparing a new half-billion dollar loan for the Russian coal sector, *Business Week* observed that "World Bank officials seem surprisingly unperturbed by the misspending. They contend offering loans to spur change is better than micromanaging expenditures." A little over a year later, the *Financial Times* estimated the amount stolen in the coal sector loan to be much higher, as much as $250 million.

In the case of Indonesia, Northwestern University professor Jeffrey Winters alleged in a Jakarta press conference in July 1997 that shoddy accounting practices by the World Bank had allowed corrupt Indonesian officials to steal as much as 30 percent of Bank loans over the past 30 years—a mind-boggling total of over $8 billion. At about the same time, the Bank's Jakarta Office commissioned an internal study of corruption in World Bank lending programmes to Indonesia. But the findings and recommendations of the study, which confirmed many of Winters' charges, were never acted on by World Bank senior management, and Wolfensohn learned of the existence of the report only in July 1998 a year after its completion.

In the 15 months after the publication of the report, the Bank committed and disbursed over $1.3 billion more to Indonesia without any effective measures to contain the "leakage" detailed in the study. In October 1998, with plans to commit and disburse two billion dollars more over the next nine months a second Bank mission, headed by Jane Loos, recorded the following:

> *Our mission confirms earlier reports on corruption in Indonesia: that it is pervasive, institutionalised, and a significant deterrent to overall growth of the economy and effectiveness of the Bank's assistance . . . there is significant leakage from Bank funds . . . Bank procedures/standards are not being applied uniformly . . . The [World Bank] auditing requirements have been allowed to deteriorate into a superficial exercise . . .*

The full consequences for development effectiveness of the inability to root out the "culture of approval" were spelled out in an unusually candid re-evaluation of the entire 10-year record of the Bank in Indonesia conducted by the OED and circulated internally (and leaked to the press) in February 1999. The Bank for years had touted Indonesia as one of its great success stories ("widely perceived within the Bank to be a miracle and a symbol of the Bank's success"), but the OED report concludes that reluctance to offend a major borrower, a refusal to address corruption, and a dysfunctional internal Bank culture that punishes staff for identifying problems that could slow down lending all contributed to the propagation of what the original draft of the OED report called the "myth of the Indonesian miracle." (The final report omitted this phrase in response to the objection of the Indonesian Government.) The OED report rates Bank and Indonesian government achievements as only "marginally satisfactory" for the past three decades, contradicting numerous previous evaluations of Bank involvement in Indonesia as a leading example, at least relatively, of development effectiveness.

One of the more revealing analyses in the report describes how the culture of approval and perverse Bank career incentives that punish staff who contradict the party line led to disastrous consequences in lending for the financial sector. As the Indonesian melt-down was brewing, supervision reports indicated the Bank's single biggest financial sector project, the Financial Sector Development Project, was riddled with problems.

> *A thorough supervision effort in August 1996 not only found the project outcome to be unsatisfactory on all counts, but concluded that Indonesia's State Banking Sector was in disarray, riddled with insolvency . . . the Bank downplayed the evidence presented in the supervision report and rejected the proposed cancellation of the loan for several months, arguing that such action would do serious damage to the Bank/Government relationship. This process also triggered perceptions of unjustified penalties to career prospects of some Bank staff who had brought the issues to light.*
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> *The staff proposals for in-depth [financial] sector work were shelved; ESW [Economic and Sector Work] in the finance sector dropped from 1.76 staff years in FY95 [Financial Year 1995], to 0.55 in FY96, and 0.10 in FY97. Coverage of financial sector issues in the July 1997 CAS was minimal. The Bank's readiness to address the subsequent financial crisis in Indonesia was seriously impaired.*

The report also recounts how the reorganisation of the Bank under Wolfensohn and his "Strategic Compact" further undermined the ability of the Bank to respond to the Indonesian crisis in 1997–98: "The far-reaching 1997 reorganisation detracted attention from economic development issues," and "complicated the ability of the Bank to respond to the crisis . . ." The major recommendations of the OED Indonesia study of February 1999 echo the conclusions of countless reports past, particularly the 1992 Morse Commission and Wapenhans reports. If country monitoring is to be effective, there must be "major changes in the Bank's internal culture." Once again:

> *. . . warning signals were either ignored or played down by senior managers in their effort to maintain the country relationship. Some staff feared the potential negative impact on their opportunities that might result from challenging mainstream Regional thinking.*

One of the biggest obstacles to improved development effectiveness, and a major factor in the culture of loan approval, once again, is the chronic "clientitis" of the Bank, the desire to keep lending to maintain the "country relationship" often to the direct detriment of the poor the Bank purports it is trying to help. The current Bank reorganisation is making this clientitis worse, not better. The OED Indonesia report makes clear that in many cases a choice has to be made: "Bank strategy should look at the importance of the issues to the country's development, and not whether the country relationship may be jeopardised."

Failing to Deliver the Results

The World Bank's *raison d'être*, in its own words, is environmentally sustainable poverty alleviation; it is really the only reason why taxpayers in the industrialised world, already faced with a shrinking domestic social safety net, should support such an institution.

Yet, as the Bank works through its sixth decade of trying to promote something called "development," the poor in most of its borrowing countries are in worse shape than they were a decade and a half before. According to the United Nations Development Programme (UNDP), since 1980, "economic decline or stagnation has affected 100 countries, reducing

the incomes of 1.6 billion people." For 70 of these countries, average incomes are less in the mid 1990s than in 1980, and for 43, less than in 1970. In the early 1990s incomes fell by 20 percent or more in 21 countries, mainly in the former Soviet Empire. The poorest fifth of the world's population has seen its share of global income fall from 2.3 percent to 1.4 percent over the past 30 years.

Even according to the Bank's Operations Evaluation Department's latest *Annual Review of Development Effectiveness 1999*, "poverty trends have worsened . . . The number of poor people living on less than US $1 a day rose from 1,197 million in 1987 to 1,214 million in 1997. Excluding China, there are 100 million more poor people in developing countries than a decade ago." Furthermore, since 1990 life expectancy has declined in 33 countries.

What difference then, has the World Bank made? The Bank now claims a higher overall success rate for its projects (up to 72 percent from 64 percent in 1991), but part of the reason for that is that the Bank's evaluation process for projects is not very credible. In Bank evaluation of what it calls "successful outcomes," very little importance (five percent) is attached to a project's likelihood of maintaining its results over its intended useful life, which is central to progress in the developing world. This is a serious omission given that the Bank's own internal audits reveal an astonishing 51 percent failure rate to achieve sustainable results in fiscal years (Fy) 1998–99, a performance that has not changed appreciably in the last decade. This failure rate is even more acute in the poorest countries and in the developmentally most critical sectors. In Africa, for Fy 1998–99 only 34 percent of evaluated projects are of likely sustainability, and only 26 percent of likely "institutional development impact." In the Social Sector, the OED found sustainability declined from 25 percent in 1994–97 to 20 percent in 1998–99. For Population, Health and Nutrition lending, sustainability declined from 55 percent in 1994–97 to 50 percent in 1998–99. In the Environment Sector, sustainability declined from 55 percent in 1994–97 to 50 percent in 1998–99.

Hence, under Wolfensohn, an already abysmally low performance in the social and environment sectors has become even worse, according to the Bank's very latest publicly released figures. This is particularly significant because if a project doesn't produce lasting benefits beyond or even during its lifetime, the increased debt burden that borrowing from the Bank incurs is nothing more than a drag on the economies of poor countries. From the borrowers' standpoint, the Bank thus becomes as much a contributor to their problems as a solution.

Yet World Bank management faces no consequences for such poor performance; on the contrary, it means more business. Heavily indebted poor countries need still more World Bank loans, followed by debt relief paid for by the taxpayers of the industrialised countries. Meanwhile, the octopus-like bureaucracy emits an ever greater cloud of reports espousing its concern for the poor and sustainable development.

Conclusion

The key word for understanding the World Bank in the 1990s is "Disconnect"—the disconnect between its alleged purposes and its record, the disconnect between Wolfensohn's proclamations to change the Bank's culture, and the actual internal reforms needed to address the Bank's systematic failure to implement its most basic policies concerning poverty alleviation and environmental assessment. There is the disconnect between speeding up loan approval, weakening Bank policies, and claiming to root out the "culture of [loan] approval." There is a widely noted disconnect between claiming to use public funds and guarantees to help the poor and the rapid growth of the IFC and MIGA with a preponderance of clients among large multinational corporations and international money centre banks. Their activities, moreover, provide little direct economic benefit—and too often a negative environmental and social impact—on poor populations in developing countries.

Over the past two years, the external pressures placed on the Bank to funnel large, quick-disbursing non-project loans to major borrowers as a consequence of the Asian financial crisis have heightened still further the tension and contradiction between development effectiveness and the "loan approval culture." Recent trends are troubling. In 1998, nearly 40 percent of new IBRD/IDA commitments were large, non-project, quick disbursing loans and credits (double the amount of the previous year), and in 1999 the figure rose to 63 percent. The Bank cannot promote improved development effectiveness and be an automatic teller machine for the much criticised structural adjustment bail-out deals of the IMF at the same time. Claims that such loans are effective tools for promoting needed policy reforms in crisis situations are hollow, indeed disingenuous.

In the final analysis the Bank's prospects in promoting greater development effectiveness means not trying to be all things to all people, but choosing priorities, particularly choosing to focus on quality, not quantity in its lending, rewarding staff first and foremost for ensuring that its policies relating to poverty alleviation, participation, and the environment are carried out in the design and implementation of operations. To make this choice, the question of who the Bank's real clients are is critical and decisive. In a session between Wolfensohn and 300 senior managers on 12 March 1996, a Bank manager identified the fundamental contradiction in the entire "cultural change" Wolfensohn is trying to promote:

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The Doha Round: Prospects for the Rules-Based Trading System

Patrick Cronin

A multilateral commitment to freer trade has been a cornerstone of the post–World War II liberal international economic order. Patrick Cronin's contribution provides an analysis of the stresses on the international trading system that now threaten to rupture the postwar liberal consensus. He identifies a fundamental tension between the economic logic of free markets and the political logic of the nation-state system. A confluence of factors, many tied to increasing economic integration, has combined in recent decades to deepen the strains between these two logics. Preservation of a rules-based system will require states, particularly the most powerful ones, to make difficult and painful choices.

All politics is local.

Tip O'Neill,
former Speaker of the U.S. House of Representatives

All economics is international.

Peter Drucker[1]

In November 2001, the 142 members of the World Trade Organization (WTO) unanimously agreed to launch the ninth in a series of multilateral negotiations to promote a global free trade system (dubbed the Doha Round). A widely shared sense of relief following the decision stemmed from a growing series of fissures that threaten to fracture the post–World War II consensus in favor of a multilateral, rules-based trading system. The genesis of the problem, expressed in the quotes above, is a conflict between the economic logic of free markets and the political logic of the state-based international system.

The tension between these two logics has always been present, but only in the past several decades has it threatened to tear the rules-based system apart. The catalysts accelerating and deepening the strains on the sys-

tem are several. They include, ironically, earlier successes in lowering tariff barriers, a larger number of issues being raised for inclusion on the negotiation tables, a substantial increase in the number of countries taking an active interest in the negotiation process, a governance process struggling to reconcile competing national interests, and an increased willingness by WTO members to engage in bilateral and regional trade arrangements. Outside the WTO, increasing civic concern about the social impact of free trade (and of "globalization" generally) is creating problems as well. Spurred by trade's perceived threat to jobs, communities, the environment, and human rights, to name just the most often cited linkages, protestors are calling for changes in the rules-based trading system. For some, the solution is to disband the WTO and allow states to set their own rules on trade. For others, the answer is to open up the organization to "public" participation, to make its actions more transparent and accountable, and to incorporate values such as environmental protection and worker rights that critics claim are now ignored in favor of free trade.

While the issues facing the multilateral trading system are significant, it would be a mistake to conclude that all hope is lost. WTO members can still arrive at a successful conclusion to the Doha Round, but doing so will require governments to face down powerful and entrenched domestic interests favoring trade protection. This is especially the case for governments in the world's largest markets: the United States, Europe, and Japan. Developing countries, in particular, are flexing new negotiating muscles and demanding important concessions in order to reach an agreement. Given the stakes involved and the process by which the negotiations will take place, the self-imposed deadline to conclude negotiations by the end of 2004 looks unrealistic.

Dueling Logics

Liberal economists forcefully argue that free trade among nations leads to positive-sum (win-win) outcomes for all countries when based on the principle of comparative advantage. As David Ricardo (1973) so elegantly demonstrated, societal welfare is maximized when countries specialize in producing goods that best use their given mix of factor endowments, such as land, labor, and capital, and then trade their surplus for goods produced by other countries.

With the benefits of free trade firmly etched in their minds, liberal economists must view the global trading system with obvious frustration. It is true that the system is much more open than it was before World War II. Global trade and financial flows are significantly higher in absolute terms and embrace more parts of the globe than at any other point in history. In that sense, economic integration in the past fifty years has truly stitched the world's economies together, such that "all economics *is* international" (Jackson, 1998; emphasis added). But at the same time, markets could be much freer than they are currently. Trade protectionism not only abounds today but appears to be increasing, a trend that runs counter to one of the most fundamental "truths" of liberal economics.

What explains the failure of governments to seize the benefits from free trade? After all, if a government finds it difficult to persuade other countries to open up their markets, then at least it can remove its own barriers to trade. Its citizens will be winners with access to more products and at cheaper prices. Moreover, increased import flows will inject competitive pressures into the domestic economy, raising efficiency levels as a whole. But nowhere do we see governments unilaterally removing all barriers to trade. Instead, liberalization efforts are often used as bargaining chips for access to foreign markets while protectionism, in various guises, is given to favored industries.

Standing in stark contrast to the liberal logic of trade is the fact that international economic transactions take place in a world of nation-states. With no supranational authority to dictate trade rules, much less enforce them, state trade policies are driven primarily by domestic concerns.[2] Since the appearance of nation-states centuries ago, governments have often approached trade from a mercantilist point of view—in terms of relative gains (how much my state gains relative to another state) and with careful attention to trade's domestic costs. The question of who gains more was always important given the absence of a "globo-cop" to enforce international peace. In an anarchic international environment, each state is forced to rely upon itself for its security. Trade becomes an obvious tool for the accumulation of wealth and power by one's own country—and by potential enemies as well. Further, with increased trade flows come job losses and plant closures. While liberals hail this as a process leading to a more efficient allocation of society's resources, politicians are acutely aware of the political costs to be paid if the losers from trade are ignored. As a result, governments conduct trade negotiations with the goal of gaining as much market access abroad while conceding as little as possible at home.

The influence of this economic nationalist view of the trading system was reflected in the very foundations of the post–World War II trading system. While the General Agreement on Tariffs and Trade (GATT) was created to facilitate a movement toward global free trade, its negotiation principles included the concept of reciprocity. Countries offering greater access to their domestic economies could demand that other countries provide increased access to theirs. No country was expected to offer unilateral concessions. As a result, within the GATT the liberal goal of free trade has been pursued through this mercantilist negotiating process.

The GATT: Victim of Its Own Success

Between 1947 and 1994, the member states of the GATT concluded eight sets of negotiations leading to dramatic reductions in average tariff levels (Table 22.1). Because of these efforts, throughout the 1950s and 1960s world trade volumes and living standards increased substantially—to many a validation of liberal ideas on the benefits of trade. Many of the tariff reductions were accomplished in the first two decades of the GATT's existence. For instance, following the conclusion of the Dillon Round in 1961, average tariffs had been reduced by almost 75 percent from their postwar peaks. The subsequent Kennedy Round achieved a further reduction of 35 percent (Spero and Hart, 1997: 57). Because developed countries dominated the GATT's membership at inception, it should come as no surprise that tariff negotiations focused primarily on manufactured products—goods of common interest within this group of nations. By mutual agreement, agriculture was kept off the table from the very beginning, labeled too sensitive to liberalize. Indeed, after the war U.S. senators favoring continued financial support for U.S. agricultural products scuttled the proposed International Trade Organization (ITO). These economic nationalists feared that the ITO would infringe on U.S. sovereignty by ordering an end to farm support programs.

It is important to note that liberalization efforts were facilitated by the willingness of the United States to play a leading role in pushing the negotiation process forward. Freer trade was part of a larger geopolitical strategy to help rebuild the U.S.'s Cold War allies Japan and Western Europe. In this context, the United States tacitly agreed to accept asymmetrical (lower) benefits from the liberalization process compared to its trading partners.

Over time, however, increasing levels of import competition began to affect traditionally dominant industries in the developed world. In the

Table 22.1 GATT/WTO Rounds, 1947–2001

Year	Name of Round	Number of Participants
1947	Geneva	23
1949	Annecy	13
1950	Torquay	38
1956	Geneva	26
1960–1961	Dillon	26
1962–1967	Kennedy	62
1973–1979	Tokyo	99
1986–1993	Uruguay	125
2001– ?	Doha	144[a]

Source: Spero and Hart (1997); Doha Round information added by author.
Note: a. As of January 1, 2002.

United States, industries such as textiles and apparel, electronics, automobiles, and steel came under substantial pressure from foreign producers. The erosion of U.S. economic hegemony following World War II was an inevitable consequence of the rebuilding of the war-torn economies of Japan and Western Europe as well as shifts in comparative advantage to these and other countries.[3]

Companies and workers in the affected sectors appealed to their governments for protection. In a variety of cases they found obliging politicians unwilling to allow economically and politically important sectors to wither away. The prospect of tens of thousands of jobless voters streaming to the polls at election time was often too much to bear.

The GATT's rules largely prohibited governments from raising tariff barriers to stem import competition. As a result, a proliferation of other forms of trade protection occurred as governments looked for creative ways to help their companies and workers. These measures included persuading foreign producers to limit exports (voluntary export restraints or VERs), quantitative restrictions on imports (import quotas), and nontariff barriers (NTBs)—a catchall term encompassing health and safety standards, labeling requirements, customs procedures, government procurement policies, and licensing requirements, among other measures. In the case of quotas (import and VERs), the protectionist intent was clear. But for other trade barriers like health and safety standards for imported products, it was often hard to know where legitimate nontrade concerns ended and trade protection began. This ambiguity only served to make disputes over the use of these measures harder to settle.

Contributing to growing trade tensions among GATT members was the inability of the GATT's dispute settlement mechanism (DSM) to effectively adjudicate these disputes. In many cases the new forms of protectionism lay outside of the GATT's purview. When disputes did fall under GATT rules, the organization's principle of unanimous consent proved an insurmountable obstacle. The defendant country in a complaint had the power to veto the formation of a dispute panel or to prevent the organization from adopting its findings. With a governance process like this, it is no surprise that members viewed the DSM as ineffectual.

A Proliferation of Issues

By the early 1980s, it was increasingly clear that the GATT's rules would need to expand to include not only these new forms of protectionism but also a growing list of other trade-related issues. At the top of the list was agriculture. During the 1970s, large surpluses in production due to favorable weather conditions and government aid created trade conflicts over the use of export subsidies to dispose of the excess. At the same time, structural

changes in the economies of developed countries led to an upsurge in the export of services such as telecommunications, banking, and insurance. These were areas that many countries traditionally protected due to their perceived strategic importance. As a result, companies venturing abroad often ran into a variety of barriers including limits or outright bans on foreign participation. With the growing spread of multinational corporations around the world came pressures to include not only trade in services but also issues like intellectual property rights (IPRs) and investment law. Companies argued that both were trade-related since foreign direct investment (and the protection of technology transferred in the process) affected trade flows among countries. Businesses hoped that the creation of global standards in these two areas would make it easier to manage overseas operations, particularly in the developing world where IPRs were not well respected and where local investment codes often limited management's flexibility.[4]

The emergence of issues such as these split the GATT's membership along a variety of lines both within and across the developed/developing country divide. While a broader range of items for negotiation would seem to offer the best hopes for reaching a compromise, the politically sensitive nature of these issue areas led members to take strong positions in favor of or against them. Because of this, issues relating to agriculture and to new forms of protectionism proved too controversial to reach agreement on or were only addressed in a limited way until the Uruguay Round.

The Large "N" Problem and the GATT/WTO Governance Process

Compounding negotiation problems tied to the broader agenda was a significant increase in the GATT's (and now WTO's) membership in recent decades, particularly from developing countries.[5] Each of these countries brought to the table its own set of national interests—those issues it wanted to see on the trade agenda and those it opposed. As a group, developing countries are now taking a much more active role in the WTO and challenging the organization's traditional decisionmaking processes that have favored developed countries' interests.

As Table 22.1 shows, the number of countries at the negotiation table doubled between the Kennedy and Uruguay Rounds. When the latter round began in 1986, the GATT had eighty members, only forty to fifty of which took an active role in the formation of the negotiation agenda. By the late 1990s, membership in the WTO had risen to 135 following an influx of developing and "transition" (formerly communist) states (Laird, 2001; Odell, 2001).

The dramatic rise in the number of developing country members was

driven by a number of factors. Perhaps the most important reason was a generalized trend toward the adoption of export-oriented development strategies in response to liberal pressures to remove barriers to international trade and investment (Odell, 2001). Instrumental in the policy change process was the leverage exerted by organizations like the International Monetary Fund (IMF) and World Bank that used their resources to promote a free-market approach to development. Now with outward-looking development policies, developing countries acquired an intense interest in market access and in the rule-making body that promoted it. For smaller economies, an organization furthering the development of a global, rules-based trading system was attractive. More than anything, it served as an alternative to a power-based trading system in which larger countries were free to bully smaller ones. It also offered an opportunity to shape the rules in ways that would promote the interests of developing countries. A final reason explaining the rise in developing country membership levels was a decision made for the Uruguay Round negotiations that any agreement would be adopted as a "single undertaking." In contrast to previous GATT rounds, members would now have to agree to adhere to all provisions in an agreement instead of being able to selectively choose which portions to respect. The practical effect of this all-or-nothing approach to deal making was that countries could no longer free ride on the willingness of other members to extend nonreciprocal trade concessions (Schott and Watal, 2000). As a result, members now had an interest in all issues under discussion.

The increase in WTO membership levels had a profound effect on the organization. Not only did it bring many new interests to the negotiation table, but it also exposed weaknesses in the organization's governance structure, creating what Jeffrey Schott (2000) terms the "consensus-building problem." From its founding, the GATT adopted a governance process based on the principle of consensus. This suggests that any agreement must necessarily reflect the interests of all members, potentially difficult to achieve as more and more countries join in the negotiation process. With more states at the table, the size of the win set (or the common concessions all are willing to make) is likely to decrease. As John G. Conklin (1996) notes, this system of governance generates least-common-denominator outcomes.

Despite formal governance rules that made agreement challenging, informal practices helped the GATT's members conclude successful negotiations through the 1970s. Reflecting the distribution of global power, the so-called Quad countries (United States, Canada, Japan, Europe) exercised a decisive amount of influence on agenda formation and the subsequent negotiation process in each round (Schott and Watal, 2000). Successful rounds were facilitated not only by Quad leadership but also by the small number of members, their mutual interest in the liberalization of manufac-

tured products, and by economic structures dissimilar enough that tariff liberalization before the 1970s did not lead to substantial amounts of trade competition.[6]

This decisionmaking process came under strain once Quad unity fragmented in the face of disputes over agriculture and barriers to markets' access. While these did not preclude an agreement in the Tokyo Round, they proved to be substantial problems in the Uruguay Round. This was especially true in the context of an influx of developing countries into the GATT. Both existing and new developing country members began to participate more actively in the negotiation process.

Today, the problem of numbers is exacerbated by the continued accession of new members (over twenty since the conclusion of the Uruguay Round) and a determination by least-developed countries to make sure their views are adequately reflected in any future agreement. Although larger developing countries played important roles in negotiating a variety of the provisions of the Uruguay Round agreement, many of the least-developed countries felt that the final accord was forced upon them by the world's major trading states (Finger and Schuler, 2000).

This fragmentation of strongly held interests within and across levels of development was amply illustrated in the highly public fight over selection of the WTO's first director-general and in negotiations over how the Doha Round would be conducted. In the first case, crosscutting coalitions of developed and developing countries formed around New Zealand's Mike Moore and Thailand's Supachai Panitchpakdi. Members in each coalition felt strongly that their candidate best represented their national interests. Unwilling to concede, both sides compromised by splitting the job into two three-year periods with Moore having the first turn. Developing countries' resentment at past governance practices was displayed in the process to decide how the Doha Round negotiations would be carried out. A coalition of the WTO's least-developed countries, along with relatively wealthier developing countries like Egypt and Pakistan, called for all final decisions to be made in the WTO General Council and for no informal, closed-door negotiations talks to take place (Intl. Centre for Trade, 2002). This practice of using so-called green-room talks, named after the meeting room adjacent to the WTO director-general's office, to conduct "negotiations within the negotiations" came to a head during the Seattle ministerial meeting in 1999. Many of the smaller developing countries accused the host U.S. delegation of trying to promote its interests via the use of a green-room process that excluded them. While agreeing that informal consultations and negotiations can serve a useful purpose, they continue to insist that any informal talks be publicized and open to all members.

China's December 2001 accession to the WTO only exacerbates the numbers problem. With its large and growing economy, China's government will be able to exercise an important degree of influence over the course of any deliberations. However, how China will choose to wield its power is unclear at this early stage. During its first months as a member, Chinese officials supported proposals from various developing countries to limit Quad influence over the Doha talks. In that sense, early signs suggest that China may end up, deliberately or not, being a champion of developing country interests vis-à-vis a more democratic decisionmaking process within the WTO. This stance is consistent with China's national interest in strengthening its relative position at the global level.

The impact of China's accession—positively or negatively for the rules-based system—may ultimately be decided by its willingness to play by the rules and by other countries playing fairly with it. China is in the midst of a profound restructuring of its economy, with significant social dislocation already taking place. As it implements its commitments to the WTO, these costs will only rise. If the level of social unrest were to threaten the Communist Party's control of the political system, it is possible that China could reverse earlier liberalization efforts. More likely, however, is a China that will act like other powerful members of the WTO: using the rules to promote its own interests while complying with its obligations to the extent that domestic politics allow. This is likely to mean an increase in the number of disputes brought to the WTO with China either as complainant or defendant.[7]

In one sense, this increased use of the WTO's dispute settlement mechanism would be a positive sign for the future of the rules-based system—so long as the WTO is able to resolve these problems in an amicable fashion. More worrisome in recent years is an accumulation of cases in which powerful countries have chosen not to respect adverse rulings. These include the EU's loss with respect to the importation of hormone-fed beef from the United States and the U.S.'s loss to the EU over the issue of taxation of export earnings.[8] If China's entry to the WTO simply adds another major power unwilling to comply when it loses important cases or, alternatively, finds others stubbornly resisting when it wins, then this bodes ill for the rules-based system. Ultimately, the system's ability to survive and prosper will depend on the willingness of the world's major trading nations to comply with their obligations. In turn, this will necessitate being willing to ignore the pleas of powerful domestic interests favoring protectionism.

Prospects for Success

The inability of WTO members to launch a new round in Seattle and their difficult—but ultimately successful—struggle to do so in Doha two years later was due to stark differences among the membership over the direction and content of the negotiations.[9] Compounding these problems was strong resentment among many developing countries that the Quad powers were,

as usual, trying to shape the agenda to suit their interests at the expense of everyone else's. Rather than capitulate, developing countries made a strong statement in Seattle by publicly condemning the use of green-room tactics and refusing to sign off on an agenda that did not adequately reflect their input. There were other important reasons for the failure in Seattle, including deep divisions among the Quad countries themselves, particularly over agriculture.[10] At the Seattle ministerial meeting, developing countries sent an unprecedented statement that they would use the principle of unanimous consent to block the talks unless their varied (and sometimes conflicting) interests were given space at the table. No longer would the Quad countries be able to informally dictate the terms under which negotiations would be held and agreements reached.

The issues and positions leading up to the Doha meeting closely paralleled those in Seattle. The key differences explaining success in the former case and failure in the latter can be tied to commonly held perceptions that the WTO and the multilateral trading system would suffer irreparable damage if members failed a second time. Adding to the pressure to bridge members' differences over an agenda was a global recession and attendant worries about resurgent protectionism, as well as the terrorist attacks in New York and Washington, D.C., in September 2001. In the weeks prior to the Doha meeting, it was widely believed that the attacks would further damage an already suffering U.S. economy. Despite these new forces for compromise, the Doha meeting almost failed, a testament to the difficulty in finding an acceptable agenda. The final result left all sides claiming victory; however, skeptics felt that the language of the declaration launching the round was sufficiently ambiguous to paper over important differences—divisions that may yet prevent a final agreement. The discussion below offers a look at contentious areas of the negotiation agenda and the difficulties to be faced in successfully concluding the latest round.

Industrial Tariff Reductions

No round would be complete without tariff reductions on industrial products. Developing countries, especially the poorest, are worried that new tariff reduction commitments (in percentage terms) will require them to reduce their protection rates relatively more than developed countries since the former have rates higher than the latter. Given the great sensitivity with which developing countries approach the issue of market access to Quad-country markets, these developing countries are likely to resist further concessions, at least and until they see greater market access for their own exports. Since the latter are often blocked by nontariff forms of protection, by antidumping actions, and by trade barriers on nonindustrial products (especially in agriculture), developing countries will require prompt and measurable concessions in other issue areas.

Antidumping Measures

The Doha declaration calls for negotiations "aimed at clarifying and improving" current rules on the use of subsidies and countervailing measures (SCM), especially antidumping measures. Ostensibly designed to allow countries to legally raise barriers to trade to counter unfair trade practices by others, many countries targeted by these measures feel that they are no more than disguised protection cloaked in an aura of legitimacy. Led by South Korea, Japan, the European Union (EU), and many developing countries, this item was placed on the agenda despite the vigorous opposition of the United States, a heavy user of such measures. This is an issue area ripe for discussion given a global upsurge in the use of these measures by rich and poor countries alike. However, the United Stastes is unlikely to sign off on a final agreement unless it extracts concessions on other issues. Complicating any trade-off will be U.S. domestic politics. The U.S. Congress, constitutionally charged with control of trade policy, has put the Bush administration on notice that it will not tolerate any interference in the U.S.'s antidumping mechanism. Supporting this stance are a variety of powerful domestic lobbies that benefit from it as well as congressmen who object to having a supranational organization dictate what the United States can and cannot do with its trade policy.

Agriculture

Agriculture is historically the most difficult issue to deal with in international trade, and the Doha Round will be no different in this respect. Negotiators will face four main issues: expanding market access, "substantial reductions" in trade-distorting domestic supports, reducing "with a view to phasing out" export subsidies, and providing "special and differential" treatment for developing countries (WTO, 2001a). Opposing each other on each of these issues are various coalitions of countries, often cutting across levels of development.

In general, developing countries have a strong interest in phasing out barriers to accessing the Quad markets. While the Uruguay Round's agricultural commitments included the transformation of nontariff barriers to tariffs, the resulting tariff levels often offered at least as much protection as before. Among those countries supporting greater market access as well as an end to export subsidies are the Cairns Group of fourteen developed and developing countries with a natural comparative advantage in agricultural products.[11] Against EU objections, this group successfully pushed for the goal of phasing out export subsidies. Internally, the EU's high level of domestic support and export subsidies for agriculture has placed it in opposition to calls for freer markets in agricultural trade. Also resistant to market-opening measures and reductions in domestic support are countries like

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Japan and South Korea that would prefer to continue to protect various agricultural products. In all cases, politically strong domestic lobbies underpin their decades-long protectionist stances.

Within the EU, the region's support for agriculture and its protectionist stance reflects the strong influence of countries like France. Any concessions here will require tough intra-EU bargaining, an agreement that might be more possible in light of the region's impending enlargement and the strains it will place on the region's budget for agricultural support. In an effort to avoid intra-EU disputes, EU negotiators unsuccessfully pushed for recognition of agriculture as a "multifunctional" activity. Under this rubric, countries could presumably continue to protect their sectors under the guise of preserving a rural way of life ("rural development") or the environment. Further, the continent's recent scare over mad cow disease has only deepened public pressures on politicians to allow countries to conduct their agricultural policies in ways that protect their citizens. The EU is already embroiled in a trade dispute over the banning of U.S. exports of hormone-fed beef. Although no scientific evidence has been produced to support the thesis, EU regulators claim that such beef is unhealthy for consumers and should be banned. Moreover, EU negotiators have argued (unsuccessfully to date) for inclusion of a "precautionary principle" in trade under which imported products can be banned if they are thought to be harmful despite a lack of evidence (or in the interim until such evidence can be developed). From the point of view of exporters seeking better access to EU markets, these positions smack of protectionism in other guises. Although EU efforts have been successfully resisted, agricultural exporters enter the Doha negotiations fearing that the EU seeks to take back with one hand what it may give with the other.

The United States has conflicting interests on agriculture as well. While not formally a member of the Cairns Group, it supports the group's position on market access and export subsidies. U.S. exporters believe the United States will benefit (at the EU's expense) if trade-distorting subsidies are removed from exports. When it comes to domestic supports, however, domestic politics have opened up a gap between rhetoric and practice. The 1996 U.S. Federal Agriculture Improvement and Reform Act was seen by liberals as an important step toward the reduction of U.S. agricultural supports that distorted prices for agricultural products. Under this law, farmers would no longer be paid according to government price supports for particular commodities or paid to not produce certain crops; rather they would be paid direct and diminishing amounts of money unconnected to what crops they produced. The liberal hope was that this form of protection would reduce price distortion while overall support levels would end over time. Good intentions have been upset by bad weather and domestic politics. In the intervening years, both major parties in the U.S. Congress have come together to authorize significant increases in farm aid in a bid to attract

political support in farming areas hard hit by drought and other problems. It is unclear at this stage how U.S. negotiators will be able to reconcile the actions and attitude of Congress with a need to offer concessions in this area to trading partners.

Finally, developing countries themselves are split on the issue of agriculture and liberalization (Watal, 2000). Net-exporting countries such as Argentina and Thailand are vigorous supporters of greater market access and an end to subsidies. But net-importers like Egypt and Pakistan favor special treatment that will allow developing countries to protect in the name of food security and rural development. For the latter group of countries, liberalization forcing tens (or hundreds) of thousands of uncompetitive farmers and their families into cities in search of work would be a political nightmare and potential social catastrophe. Net-importers have pushed hard for the inclusion of special and differential treatment provisions and are unlikely to settle for provisions that do not substantially address their concerns.

Investment Policy and Competition Law

These issues are at the core of the so-called Singapore issues promoted by the EU and Japan.[12] The process of developing a core set of standards for host countries to follow in their treatment of foreign multinationals began with a partial set of rules agreed to in the Uruguay Round. Developed countries, home to most of the world's direct investors, have a strong interest in setting rules that give their corporations maximum flexibility in managing of their operations abroad. At the same time, developing countries have a history of imposing a variety of restrictions, for example, local content or trade balancing requirements, to help ensure that the host country captures as many of the benefits from this investment as possible. Efforts to establish global standards exposed a deep developed/developing country rift, with the latter naturally opposed to rules that restrict a host's ability to regulate companies within its borders.[13] The trade-related investment measures (TRIMs) provision of the Uruguay Round provided a first cut at outlawing a small number of these practices. Timetables were established to end the use of domestic-content requirements and certain export performance standards on foreign investment (Moran, 2000). Many developing countries would like to see these deadlines extended or repealed, while developed countries would like to expand the list to include other types of host-imposed rules on foreign direct investment.

Proposals to create an explicit link between competition law and the WTO created splits within the developed world, with the United States in opposition to negotiations on this issue area.[14] Developed countries see this as a mechanism to promote exports abroad in cases where domestic competition laws are absent or not enforced in the target market (Hoekman and

Holmes, 1999). Thus their concerns are not with the promotion of liberal, welfare-enhancing policies abroad but with market-access goals driven by mercantilistic concerns. Other aspects of competition law, such as those concerning improper behavior of foreign exporters or direct investors (e.g., export cartels or the use of transfer pricing), do not appear to be a priority for those countries pressing to include this issue on the WTO negotiation agenda. While supportive of the goals underlying the EU and Japanese proposal, the United States opposes it, apparently believing that U.S. interests are better promoted through the use of unilateral and bilateral approaches (Hoekman and Holmes, 1999). To bolster their case against a WTO-based mechanism, U.S. competition authorities suggest that ceding authority to the WTO might expose the organization to capture by export interests, that the WTO's evidentiary standards fall below those in the United States, and that the WTO lacks sufficient expertise to handle such issues (Graham, 2000). As with investment law, many developing countries stand in strong opposition to the EU and Japanese proposal. While many supported the establishment of a working group within the WTO to study these issues in 1996, few are willing to agree to the launch of negotiations (Watal, 2000; Graham, 2000).

Because negotiations on the Singapore issues are so important to the EU, they emerged as a major source of tension in discussions over the Doha Round agenda. With the EU appearing to concede important ground in agriculture (agreeing to negotiations with a goal of phasing out export subsidies), the region likely expected reciprocity on other issues, especially in this area. Nevertheless, opposition to including these issues on the agenda was strong enough that the Doha Declaration compromised, with agreement to continue to study the issues until the WTO's Fifth Ministerial Conference in 2003. However, even then negotiations were only to begin if the agenda for them was agreed to "by explicit consensus." The chair of the Doha discussions on this issue provided a public statement that in his view explicit consensus meant that any WTO member could unilaterally block the launch of negotiations if it was unhappy with their mandated goals. Wrangling over this issue and the reference to explicit consensus reflects past resentment felt by many developing countries regarding their lack of control over the agenda and the outcome of past rounds. They are determined to exploit the unanimity principle to ensure that their voices are heard on issues of importance to them. The finessing of the Singapore issues in Doha merely postpones the hard bargaining and trade-offs leading to the launch of negotiations on these issues that will likely be needed to keep the Europeans at the table.

Linking Trade to Environmental and Labor Standards

More than any other issue, proposals to tie international trade rules more firmly to global standards on the environment and labor practices have

aroused substantial opposition both inside and outside the WTO. Inside, developing countries have consistently blocked U.S. attempts, beginning with the 1996 Singapore ministerial meeting, to create a working group on trade and labor. In the face of such resistance, U.S. authorities agreed that the issue would not be on the agenda for the next round and, further, that the WTO lacked competence to discuss it. Nevertheless, fears continued to run deep that the United States was trying to place it on the agenda in order to create new mechanisms to deny developing countries' exporters access to developed country markets. Indeed, such suspicions appeared confirmed by U.S. President Bill Clinton's ill-timed remark in favor of linking trade and labor standards just prior to the Seattle meeting (Laird, 2001). Clinton's statement was motivated by strong domestic pressures from trade unions affected by import competition and labor activists seeking to improve working conditions abroad, groups that were prominently protesting the WTO in the streets outside the meeting. Clinton's actions, which appeared to renege on earlier promises, significantly poisoned the atmosphere inside the hall. In the run-up to the Doha meeting, the U.S. government, under a Republican president much less beholden to labor interests, has not made this an important issue. The only WTO action has been to "take note" of the work by the International Labour Organization on the social dimensions of globalization (WTO, 2001a).

Efforts, particularly by the EU, to link trade rules more closely with the environment have also elicited strong criticism from the developing world. As with the United States on labor, EU negotiators are under strong domestic pressures to incorporate environmental concerns more closely into the work of the WTO. Some demands are driven by environmentalists critical of the impact of globalization on environmental conditions around the globe, while others spring from concerns over the health of the food supply. Still other efforts to link trade and the environment, however, are motivated more by domestic producers seeking new means to protect themselves in light of competition from developing countries, which generally have minimal environmental standards. Debate within the WTO has been as acrimonious on this issue as with labor. Developing country opposition forced the EU to scale back its expectations significantly. Nevertheless, in the bargaining at Doha the EU won agreement to begin immediate negotiations in three issue areas: to clarify the relationship between WTO rules and specific trade obligations in existing multilateral environmental agreements (MEA); to promote procedures for the regular information exchange between MEA secretariats and relevant WTO committees; and to reduce or eliminate tariff and nontariff barriers to the importation of environmental goods and services. Environmentalists criticized this outcome for its focus only on rule clarification and not rule change. Thus developing countries appear to have given away only limited concessions on an issue area of great importance to the EU. Environmentalists were cheered by agreement to begin negotiations to "clarify and improve" rules on fisheries subsidies

that, in their opinion, have contributed to overfishing and the collapse of fish stocks in various parts of the world.

Development and "Implementation" Issues

With their newfound voice, developing countries have been making a variety of demands. Their willingness to walk away from the Seattle meeting without an agreement and their tough bargaining stances in the intervening years to Doha forced the Quad countries to take notice of their interests. Quad negotiators now understand that developing countries' interests have to figure prominently in any new agreement.

Helping to strengthen this conviction was the position taken by a group of developing countries regarding "implementation" issues. They argued that developing countries had yet to receive expected benefits from the Uruguay Round agreement and that this imbalance must be rectified before they would support a new round. From a developing country point of view, concessions on intellectual property rights and investment measures were to be offset by Quad agreement to open up their textile, apparel, and agricultural markets and to grant developing countries "special and differential" treatment. While developing countries walked away from the Uruguay Round negotiating table expecting measurable benefits in a short period of time, the reality is that the Quad countries scheduled many of their market-opening measures in textiles and apparel for the end of the allowed ten-year implementation period (1996–2005). Although the Quad countries are legally within the letter of the agreement, they are accused of violating its spirit (Laird, 2001). Adding insult to injury, Quad countries have used antidumping measures, along with other actions such as tariff escalation, to offset expected benefits to developing countries.[15]

Developing countries are also concerned about the costs of complying with their Uruguay Round commitments, particularly in areas such as investment law and customs procedures. Estimates show that the poorest countries may need to spend the equivalent of a year's worth of development monies simply to come into compliance (Finger and Schuler, 2000). As the extent of the costs became apparent, more and more developing countries called for extensions of the deadlines.

A third implementation issue revolves around the practical meaning of the Quad commitment to extend special and differential treatment. As Sam Laird (2001) relates, much to developing countries' dismay, this has turned out to be more rhetoric than substance and has focused largely on giving developing countries more time and technical assistance to comply with a single set of trading rules instead of offering them different and lesser obligations.

With these concerns in mind, the developing world has called for a "development" round to address their interests. Developing countries won a

number of important victories in this regard at the Doha meeting. Most notably, they wrung a statement from the Quad powers that the existing IPR obligations would not stand in the way of efforts to deal with public health problems in developing countries (WTO, 2001b). At issue were growing attempts led by Brazil and South Africa to force brand-name drugmakers to offer AIDS drugs at a reasonable cost. Lacking the resources to pay prices propped up by patents but facing a serious health crisis, these countries argued that patent protection should not take precedence over public health. Facilitating the Doha statement was the anthrax scare in the United States. Facing a sudden need for millions of doses of the drug Cipro, U.S. and Canadian authorities threatened to override the patent held by the German pharmaceutical company Bayer unless prices were reduced. Traditionally strong support by these Quad countries for international intellectual property rights' protection melted away almost overnight when this public health threat turned up unexpectedly in their own backyards. Pointing out this apparent double standard, developing countries won over global opinion on this issue.[16]

Beyond the issue of IPRs, developing countries won other concessions. These include a WTO waiver of the Cotonou agreement under which the EU grants preferential market access to the seventy-eight members of the African, Caribbean, and Pacific (ACP) group of countries.[17] Composed largely of former European colonies and entirely of developing countries, this group includes fifty-six members of the WTO. To forestall objections, ACP members made it clear that acceptance of the waiver was important to their support for any future negotiations, especially relating to the Singapore issues, the environment, or labor (Intl. Centre for Trade, 2001).[18] Additionally, developing countries won a pledge that the WTO would provide sufficient technical assistance and capacity-building programs to ensure that developing countries were adequately trained for the Doha negotiations.[19] Further, WTO members agreed to establish working groups on debt and finance and on technology transfer, two issues of great importance to the developing world. All WTO members committed themselves to the objective of duty-free and quota-free access for products from the least-developed countries. Finally, the Doha declaration recognized the existence of developing country proposals to create a framework agreement on special and differential treatment, although no specific action was proposed. Instead, members agreed that all existing special and differential provisions of the WTO rules "shall be reviewed with a view to strengthening them and making them more precise, effective, and operational" (WTO, 2001c).

Developing countries were unsuccessful in getting implementation issues into a single negotiation area by themselves. In its place, members agreed to look favorably on requests for technical assistance and deadline extensions by developing countries and to take up these and other issues in the existing, relevant WTO committees (WTO, 2001d).