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SPECIAL SUPPLEMENT

10TH YEAR OF ICC'S PRESENCE IN BANGLADESH

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Need for Multilateralism

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WITH the signing of the historic Marrakesh Agreement in 1994, we established the rule-based multilateral trading system and the WTO. All Members, rich and poor, pinned high hopes in the new approach. Nine years have passed. This has been a period of unprecedented expansion of world trade.

The current development paradigm relies on trade-based growth. Many developing countries, including the LDCs, have undertaken major structural changes and have opened up their markets in the hope of reaping benefits from the liberalization of trade. Unfortunately, they face an uneven playing field. They find it difficult to access the markets of developed and relatively affluent developing countries, on account of tariff and non-tariff barriers and domestic support policies pursued by them. The reluctance of the developed nations to adhere to the principles of free and fair trade, coupled with the supply side constraints of the developing nations, have brought about an inequitable apportionment of the benefits of liberalization. The anti-globalization forces find strength in this outcome. Global economic governance must not take a backseat to perceived security concerns and must lead to a fair and balanced result benefiting developing countries, particularly LDCs.

We remain committed to the multilateral approach to trade, despite the temporary setbacks suffered at Seattle and Cancun. Fresh initiatives are necessary to resume meaningful negotiations under the Doha Development Agenda. For the outcome to be acceptable to all stakeholders, the process must be transparent and inclusive and result in greater gains to the most disadvantaged.

The two-day International Business Conference in Dhaka on 17-18 January 2004 is expected to offer opportunities to narrow differences through exchange of ideas among the policy makers and practitioners from around the globe. We, at the ICC Bangladesh, are deeply touched by the response from governments, business leaders and others, both at home and abroad, to our initiative.

We thank the participating Governments, multilateral agencies, the ICC Secretariat, the Government of Bangladesh, and all those who have helped to make the event a success. The ICC-B gratefully acknowledges the support from the business community of Bangladesh, without whose assistance the venture would not have been possible.

Globalization: Threat or Opportunity?

ECONOMIC globalization is a historical process -- the result of human innovation and technological progress. It now is a reality that, for better or worse, touches our lives in ways most us never stop to think about. In the context of the collapse of centrally-planned economies and the capitalist system dominating most of the world, even countries like China, there are increasing shifts from the command economy towards market economy and the term globalization is also used to describe this worldwide spread of capitalism.

Now the question is whether globalization is a threat or an opportunity. UN Secretary-General Kofi Annan once warned at the gathering of world economic and political leaders at the World Economic Forum that unrestricted and unregulated globalization can lead to unmitigated disaster worldwide.

Globalization and its discontents

It is quite evident that globalization of the world economy -- driven by forces to open national borders to trade, capital and information -- has benefitted some, but marginalized many more and has increased inequalities within and among nations. Today's globalization is driven by new markets, new tools like Internet, new actors like the World Trade Organization with authority over national governments and transnational corporations, and new multilateral rules on trade, services and intellectual property rights more binding for governments and reducing the scope for national policy.

Global opportunities are today unevenly distributed between countries and people. And it can be said that if the opportunities are not shared better, the failed growth of the last decade will continue. More than 80 countries still have per capita incomes lower from that of a decade or more ago.

Globalization needs human face, global governance

It is clear that globalization has failed to rid the world of poverty. Rather than being an unstoppable force for development, globalization now seems more like an economic temptress, promising riches to everyone but only delivering to the few. That is why globalization needs a human face.

Globalization: does it also work for the world's poor?

The story of the 20th century was of remarkable average income growth, but it is also quite obvious that the progress was not evenly dispersed. The gaps between the rich and the poor countries, and rich and poor people within countries, have grown. The richest quarter of the world's population saw its per capita GDP increase nearly six-fold during the century, while the poorest quarter experienced less than a three-fold increase. Income inequality has clearly increased. Globalization has brought little but good news to those with the products, skills, and resources to market worldwide. But does it also work for the world's poor?

That is the central question around which the debate over globalization in essence, free trade and free flows of capital revolves. Anti-globalization protesters may have had only limited success in blocking world trade negotiations or disrupting the meetings of the International Monetary Fund (IMF), but they have irrevocably altered the terms of the debate. Poverty is now the defining issue for both sides. The captains of the world economy have conceded that progress in international trade and finance has to be measured against the yardsticks of poverty alleviation and sustainable development.

Global Economic Governance and Challenges of Multilateralism

Now the question is who are the key globalization players? They are the IMF, World Bank, WTO, the OECD and the G8. They are dominated by the large and rich countries.

Caught between WTO agreements, World Bank strictures, IMF conditions, and the need to maintain the confidence of financial markets, developing countries are increasingly deprived of the room they need to devise their own paths out of poverty. They are being asked to implement an agenda of institutional reform that took today's advanced countries generations to accomplish.

The regulations that developing nations confront in those markets are highly asymmetric. Import barriers tend to be highest for manufactured products of greatest interest to poor countries, such as garments. The global intellectual-property-rights regime tends to raise prices of essential medicines in poor countries.

The WTO: Do As We Say, Not As We Did

During the Uruguay Round GATT negotiations, developing countries raised concerns about the expansive set of 17 new international commercial agreements to be enforced by a global commerce agency, the WTO. Rich countries and the GATT Secretariat staff promised developing countries that they would experience major gains as industrialized countries lowered and eventually eliminated tariffs on such items as textiles and apparels and cut agricultural subsidies that had enabled large agribusinesses to dominate world commodity markets.

After nearly 10 years, the promised economic benefits for developing countries have not materialized, and for many, poverty has worsened. The developing world's share of world trade has not increased under the WTO as promised and in some instances notably among least developed countries it has declined.

The 2002 UNCTAD report found that instead of generating income convergence between rich and poor countries, as WTO proponents predicted, the corporate globalization era of the 1990s actually exacerbated the income inequality between industrial and developing countries as well as between rich and poor within countries worldwide. According to UNCTAD, The economic impact of trade liberalization in developing WTO member nations are as follows:

· **WTO agreements have effectively pulled up the ladder behind the now-rich countries by banning developing countries from using the same policies that they did to develop.**

· **Poverty has increased in the era of the WTO.**

· **Least developed countries share of world trade has declined since the launch of the WTO.**

· **Falling commodity prices under the WTO have destroyed developing economies and increased poverty**

· **Corporate globalization has increased income inequality within and between countries.**

9/11 and After: New World Order

The emerging architecture of global governance by the events following the 9/11 attacks on targets in the USA has changed. There was a spontaneous outpouring of sympathy from the entire world. However, the conservative forces in the USA utilized the public outrage in the USA and the rest of the world against the perceived attackers to advance its narrow security and economic interests. It engaged in unilateral actions in total disregard of the UN and international public opinion. However, instead of containing terrorism, these have deflected and spread this essentially US-Israeli-Arab conflict to far-flung countries entirely unconnected to the conflict. The unilateral use of brute force against sovereign members of the UN contrary to international norms and conventions, has severely dented the confidence of the rest of the world in the global governance system, and in particular, in the wisdom of trusting the only super power and its allies to uphold and strengthen the legitimate interests of all countries. This may lead many developing countries to be suspicious of the trustworthiness of the rich countries in WTO negotiations, and consequently adopt more rigid positions. This can only make reaching consensus more difficult. This was amply demonstrated by the stalemate in the Cancun conference.

Trading Costs in a New Era of Security

There is another dimension of 9/11. In the wake of September 11 and worldwide worries about terrorism, governments everywhere have enacted security measures that could, if not managed properly, drive up trade costs and shut out exports from developing countries.

A study of the effects of September 11 on international trade indicates that even countries not directly involved in a terrorist event may expect their income to decline by $75 billion per year as a result of an 1 percent ad valorem increase in frictional costs to trade. While Western Europe and North America suffer the greatest loss in absolute terms, other regions, such as South Asia, North Africa, and the Middle East, are the main losers. When income losses are related to the size of the economies one-percentage-point increase in trade costs would cost South Asia $6 billion, more than one-half of one percentage point when expressed as a percentage of GDP.

The threat of terrorism is not the only source of frictional costs. War and epidemic disease, too, call for extraordinary measures that often disrupt trade.

After Cancun, What next?

The developing countries now feel they have made significant efforts to fulfill their part of the global bargain. But they do not see enough delivery on the other side.

The recent impasse at Cancun is a case in point. Two-thirds of the world's poor depend on agriculture for their livelihood.Ê As the developing countries see it, rich nations put forward proposals that did not respond to their central demands in this crucial area.ÊThey also found unacceptable a view of negotiations in which they are expected merely to respond to rich-country proposals. Going into Cancun, developing countries are united in sticking to their implementation agenda. Despite this, the EU, with the US, Japan and WTO officials, remain strongly committed to launching talks to expand WTO to the "New issues" that have less to do with trade and more to do with dictating countries' domestic policies and priorities

At Cancun, the developing countries signaled their determination to push for a new equilibrium.ÊÊThey signaled that there must be a greater balance between the rich and the powerful, and the poor and numerous.Ê They signaled that for there to be peace and sustainable development, there must be a different set of priorities.ÊThere must be greater cooperation.

Action on trade is equally important for this.ÊIt is inconsistent to preach the benefits of free trade and then maintain the highest subsidies and barriers for precisely those goods in which poor countries have a comparative

A Time for Action

It is time to take a cold, hard look at the future. Our planet is not balanced. Too few control too much, and too many have too little to hope for. Too much turmoil, too many wars. Too much suffering.

The demographics of the future speak to a growing imbalance of people, resources, and the environment. If we act together now, we can change the world for the better. If we do not, we shall leave greater and more intractable problems for our children.

We must rebalance our world to give everyone the chance for life that is secure--with a right to expression. Equal rights for women. Rights for the disabled and disadvantaged. The right to a clean environment.Ê The right to learn. The right to development.

These are not exotic objectives. All of us want the same, rich and poor alike. There is no better time than now to join in a common effort to make a better world.

We are all to make it happen. Delay is reckless. This is a time for courage and action-for a new vision of the future.ÊÊ

We have the resources to make a difference. We know how to make a difference. We have the courage to make a difference. We must now act to make a difference.

We all share one planet. It is time to restore balance to the way we use it.ÊLet us move forward to fight poverty, to establish equity, and assure peace for the next generation.

James D. Wolfensohn, President of the World Bank Group

Bangladesh Faces the Challenge of Globalization

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recovery in the following year, the medium term outlook indicates that it will be difficult to regain the export momentum of the 1990s.

A greater integration with the global economy seems to fit well with the kind of pro-poor growth envisaged by Bangladesh's development efforts. The export-oriented garment industry presently employs around 1.8 million workers - mostly women from low-income, rural backgrounds. The second dominant export-oriented activity, shrimp farming, is also very labor intensive, presently employing nearly half a million rural poor. More generally, import liberalization is likely to have contributed to the creation of productive employment for the poor through the strengthening of many small-scale and informal sector activities that have benefited from improved access to imported inputs.

The relatively strong growth of the Bangladeshi economy in the 1990s was underpinned by the even stronger export growth. Unfortunately, the removal of the Multi-Fiber Arrangements (MFA) quotas now threatens to increase competition in the global garment industry and thus limit Bangladesh's growth. The strength of the industry depends on the export quotas dictated by the MFA and preferential access in the major Western markets. Moreover, other export industries are unlikely to take its place if the garment industry shrinks; excluding the garment industry, the growth of the large-scale manufacturing industries was a meager 4 percent annually in the 1990s. That may partly reflect the overall poor investment climate, but also partly the effect of increased competition from imports on industries catering to the domestic market. In such a situation, the desirability of further import liberalization may be put to question. Since the country depends heavily on imported raw materials, machinery and components, cutting back on imports would hurt prospects for creating jobs by adversely affecting production and investment activities.

It is not easy for a Least Developed Country (LDC) like Bangladesh to specialize in manufactured exports. Having low wage costs can hardly compensate for its lack of marketing skills and infrastructure and poor overall investment climate. Moreover, the high degree of dependence of domestic industries on imported raw materials and industrial inputs makes it difficult for Bangladesh to satisfy the so-called "rules of origin" in getting preferential access for its exports in the markets of the developed countries. Thus, most of Bangladesh's garment exports are not eligible for the tariff concessions given under the Generalized System of Preferences (GSP) in the EU market. This problem has not received adequate attention, since the other major players in textile trade among developing countries are hardly affected by it.

Bangladesh can hopefully benefit from the European Union's decision to allow duty-free import of "everything but arms" from the LDCs, and it would like to see the replication of such trade concessions in other industrialized countries. Unfortunately, the same rules of origin as under GSP apply here as well. The GSP rules were devised decades ago to help developing countries promote export-oriented industrialization. But, in effect, the rules proved discriminatory against LDCs like Bangladesh that count on low value-addition processing activities. On top of these rules, Bangladesh also has to worry about non-tariff barriers such as those relating to environmental or labor standards. Anti-dumping actions are already under way against exports from Bangladesh, and they are an important latent threat when the MFA is dismantled. The tough sanitary and phytosanitary regulations of the developed countries are also an impediment for diversifying into agro-processed export items for Bangladesh and other countries that lack product standards and certification facilities.

Another issue of great importance to Bangladesh is that the free movement of temporary workers across borders be expanded, for workers' remittances play an important role in its economy. Indeed, a redeeming feature in the face of the export slowdown in Bangladesh is the continued increase in the inflow of migrant workers' remittances, which grew from about 2.5 percent of GDP in the beginning of the 1990s to above 5 percent in 2001-02 (amounting to about US$2.5 billion). Migrant workers are mostly unskilled or semi-skilled, and most of them come from poor rural families, making their remitted savings an important means for their families to escape poverty. There is, however, considerable uncertainty about the continuation of these remittance inflows, which depend on the economic fortunes of the host countries and their changing policies and attitudes towards guest workers. Most of Bangladesh's temporary migrant workers are in the Middle East, but increasingly they are going to more diverse destinations in East Asia and Europe, though often illegally.

In the wake of the 2001 global recession, Bangladesh's reliance on foreign countries as a market for exports and as a source of remittances has become obvious. If Bangladesh is to become less vulnerable to the economic fortunes of others, it will need to strengthen its domestic economy, creating jobs and markets at home. A strong domestic sector and an improved overall investment environment will provide a more stable source of income - like what the garment industry has provided so far - and will rekindle and sustain Bangladesh's economic growth.

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