The Great Global Poverty Debate: Balancing Private Interests and the Public Good At the WTO

A report on trade and poverty at the World Trade Organization

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Daniel Drache, Senior Research Fellow and Associate Director
Marc Froese, Research Associate

Robarts Centre for Canadian Studies
York University, Toronto

Please send comments to Drache@yorku.ca or Mfroese@yorku.ca
This is the fourth policy report in the Robarts Centre for Canadian Studies’ series on trade politics at the World Trade Organization.

The development agenda of the World Trade Organization launched at Doha in November 2001, has sparked a great deal of interest and debate throughout the world. Trade policy and WTO impacts are not well understood by many outside the bureaucracy of the WTO and the specialized world of trade politics. This report attempts to make a contribution in this regard by shedding important light on the way the WTO has an impact on domestic politics and social need across the globe.

Examining leading trade issues provides critical information on the WTO and trade politics. Also discussed, is its legal culture, which is often misunderstood and not adequately assessed. This report hopes to reduce this knowledge gap.

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Our next report addresses the future of liberal multilateralism: from soft power to the Bush security doctrine. It is due to be released in 2004.

Daniel Drache
Associate Director, Robarts Centre for Canadian Studies
(416) 736-5415
www.robarts.yorku.ca
Summary

This report summarizes the major elements of the great debate on global poverty, giving a context to the WTO’s recent development efforts in the Doha round. Since the mid-1990s, policy-makers, academics and activists have been engaged in a public policy debate over the best way to eradicate global poverty. International inequality has risen by more than 20% in the past twenty-five years, shooting up dramatically in the 1990s. The principle findings of this report are:

* The world’s poor can no longer be considered in abstract terms. Silos of exclusion threaten to destabilize the world trading system as rising global inequality widens the gulf between rich and poor. Today, average real incomes in the developed world are 75 times higher than in least-developed regions.

* The current statistics often fail to capture the real cost of basic necessities in developing countries. The World Bank and WTO have massively underestimated the magnitude of global poverty, as well as its importance to the stability of the international system. The number of people living in destitution has increased by 28 million over the past decade.

* Policy-makers and trade experts have ignored the social dynamics of poverty. As a result, poverty grows more stark as portions of sub-Saharan Africa slide down the Human Development Index. Also, the global gender divide continues to widen, as women in the South become poorer.
The interface between trade and poverty requires a more comprehensive treatment than orthodox economists admit. Reducing income poverty is never a function of freer markets alone, but rather an undertaking in which international trade plays a supporting role to state-led development efforts.

International poverty traps remain as deadly as ever, despite increased market access following the Uruguay Round. Developing countries need skilled workers, access to technology, and cheap, reliable credit to move beyond the poverty trap, but are systematically denied access to the means of development.

Eliminating the causes of global poverty require a back-to-basics approach to public goods. Redrawing the boundaries between public and private may be a Herculean task in the face of market fundamentalism, but human well-being requires that poverty eradication is not left to dysfunctional market forces.

The WTO is ill-equipped to take a leadership role in trade-driven poverty reduction because it suffers from an institutional deficit—the accumulated results of ignoring small issues, which grow bigger as time goes on.

The WTO did not recognize the needs of the poorest until after the aborted launch of the Millennium Round of trade negotiations in Seattle in 1999. As a result, the current institutional framework still does not fit the trade needs of the least developed countries.

Despite the enlarged mandate of the WTO, dispute settlement decisions disregard pertinent issues such as: development needs, environmental protection, and the social externalities of trade.

The legitimacy of the WTO hangs in the balance as long as no progress is made on the four main issues of dire importance to the least developed—food, water, medicine, and jobs.

The success of future poverty reduction attempts depends not only upon the ability of the WTO to muster much-needed political will, but also on its ability to recast its role in global development efforts. A more vigorous notion of the public domain and a wider understanding of the collective goods are necessary at the WTO. Poverty reduction requires a different set of strategies than have been put forward by trade strategists and security analysts so far.
# The Great Global Poverty Debate: Balancing Private and the Public Good at the WTO

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The Great Global Poverty Debate: 
Balancing Private Interests and the Public Good at the WTO

Daniel Drache and Marc Froese

Introduction: Poverty, Inequality and Trade

This report is intended to be a guide to the great global poverty debate for the informed public. Since the mid-1990s, policy-makers, academics, and activists have been engaged in a public policy debate over the best way to eradicate global poverty. The world’s poor can no longer be considered in abstract terms. International inequality has risen by more than 20% in the past twenty-five years, shooting up dramatically in the 1990s. Today, average real incomes in the developed world are 75 times higher than in least-developed regions. According to Robert Wade, of the London School of Economics, the growth of global inequality outpaces all poverty reduction efforts by the international community.¹ This is the most significant threat to the development agenda facing the WTO.

Ongoing negotiations around food, water, medicine, and jobs are deadlocked. In these four areas the WTO can break the deadlock on poverty and salvage the existing round, if it can do what is right for the poorest nations. This study focuses on two questions: First, how should the WTO approach the massive growth of poverty in this era of unprecedented globalization?
Second, is the WTO equipped to bridge the North/South divide when economic inequality is outpacing poverty reduction efforts?

Our report builds on leading-edge research undertaken by the United Nations, World Bank and civil society organizations. Our main prediction is that the WTO will fail to make significant headway in the Doha round unless it can effectively address the role of trade in global poverty.

**Figure 1.1** *Unweighted international inequality, 1950-1998 measured by the GINI Coefficient*

Source: Branko Milanovic 2002
[www.networkideas.org](http://www.networkideas.org)

It is important to be clear about the key terms in the poverty debate. Poverty is not only a statistical measure, but it is also a primary marker of human development. It has ethical,
social, cultural, and economic components. For the purposes of this report, poverty reduction refers to the Millennium Development Goal of halving extreme poverty by 2015. Poverty reduction treats the symptoms of poverty, an important first step, but the ultimate goal for the international community is poverty eradication. This is a much higher standard. It aims at changing the systems that perpetuate poverty, be they social, political or economic. In the first section we argue that the WTO has been unable to absorb much of the influential research, which has been carried on outside its institutional perimeters. The sluggish performance of the global economy has deepened poverty in the poorest countries. Almost 50% of sub-Saharan Africa now lives on less than $1 a day. A massive amount of evidence shows that the way the WTO has approached poverty reduction is wrong. For example, it has ignored the increasingly complex relationship between trade, growth and poverty, and is only now paying attention to the implications of Northern protectionism.

In the second section we look at the WTO’s accumulated difficulties in the context of the Doha round of trade negotiations. Key issues that make the WTO a politically charged environment in which to address poverty include: the narrow scope of dispute settlement decisions, which seldom take into consideration development issues, and the creation of one-size-fits-all trade agreements that marginalize many poor countries as well as the continuing problem of Southern exclusion. While some preliminary progress has been made towards greater inclusion of developing countries into the global trading system, the results have been meagre. Often this progress, such as the movement on the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF), remains procedural, rather than substantive.
The report concludes that poverty at the global level must be cast in terms of social inclusion if the WTO is to make any substantive progress towards eradication. Despite concerns about terrorism, the most pressing governance issue facing the international community remains poverty reduction. There needs to be a substantial shift in the terms of debate. Global public goods, the public domain, and social inclusion are innovative concepts which need to be moved from the realm of national politics to the international stage. The future legitimacy of the international trade regime will hinge on its ability to gain consensus on a progressive poverty reduction strategy at a time when the stakes have never been higher, and the possibility of failure never more stark.

Poverty and Indifference

The numbers on global poverty are a stunning indictment of first world indifference. The magnitude of poverty is difficult to grasp because its effects are so complex and daunting. One person out of every five people on the planet survives on less than $1 per day. Over the past decade, the number of people living in extreme poverty increased by 28 million. In the countries hardest hit by poverty, primary school enrolments are shrinking, more people are going hungry, and more children are dying before age five than ever before. Poverty is a socially specific phenomenon that is deeply entrenched in the global South. The United Nations has marked 2015 as the deadline by which time extreme poverty levels should be half what they were in 1990. Nevertheless, at the rate we’re going, this threshold will not be reached until sometime in the next century.
The contrasts of global inequality are even more dramatic. Over the past decade, 12% of the world’s population lived in countries with shrinking GDP. Fifty-four countries continue to show negative economic growth, and over 70 more have achieved a growth rate of less than 3% per year since 1990. Many of these people live in Africa, where the average annual income hovers around $490. In comparison, the European Union spends almost twice that amount, per cow, in dairy subsidies every year.9

The domestic agricultural subsidies of the OECD nations cost more than the entire GDP of sub-Saharan Africa in 2001. The world’s richest countries spent $311 billion to subsidize Northern farmers, an amount that dwarfs the $52 billion spent on foreign assistance to all developing countries. This is only the tip of the proverbial iceberg. Northern protectionism is not the only culprit.

Many least-developed countries lack even the most rudimentary public mechanisms for sustained poverty reduction.10

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**Box 1.1 Global Poverty by the Numbers**

Ratio of income inequality between North and South: **75:1**

Number of people living on $1/day or less: **1.2 billion**

Number of people living on less than $2/day: **2.8 billion**

Annual dairy subsidy in the EU (per cow): **$913**

Annual aid to sub-Saharan Africa from the EU (per person): **$8**

Gap in infant mortality rate between North and South: **10:1**

Difference between average life expectancy in OECD and in sub-Saharan Africa: **28 years**

Percentage of Global HIV/AIDS cases located in the South: **96**

Number of people who die from Malaria each year: **1 million**

Number of countries where fewer than half the school age children receive a primary education: **12**

Number of illiterate adults in the South: **879 million**

Average number of years of schooling received by a girl from a family in the bottom 40% of income earners in South Asia: **0**

Number of people in low and middle income countries who lack access to safe water: **1.8 billion**

Source: World Bank
African Poverty

With recent signs of prosperity in China, India and Brazil, poverty is quickly becoming an African stigma. Fourteen of the least-developed African states continue to slide down the UNDP’s Human Development Index. HIV/AIDS has become a genocidal scourge of biblical proportions. Sub-Saharan Africa accounts for more than 70% of HIV cases worldwide. In Botswana, Lesotho, Swaziland and Zimbabwe, one in three adults will die of AIDS. By 2020, these countries could lose up to one quarter of working-age adults. In addition, Africa has been racked with violence and civil war throughout the past several decades. Around the world, there have been 57 major armed conflicts in 45 locations over the past decade. Sub-Saharan Africa has been hit the hardest. Uganda, Rwanda, Somalia, Zimbabwe and Liberia, have undergone tremendous social upheaval, as a motley crew of dictators and despots murdered millions, leaving in their wake ruined economies and severely weakened institutions. In these conflicts, civilians account for nine out of ten casualties, half of which are children.

Africa has failed to grow out of poverty. At current rates of growth, it will take Africa more than one hundred years to halve extreme poverty, achieve universal primary education and cut infant mortality. As for hunger, no one is willing to hazard a guess because the situation is continuing to worsen. The UNDP estimates that African states need to maintain a seven percent growth rate to meet the Millennium Development Goal targets. In 2002, only five of the 53 countries in continental Africa achieved this growth rate. What’s more, another five saw their growth rates plunge into negative numbers. While four out of five African nations achieved some growth, the economies of Algeria, Egypt, Morocco, and Nigeria slowed; betraying weakness in four of the largest economies. Analysts expect growth to resume at a
higher rate next year, but blame Africa’s economic troubles on declining world trade and the continuation of first world agricultural subsidies. Even if African GDP growth shows some signs of strength in the near future, growth in agricultural output has not kept pace with population increase, signalling even more hardship in the future.

Northern aid has done little. The New Partnership for Africa’s Development (NEPAD), has gained some credence in African policy circles, but remains a non-starter in the US, where Africa takes a back seat to Iran, Iraq, and North Korea. The WTO has done little more. Certainly the EU’s banana waiver granted at the Doha ministerial cannot be called a step forward. The WTO is simply allowing a preferential trade arrangement with African and Caribbean banana producers which was originally endorsed by the GATT. The WTO has failed to recognize the desperate situation in Africa. Millions are dying of rampant disease, in bloodshed over natural resources, and of hunger as the direct result of systemic marginalization.

The Global Gender Divide

Recent trends in income distribution show that inequality is rising quickly in the developing world. The UNDP has warned, “if sharp increases in inequality persist, they may have dire effects on human development and social stability.” In only six of the 33 countries surveyed by scientists in 2001 did inequality decline slightly. Inequality hits women the hardest. Most of the families losing out in the scramble for subsistence are rural female-headed households.

The best indicator of continuing inequality between men and women in the global South is the female mortality rate. Despite biological advantages, women often die at a younger age
than men. Social scientists term this the ‘missing women’ phenomenon. Best evidence for why this occurs points towards systematic discrimination in access to health care and proper nutrition. The UNDP reports that improvements in female mortality have been made in Pakistan and the Arab states, but only minor gains have been made in India, and there has been a marked deterioration of conditions for women in China.

Education plays a big role in female mortality. On average, a girl from a family in the bottom 40% of income earners in India will receive no formal education at all. Amongst the poorest, it is of little surprise that health pandemics spread quickly. Globally, just under half the current HIV cases are female. But in sub-Saharan Africa, where AIDS spreads most quickly through unsafe heterosexual contact, women account for more than 55% of new infections. Although Asia, the Arab states, and Africa continue to lag behind the rest of the world in gender equality, movement forward has been made everywhere except for Africa, where girls often have a better than average chance of remaining uneducated, illiterate and thus unarmed in the war against poverty.

The global gender divide has been the focus of much trade related poverty inquiry. Many researchers have found that boosting exports in developing countries often leads to a feminization of labour; more women find jobs in the local economy. Whether this is good or bad for gender equality is a matter of sharp disagreement. Most experts evaluate cases separately. In doing so, they have found that globalization affects women in different regions very differently. In industrializing economies, women often find unskilled jobs in factories, where the labour is dangerous and exhausting, and employment remains precarious. For example, export processing zones around the world have given many women much-needed
employment, but at a cost much higher than anyone in the developed world would be willing to pay.

In sub-Saharan Africa, the situation is different yet. Many women work at small-scale subsistence agriculture—selling what little they have left over after feeding their families. Trade liberalization tends to benefit medium and large-scale enterprises, disadvantaging small ones through intense import competition. Poor women cannot take advantage of the access to new markets because they lack basic education, access to credit and even the general skills required to take their businesses to the next level.

In the words of one researcher, “trade expansion has had ambiguous and contradictory gender effects.” Market openness often reinforces gender biases, and the feminization of labour has doubtlessly exploited women even as it provides much needed income. The WTO’s failure to consider these unforeseen outcomes is itself an indicator of the uphill battle faced by working women around the world.

The Genealogy of Poverty

Beyond the statistical enormity of destitution, much confusion remains around the absolute dimensions of poverty. Experts are currently engaged in a debate about the nature of poverty, and the appropriate public response. Certainly this debate is not new. Historians remind us that it informed the creation of the World Bank and International Monetary Fund at Bretton Woods, New Hampshire shortly after the Second World War, just as it informed the creation of the WTO at the end of the Uruguay Round of trade negotiations in 1993. The United Nations development decade of the 1960s was also a peak international effort to
address poverty in the international community. Despite much talk, its efforts also came to naught.\textsuperscript{20}

Different groups use different numbers to describe the extent of global poverty. Trade experts measure poverty in millions of dollars of foregone trade.\textsuperscript{21} Theoretically, greater access to Northern markets could stimulate job markets and cause incomes to rise. This is a powerful argument, but hardly the whole story. Many other experts blame the market system itself for global poverty.\textsuperscript{22} International financial organizations, such as the World Bank in its many reports, measure global destitution in terms of income. Income is recognized as the most important empirical benchmark because it measures the depth of global inequality, but it too tells only part of the story.\textsuperscript{23} Non-governmental organizations and academic specialists measure poverty against a basket of needs for social well-being, including education, sanitation, and employment.\textsuperscript{24} This is one of the most innovative measurements of poverty. It has brought much clarity to the poverty debate because by calculating the cost of basic necessities in different regions of the world, researchers have a clearer understanding of the depth of poverty in each locality.

To the average person, contending approaches make poverty seem to be at best a complicated and numbers-driven issue and at worst, a cyclical phenomenon. Conservative economists view poverty as a natural condition which many individuals and groups experience periodically. This is the view that John Kenneth Galbraith criticized more than forty years ago in his best known book, \textit{The Affluent Society}.\textsuperscript{25}

Many groups disagree on both the numbers themselves, as well as the solutions needed. Business experts contend that there are too many roadmaps for poverty eradication, and that
what is needed is a master plan such as the Washington consensus. From this perspective, dismantling barriers to economic activity automatically leads to growth and development. Others disagree, saying that grand plans are nothing more than untestable, faith-based theory.

Developing countries need greater policy autonomy in order to chart their own course out of poverty. This is the World Bank’s latest incarnation. It is currently trying to solve the poverty problem by returning to its liberal roots—promoting markets and community simultaneously. In every case, one’s approach to the poverty problem is informed by political preconceptions, social conditioning, and cultural imperatives. Ideas matter. In the end everyone is committed to poverty reduction, but no one agrees on which steps, and in what sequence, developing countries must take in order to spring open the poverty trap.

**Box 1.2 The Millennium Development Goals: Eight areas of consensus on poverty**

Reducing global poverty requires that all countries.

1. Eradicate extreme hunger and poverty
2. Achieve universal primary education
3. Promote gender equity and empower women
4. Reduce child mortality
5. Improve material health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

Source: United Nations Development Programme
The Great Debate

The great poverty debate has always been rooted in a deeper set of theoretical concerns, which have framed economic thought since the eighteenth century. On the left, critical experts hold that unfettered markets, which overshoot and under-perform, are responsible for global poverty. The iconic Karl Polanyi is the most recognizable proponent of this position. He argued that markets are wealth producers, but incapable of redistribution. Global free trade will ultimately fail if left to the impulses of individual market actors.

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Box 1.3 Key players in the Great Debate

Many actors in national governments, inter-governmental organizations, international financial institutions and non-governmental organizations have tackled the poverty problem with mixed success.

**The United Nations** – The UN is an umbrella organization, which includes the United Nations Development Programme (UNDP) that monitors progress on the Millennium Goals for development as well as publishing an annual Human Development Report, and yearly country rankings known as the Human Development Index. The United Nations Conference on Trade and Development (UNCTAD), is sometimes referred to as the ‘developing world’s WTO,’ a moniker earned by its reputation for rallying consensus on trade and development issues in the global South.

**International Financial Institutions** – The World Bank lends money to developing countries for infrastructure projects and the International Monetary Fund was set up as a lender of last resort. Its mandate is the stabilization of national currencies in times of emergency. Both institutions have been criticized by civil society experts for their structural adjustment policies.

**World Trade Organization** – The WTO came into being in 1995 as an umbrella institution for the enforcement and expansion of the General Agreement on Tariffs and Trade (GATT), as well as other international trade agreements on agricultural trade, intellectual property, trade in services, and a host of others. The WTO has come under serious scrutiny for its inability to promote development-friendly strategies for global trade.

**Oxfam International** – A leading non-governmental organization in the war against poverty, Oxfam advocates for a fair approach to trade-based development, which includes the abolition of Northern protectionism and more aid money for economic development initiatives. As a voice of reason between the solitudes of North and South, Oxfam International has much influence on governments and international institutions alike.

**Northern Governments**: High-income countries play a significant role in the shaping of international development policy. The most influential governments at the WTO, Canada, the United States, the European Union and Japan, are called the Quad. These countries also maintain the barriers against Southern goods and services and have not lived up to their Official Direct Assistance commitments, often giving much less than the agreed 0.7% of annual GDP.
On the right, neo-conservatives place the success of capitalism on the adoption of Western-style values, especially the institution of private property. Poverty, in this case, is a lack of civilization.\textsuperscript{30} They look to the classical economic philosophy of Friedrich Hayek to explain the success of global capitalism. Hayek called government-led development efforts ‘the road to serfdom,’ arguing economic freedom is a precondition of political freedom.\textsuperscript{31} The bottom line is that there is a broad consensus on the importance of economic growth for poverty reduction, but little consensus on how to implement it.

On another front, leading researchers are attempting to provide real solutions to global poverty. Dani Rodrik, Joseph Stiglitz, and a growing number of experts are on the forefront of empirical poverty research.\textsuperscript{32} Often working separately, these experts have begun a far-reaching program of study that aims to better understand the roots of global poverty. The principal insight of this research is that poverty is a complex phenomenon, with roots in social dynamics, political institutions, and economic relationships. To tackle poverty successfully requires an approach more sophisticated than market fundamentalism. A better approach factors social dynamics and political institutions into the poverty equation. Figure 1.2 shows that there are at least three sides to the trade/poverty interface, rather than the single-theme story favoured by the discredited Washington Consensus—a policy framework that dominated poverty discourse in the 1990s.
This new understanding of the trade/poverty interface has led to four recent breakthroughs in empirical research.

Four Recent Breakthroughs

1. The numbers are only as good as the method of collection. Over the past two decades, international institutions have made great strides forward in the estimation of global poverty. One of the most important tools used by poverty researchers is the Purchasing Power Parity (PPP) conversion factor. The PPP is used to estimate the amount of a country’s currency that is required to equal the purchasing power of one US dollar’s worth of commodities in the local economy. The PPP is the method by which the World Bank created its famous $1/day and $2/day poverty rankings. However, ‘equivalent’ purchasing power remains problematic because it averages out the cost of all goods and services available. In least developed countries, the necessities of life—food and shelter—are often
much more expensive than the cost of services. Because services in the world’s poorest countries are much cheaper than in wealthy countries, an estimated average of purchasing power that includes the power to buy shoe shines and maid service drives down the poverty level by underestimating the real cost of survival. Sanjay Reddy and Thomas Pogue of Columbia University estimate that if national poverty lines were recalculated to reflect only a basket of commodities needed for survival, they would rise by an average of 30% to 40%. All available evidence points towards the stubborn persistence of poverty at or above 1980 levels, although the exact depth of poverty remains unknown.

2. The interface between trade and poverty requires a more comprehensive treatment than orthodox economists admit. Joseph Stiglitz won the 2001 Nobel Prize in economics for research undertaken with two colleagues that challenges the classical notion of market equilibrium. They found that economic actors nearly always have less than full information about the options available in the marketplace. As a result, market outcomes are often the result of information asymmetries rather than a smoothly operating law of supply and demand. Information economics is vital to the current poverty debates because it challenges the conventional wisdom that open markets benefit all countries equally, regardless of level of development. The world’s largest traders always have the best information going into trade negotiations, and the world’s poorest nations lack the most basic expertise.

Dani Rodrik’s work takes this policy insight one step further. He demonstrates that international trade is a function of domestic growth. His work shows that the
only systematic relationship between tariffs and growth is that countries tend to dismantle tariffs as their domestic economy expands, rather than growing their way out of poverty by dropping protective tariffs. This is what all the major developed countries have done. China and India used this strategy to great effectiveness in the past decade. Rodrik’s test is conclusive. Reducing income poverty is never a function of freer markets alone, but an undertaking in which international trade plays a supporting role to state-led development efforts.

A good example of his insights in practice can be seen in the recent policy shift at the World Bank and IMF, which launched a new course of action to reduce extreme poverty. The Comprehensive Development Framework (CDF) puts renewed emphasis on debt relief and poverty through a process that involves developing countries more closely in the development of specific strategic initiatives. Countries receiving debt relief from the World Bank or making use of the IMF’s Poverty Reduction and Growth Facility need to submit Poverty Reduction Strategy Papers (PRSPs). Each submission is unique as there is no specific template, but countries must follow five principles:

♦ Poverty reduction should be domestically driven and based on a participatory process that involves a broad cross-section of the population.
♦ Domestic policy must be results-oriented, focussing specifically on outcomes for the poor.
♦ It must also recognize the multidimensional nature of poverty.
Poverty reduction strategies should be oriented towards public as well as private partnerships, bringing together non-governmental organizations, citizens’ groups, business groups and outside actors.

Sustained poverty reduction is a long-term process, not a quick fix.

There have been no notable success stories to date, but the PRSP is one example of the new consensus on poverty in action. Whether this is a winning policy approach or simply good marketing has yet to be seen. Experts and activists are watching the process closely.

3. *International poverty traps remain as deadly as ever, despite increased market access following the Uruguay Round.* Political economists use the idea of ‘silos of exclusion’ to describe the growth of marginalization, poverty and destitution in many societies. Silos of exclusion are often the result of the structural nature of inequality between countries. Market access in the South is granted to Northern corporations which set up low-skilled employment opportunities in export processing zones, rarely paying anything but subsistence wages. This employment does little to build the domestic economy because the highly-skilled jobs, technology and capital remain in the Northern headquarters of trans-national corporations. Likewise, market access granted by the North often tends to reinforce the existing division of labour between North and South. Developing countries continue to export low-value added primary commodities. Most consumer goods make their way to the North through this route. Developing countries need skilled workers, access to technology, and cheap, reliable credit to
move beyond the poverty trap, but are systematically denied access to the means of development.\textsuperscript{39}

4. \textit{Eliminating the causes of global poverty require a back-to-basics approach to public goods.} Experts have begun to rethink the role of public authority in social well-being by admitting the potentially explosive relationship between markets and poverty. Researchers have long recognized that public security is a function of governments rather than markets, but they are only now beginning to understand that public authority plays a larger role in societal well-being than has been recognized in the past two decades of structural reform.\textsuperscript{40}

The World Bank has championed the idea that the market, as much as possible, should supply food, water, medicine and employment. But many economists, influenced by the work of the United Nations Development Programme and Amartya Sen’s research into capability deprivation, are now reconsidering trade liberalisation in terms of its social impacts.\textsuperscript{41} The new consensus is that public goods, which benefit everyone in society equally and are available only through public authority, are extremely important to sustained poverty reduction. In well-functioning societies, basic needs are non-rival and non-exclusive. Everyone benefits from the public provision of clean water and cheap electricity. Redrawing the boundaries between public and private may be a Herculean task in the face of market fundamentalism, but human well-being requires that poverty eradication not be left to dysfunctional market forces.
Box 1.4 Rating the best studies on global poverty

The best reports are comprehensive in scope while remaining tightly focused on the current poverty-related issues facing the international community. Here are the Robarts Centre’s top 10 picks.

1. United Nations Development Programme
   Available from www.undp.org

2. Oxfam International
   Rigged Rules and Double Standards: Trade, Globalization and the Fight against Poverty
   Available from www.maketradefair.org

3. International Labour Organization
   Working out of Poverty
   Available from www.ilo.org

4. The World Bank
   Available from www.worldbank.org

5. One World Trust
   The Global Accountability Report 2003: Power without Accountability?
   Available from www.oneworldtrust.org

6. World Trade Organization
   Special Studies 5: Trade, Income and Poverty
   Available from www.wto.org

7. United Nations Development Programme
   Making Global Trade Work for People
   Available from www.undp.org

8. United Nations Children’s Fund
   A World Fit for Children
   Available from www.unicef.org

9. United Nations Conference on Trade and Development
   United Nations Conference on Trade and Development 2002: Developing Countries in World Trade
   Available from www.unctad.org

10. International Monetary Fund
    What Would a Development-Friendly WTO Architecture Really Look Like?
    Available from www.imf.org
In the North, the state has not been dismantled. As public spending continued to rise throughout the 1980s and 90s, as a result, progressive nations such as Canada, the Netherlands, France and Germany have set the standard for public goods provision. In the wake of aggressive structural adjustment policies, developing countries are not able to provide these goods to their citizens without a renewed sense of civic engagement and the role of the public domain in poverty eradication.

The UNDP put it in the plainest terms. “Unless countries adopt far more ambitious plans for development, they will not meet the [Millennium Development] Goals. . . Governments of poor and rich countries, as well as international institutions, should start by asking what resources are needed to meet the Goals, rather than allowing the pace of development to be set by the limited resources currently allotted.”

**Too Much Baggage, Too Few Solutions**

The imbalance in the global trade system has resulted in stagnant economies in the global South, leaving nearly half the planet at subsistence levels of development. However, the political role played by public institutions in re-balancing the system has yet to be clearly defined. Two years into the Doha Development round, the WTO still provides the best institutional example of this imbalance. To date, the accumulated list of urgent problems, which need to be addressed by the international trade regime, is far longer than the list of proposed solutions.
Many organizations suffer from an institutional deficit—the accumulated results of ignoring small issues, which grow bigger as time goes on. A deficit occurs when goals no longer match outcomes. Specialists use the term ‘perverse effects,’ to describe these unintended consequences. The WTO was welcomed into the world of intergovernmental organizations because it was a comprehensive trade organization. It promised to fill the gap in trade regulation left by the GATT, an organization often plagued by dissent, deadlock and dispute, although remarkably successful nevertheless. However, the WTO has not been able to make the right moves on poverty reduction when its poorest members require specific attention on the pressing issues of sufficient food, safe water, medicines, and employment. As a result, the institution has been unable to effectively manage its growing trade agenda, which now encompasses many non-trade issues that directly intrude on domestic public policy space.

Northern unwillingness to make serious efforts to facilitate development contributes to the growing inflexibility of a notoriously rigid trading structure. As a result, the WTO’s failure to address the desperate needs of its poorest members reinforces an institutional sclerosis in two areas.

♦ Institutional Fit – The WTO did not recognize the needs of the poorest until after the aborted launch of the Millennium Round of trade negotiations in Seattle in 1999. As a result, the current institutional framework still does not fit the trade needs of the least developed countries. Access to patented medicines is one of the most pressing needs, but Northern intellectual property rights crowd out the
Developing countries need better supporting mechanisms such as a clear agreement on access to patented medicines, an idea currently without much traction at the WTO. The best the West can do is offer some patent relief on a few highly communicable illnesses, such as HIV/AIDS, tuberculosis and malaria.\textsuperscript{48} The pre-Cancun agreement is hardly sufficient, and many Southern countries remain committed to gaining substantive progress on patented medicines at Cancun.

In the current arrangement, new members accede to the WTO through a single undertaking, assuring that developing countries are stuck in one-size-fits-all agreements. There is little room for tailoring even though many of the rules are negotiated on a case-by-case basis. International agreements such as TRIPS and the General Agreement on Trade in Services (GATS) were forced on developing countries during the Uruguay Round using a combination of market access threats and promises of forward movement on farm subsidies and other forms of Northern protectionism, which have never developed.\textsuperscript{49} The richest traders have forced developing countries to accept trade agreements that were not in their best interests.\textsuperscript{50}

The result is an increasingly rigid system, where institutional legitimacy is on the wane, progress has stalled, and negotiation momentum is nonexistent. Without a better deal on the horizon, developing countries are increasingly disenchanted. By maintaining the status quo and holding the line on institutional reform, the WTO drifts ever closer to irrelevance at best in the eyes of the global South.\textsuperscript{51} Bilateral deals are multiplying exponentially, with more than one thousand now
in existence. Bilateral deal-making increases the opportunities for large economies to exploit their position when striking deals with smaller partners, as these agreements tend to favour one partner over the other.

♦ Dispute settlement – Dispute settlement decisions are often excessively narrow. Outcomes are tied to the current state of international trade law, and, as every first-year law student knows, ‘the law is a blunt instrument.’ Good outcomes are not automatic. Despite the enlarged mandate of the WTO, dispute settlement decisions disregard pertinent issues such as development needs, environmental protection and the social externalities of trade.

The unequal relationship among members at the WTO can be seen in the use of the Dispute Settlement Mechanism (DSM). Developed countries use the Dispute Settlement Mechanism more often than do developing countries. A study conducted by the Robarts Centre found that a handful of developed countries led by the US, EU and Canada dominated dispute settlement proceedings between 1995 and 2002.

There are at least two possible reasons for the overwhelming number of claims brought by and against developed countries. Most importantly, developed countries are the biggest traders. Most trade occurs within the developed world, and more claims will arise from parties having a larger stake in world investment and trade. Only a handful of developing countries, such as India and Brazil represent an exception to this rule. Secondly, developed countries have both the
legal expertise and the experience in dealing with such systems. This allows them to quickly identify the domestic trade-violating laws and procedures of other developed countries. Additionally and most critically, Europe and the US have domestic institutions, which handle trade disputes, giving them a home court advantage.

**Figure 2.1 Northern Domination of Dispute Settlement 1995 – 2002**

![Bar chart showing the Top Ten Complainants](chart.png)

Source: Robarts Centre for Canadian Studies

Further, experience has taught the largest traders that they should never put all their dispute settlement eggs in one basket because sometimes even home court advantage is not enough to win the day. Washington, Ottawa, and Brussels frequently ‘jurisdiction shop’ before decision making — comparing the odds of receiving a favourable outcome at a WTO panel, or at a NAFTA panel, to use a
North American example. On the other hand, legal systems in developing countries are less transparent, less effective, and less experienced in international litigation. Unpublished regulations and unclear procedures contribute to developing state’s lack of ability.

It is significant but not surprising that given the growing interdependency between North and South, developing countries are not more willing to use the WTO dispute settlement system. This is because Northern domination of the DSM has allowed wealthy countries to consolidate a significant institutional presence. The resulting legal culture contributes to a growing perception that in many cases developing countries are still on the outside of the developed world’s trade club. This perception is continuously reinforced by the governing body of the WTO. In biennial ministerial conferences, developing countries have virtually no input on questions which bear directly on the well being of their economies, nor do they have any power to seriously influence the agenda of negotiations.

The WTO has made limited progress on several procedural fronts, ramping up its educational programs, and collecting funds for the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF). However, these projects do little to address the issues of substantive political inclusion in decision making and agenda setting, nor the problem of persistent poverty. The legitimacy of the WTO hangs in the balance as long as no progress is made on the four main issues of dire importance to the least developed—food,
water, medicine, and jobs. Resolving these issues would represent a substantial contribution to the war on poverty.

**Food**

Agriculture is one of the pivotal issues in the Doha round for many developing countries. However, the agenda remains deadlocked over two issues. The first is Northern protectionism, which takes the form of tariffs and subsidies. It is an open secret that all developed countries subsidise domestic producers. In many countries, subsidies are a form of assistance to emerging industries; they cover infrastructure costs not borne by the private sector. For Southern countries, agricultural subsidies are necessary for competition in external markets. But in the case of Northern agriculture, subsidies are often tantamount to corporate welfare. Further, high tariff barriers for food keep Northern markets closed to a wide range of Southern agricultural products.

The second form of protectionism is predatory dumping on the part of the US, EU, and Canada, whose protected producers undercut developing agricultural industries. This is especially problematic for small countries which are unable to develop viable systems of food production. For example, in sub-Saharan Africa, agricultural output is growing at a worrisome 0.8% per year—not nearly the growth levels needed to feed a rapidly expanding population.57

From Oxfam’s position, tariffs must be equalised across the board if developing countries are to compete with Northern producers. Certainly, this is true, but fairer trade competition is only one of many necessary conditions for poverty reduction. Nevertheless, tariffs are a
litmus test of Northern willingness to take concrete measures to eradicate crushing Southern poverty. Tariffs directed against the South remain crippling, despite considerable cuts throughout the 1980s and 1990s. A holdover from 19th century mercantilist trade policy, agricultural tariffs continue to be applied according to the level of processing imports have undergone, and this tariff escalation has hit the processed food industries in the developing world especially hard. Fully processed foods are taxed at a rate twice as high as unprocessed foods in Europe and Japan. In Canada, tariffs on processed products are up to 13 times higher than on unprocessed products. The numbers are similar in the US. Tariff escalation traps developing countries in low value-added ghettos, where declining terms of trade threaten to drive small producers out of the export market entirely.\textsuperscript{58}

Oxfam estimates that Northern protectionism in all forms costs developing countries approximately $100 billion per year,\textsuperscript{59} more than twice as much as all development assistance. According to the World Bank, the losses for Southern agricultural sectors in particular total $20 billion – approximately 40\% of all foreign aid.\textsuperscript{60} These barriers are especially damaging because most of the goods exported by developing countries are headed north. In 2000, 75\% of Latin American exports, 70\% of African exports and 50\% of Asian exports went to North America, Western Europe or Japan.\textsuperscript{61}
The OECD estimates that domestic producer supports have declined slightly over the past 15 years, but according to its Producer Support Estimate (PSE), Quad countries still provide significant support for domestic producers, and the numbers show little improvement over the past two decades. Likewise, non-tariff barriers (NTBs) such as the manipulation of national rules on product standards and subsidies for agricultural producers continue to exclude Southern producers from Northern markets. In 2002, the US passed a $52 billion farm bill that boosted crop and dairy subsidies by 67% over the next six years. Much to the consternation of trade watchers, the bill reverses limited attempts under the Clinton administration to scale back farm subsidies.

Closely linked to protectionist practices is the widespread reliance on agricultural dumping by rich countries. When Northern industries produce more than they can sell in the domestic market, the surplus is dumped onto the international markets at an artificially low price.
Southern farmers are unable to compete with the output of the heavily subsidized Northern agricultural industries. When threatened with cheaper products, the US and EU have initiated more than 200 anti-dumping actions at the WTO since 1995, many aimed at developing country exporters.64

Water

Access to fresh water is an equally divisive issue in this trade round. Developing countries need to protect dwindling water supplies and develop new ones. The World Health Organization (WHO) conducted a survey of water supply and sanitation in developing countries in 1980, and followed up with another study in 1996. They found that while the number of people without safe water declined significantly, from more than 1.8 billion, to around 1.1 billion, the number of people without adequate sanitation rose by more than a billion in the same period.65 The poorest people have little access to clean water, or the infrastructure to provide proper sanitation. Consequently, civil society and Southern governments are worried about contracting out the provision of such a vital resource.

Water is a typical example of the complexity of development problems facing the poorest countries.66 Scientists have now established that 80% of all illness is transmitted through water. Thirty-four thousand people die every day from sanitation related illnesses such as cholera and infant diarrhea. More people die from the complications brought on by unsafe water than die from the long-term effects of air pollution.67 But while air pollution is a global problem, affecting the developed North, as well as the South, unsafe water is almost exclusively a Southern problem.
Initial efforts at water privatization have resulted in uneven provision, with more than 80 developing countries experiencing water shortages in the 1990s. Nevertheless, WTO experts have urged the further privatization of water in order to assure a more efficient, market-based system of allocation. The salient point here is that the math of providing fresh water shows that public provision would ultimately cost less for the poor than the current system of private provision.

The World Health Organization estimates that the cost of providing global access to fresh water and sanitation would cost approximately $10 billion a year, for the next fifteen years—not a daunting amount by international standards. From a commercial perspective, water is a major transnational industry, almost half as large as the oil industry. Total income from private water provision approaches $400 billion per year. When water is a private good, multi-national corporations quickly snatch it up. These large corporations now control upwards of 70% of the private markets for water worldwide.

Recent calculations indicate that the poorest in Africa spend up to 20% of their annual incomes on water. In the current GATS negotiations the EU has asked 72 members to liberalize water management services. The largest producers are European, with Vivendi of France topping the list. Predictably, the developing countries are digging in, preparing for what will most likely be a war of attrition. Water is poised to be a deal-breaker in this round of negotiations.

**Medicine**

The Doha Development Agenda placed access to medicines high on its priority list, but developing countries have been left in legal limbo over their rights to import generic drugs in
times of need. The recent case in South Africa has done little to assuage their fears, as the US and EU backed domestic pharmaceutical companies in their fight to enforce the letter of the TRIPS agreement in developing regions. The South African case was a watershed event in patent enforcement. Generic drugs can be provided for a fraction of the cost charged by pharmaceutical multi-nationals. Development experts, civil society activists, and developing country officials are viewing the North/South divide at the WTO as a contest between the rich corporate North and the poor, sidelined South, and much of the evidence confirms their suspicions.

Ninety-six percent of all HIV/AIDS victims live in the developing world. When South Africa, which has the largest number of HIV infected people in Africa, enacted legislation making it easier for the government to ensure the supply of imported drugs, the US and the EU backed their multinationals in a concerted campaign to force South Africa to live up to the letter of the TRIPS agreement. It was international outrage and the concerted efforts of non-governmental organizations such as Medicins Sans Frontiers, and Oxfam, which eventually forced the thirty-nine largest pharmaceutical manufacturers to drop their suit in Pretoria.

Historically, developing countries have been at the mercy of a tightly controlled intellectual property regime with respect to educational products such as books and other imported culture protected by the Berne Convention. Intellectual property rights were a staple of imperial policy. Ultimately, South Africa may prove to be an empty victory because while it opens up some access to medicine, developing countries are still net importers of intellectual property. Furthermore, with the advent of ‘trade and’ strategies used by the US and EU to link other regulatory regimes to trade, the expanding realm of intellectual property
law has been increasingly driven by trade liberalization negotiations. The result has been the Trade Related Intellectual Property Rights Agreement (TRIPS) created at the end of the Uruguay Round of GATT negotiations and entered into by developing countries as part of the ‘single undertaking’ of membership, under the Marrakesh Agreement establishing the WTO.  

TRIPS has the most visible impact on the developing world in its strict regulation of the rules around the production and distribution of patented medicines. Only a few developing countries, including Mexico, Argentina, Brazil, India, China and Korea, have any research and production abilities in this area. Most medicines are a near monopoly for the handful of Northern multinationals, which hold more than 90% of all drug patents.  

In the information economy, those who control intellectual resources also control the markets for many of the products and processes which are necessary for economic development in the 21st century. Nineteenth century development depended upon steel and steam, twenty-first century development also requires ideas and the free flow of global information (not to mention food and water). The reality is that TRIPS has significantly changed the legal landscape for developing countries attempting to develop pharmaceutical industries or import drugs, including anti-retroviral HIV medications. Given the track-record of the US and the EU, developing countries can expect little more in terms of multilateral flexibility at the
WTO. The global inequality embedded in the intellectual property regime guarantees that developing countries will remain on the defensive during the next match at Cancun.

Jobs

Foreign direct investment reached the $1.2 trillion level in 2001, but this massive flow of capital did little to benefit the poorest countries. Most people in developing countries live and work outside the formal legal systems taken for granted in North America, Europe and Japan. A majority of the planet’s workforce lacks even the most rudimentary legal protections in respect to job safety, pay, and other legal obligations many Northern employees take for granted. The International Labour Organization (ILO) estimates that close to 4 billion people work outside the regulated labour market, in the informal economy of the black market, the subsistence agriculture economy and the care economy.79

In the eyes of the South, current negotiations on service-sector liberalization are dominated by trans-national corporations such as AT&T, Monsanto, and Microsoft. Critics charge that an increasing number of Southern workers will be pushed into precarious, unregulated employment as Northern service providers move into the regulated sectors of national economies. Despite unprecedented levels of migratory labour movement, many Southern service providers will be forced to look for work in the informal service sector, as taxi-drivers, labourers, or other unregulated entrepreneurial initiatives. Even though security looms large on the horizon for the developed world, breaking the cycle of poverty requires increasing the number of living-wage job opportunities for Southern workers.80

The ILO has produced an in-depth study of poverty, trade, and employment, which suggests that while population growth is falling in the North, job creation is becoming the foremost
public policy issue in the South. In the coming decade, another 1 billion young people will enter the global workforce. The world’s labour force is increasing by 50 million a year, with 97% of this increase in the developing world. The most depressing fact is that over half the 1.2 billion people living on less than $1 a day are working-age labourers, for whom employment has failed to put enough food on the table.

*   *   *

The main finding of our report is that the WTO is a juridical body ill-equipped to take a lead role in trade-driven poverty reduction. It remains startlingly out of touch with the pressing issues facing the third world. In the areas of food, water, medicine, and jobs, it has no viable notion of the singular importance of public goods to poverty reduction. Private provision is still the rule of the day.

Our reading of the evidence suggests that trade liberalization has failed the world’s poor. The primary reason is that there are no mechanisms in place to safeguard the public interest in international trade negotiations. The GATT was originally part of a larger institution created after World War Two to safeguard the public interest, but it did not evolve in that way. In the 1960s and 70s, multilateral liberalism protected Northern jobs and failed to integrate Southern countries into the global economy. Developing countries, even when they sought to liberalize trade after the Tokyo Round, never got the market access they were promised. Now they face a growing development deficit. The current round is floundering because policy-makers are attempting to broaden and deepen the agenda when they should be reforming it. The message has not gotten through – trade liberalization cannot go forward without significant and substantial social regulation.
The new-found consensus which emerged in the 1990s among Rodrik, Stiglitz and other top development economists stipulated that private interests must be ring-fenced in order to protect human development needs. They questioned the utility of free trade for economic development in the poorest countries. Many prominent anti-globalization thinkers such as Walden Bello, Maude Barlow and José Bové share this view.\textsuperscript{84} Poverty reduction cannot take a backseat to abstract notions of free trade. As long as the WTO cannot recognize the limits of trade for development, it will never be able to adequately safeguard the public interest.

**Conclusion: Retreating from Faith-Based Globalization**

Coming into Cancun, many in the developing world are convinced that significant progress on social issues must take place outside the WTO. This opinion is well-founded. There are many gaps in the WTO legal regime. Currently, it does not recognize that free trade is only an instrument of basic human values, and not an end in itself. As a result, the WTO has not generated any new legal instruments which weight public and private interests equally.\textsuperscript{85} The current systemic imbalance between trade and human need has many parallels with the inter-war system of financial regulation. This period was typified by a rigid commitment to a laissez-faire economic system, much as the current order is typified by its unreflective commitment to global free trade.

The most pressing issue now is making public institutions work unambiguously for public ends. Public interest issues such as human rights are not even on the WTO’s radar screen. Robert Howse and Makau Matua agree, noting that there is “a need for institutional evolution
in the international system, a need to understand the effects of trade laws and policies in the broadest sense. Without a better attempt to make trade serve broader goals, it will be extremely difficult to salvage the Doha round.

Left unaddressed, poverty is as great a threat to the international trade regime as economic protectionism. If the WTO wants to break the deadlock, it must realize that cleverly formulated consensus and political arm-twisting are not adequate solutions to the systemic problems facing the international community. While many experts argue that poverty is a result of economic protectionism, this report claims that while the two are inter-related, poverty must be addressed on multiple fronts. With almost 20% of its membership designated as least-developed, the problem of poverty and chronic underdevelopment continues to stalk the WTO. The question remains, can the WTO find a balance between the private interests of the world’s largest traders and the public good? At this point in time, it seems unlikely. The best hope for poverty reduction still lies with the collective problem-solving capacity of global civil society. The Millennium Development Goals set realistic targets which can and must be reached. The time for finger-pointing is over.
Endnotes


7 A holdover of Europe’s imperial legacy, this notion is a simplification but largely accurate. With the fall of the Berlin Wall, large portions of the former Soviet Union were revealed to be desperately poor. For a brief period in the 1990s, poverty became a European problem as much as a post-colonial legacy. Eastern Europe is not out of the woods yet, but the inexorable growth of the European Union, coupled with the industrial infrastructure of many of these countries suggests that the former Soviet states may outgrow many Southern countries in the race to reduce poverty.

8 Chapter 3 of the UNDP’s *Human Development Report 2003* is a good overview of how far Africa still has to go to reach the Millennium Development Goals.


14 ibid

15 ibid


17 Ibid

18 For a discussion of the impact of globalisation on women in developing countries, see the International Trade and Gender Network at [www.igtn.org](http://www.igtn.org)


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To learn more about the use of purchasing power parities to measure poverty, go to [www.devdata.worldbank.org](http://www.devdata.worldbank.org)


For a more complete discussion of the methodological difficulties surrounding poverty measurement, see [www.socialanalysis.org](http://www.socialanalysis.org)


59 Ibid


62 Calculated from statistics collected by the Organization for Economic Cooperation and Development. Available at www.oecd.org


69 Statistics available from www.who.org


74 Statistics collected by the World Bank. Available at www.worldbank.org


77 For an explanation of the Marrakesh Agreement, go to http://www.wto.org/english/docs_e/legal_e/04-wto_e.htm

78 To learn more about intellectual property rights and patented medicines in the global South, go to http://oxfam.org.uk/cutthecost/trips.html


86 Ibid p. 23
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