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Bachelor Thesis

Economic Policies towards Reduction of Poverty in Developing Countries

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In Prague, 30th March 2011 ________________________________

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Ekonomická opatření směřující k omezení chudoby
v rozvojových zemích

Economic policies towards reduction of poverty
in developing countries

Souhrn

Tato bakalářská práce se zabývá jedním ze současných nejvíce diskutovaných globálních problémů, chudobou, a ekonomickými opatřeními, které směřují k její redukci. K demonstraci tohoto problému je analýza založena na vztahu rozvinutá (bohatá) země / rozvojová (chudá) země. Je fascinující, že i v 21. století někteří lidé žijí v extrémní chudobě. Zvláště, když se rozvinuté země zaručují za to, že tento problém řeší.

Analýza je založena na stanovení mezinárodního obchodu jako hlavního ekonomického faktoru, který vede ke snížení chudoby. Jako zástupce mezinárodního obchodu byla vybrána Světová obchodní organizace (WTO) a její systém řešení obchodních sporů. V analýze se následně ukázalo, že rozvojové země prakticky nemají šanci efektivně využívat tento systém. Systém řešení obchodních sporů je výhodný v podstatě jen pro rozvinuté země.

Rozvinuté země jsou ochotny utratit část svých peněz, aby pomohly těm chudým. Část svých peněz, nicméně nic ze svého bohatství (obchod). Neochota rozvinutých zemí k tomu, aby se podělili o část svého bohatství s těmi nejchudšími, je zásadní problém ekonomických opatření k omezení chudoby. A rozvinuté země to moc dobře vědí. Na základě analýzy byly zjištěny některé velmi zajímavé informace, které naznačují, že ve skutečnosti neexistuje žádný spravedlivý obchod mezi rozvinutými a rozvojovými zeměmi. A to je pravý důvod toho, proč chudoba v takovém měřítku jako dnes stále přetrvává.

Klíčová slova: chudoba, ekonomika, řešení obchodních sporů, WTO, spravedlivý obchod, rozvojové země, rozvinuté země

Summary

In this bachelor thesis, the topic of one of the most popular global issues of last two decades, the poverty, and the economic policies towards reduction of it, is dealed with. To be more specific, to determine and to demonstrate this problem, the analysis is based on the developed country (rich) / developing (least developed) country (poor) relation. It is fascinating, why is that even possible in the 21st century, that some people still live in the real destitution. Especially, when the developed countries guarantee they solve this problem.

The analysis is based on the determination of international trade as the leading economic factor of reduction of poverty. As a representant of the international trade, the World Trade Organization (WTO) and its dispute settlement system were chosen. Consequently, in the analysis, it was found out, that the developing (least developed) countries have practically no chance to efficiently use this system. The system of dispute settlement basically favors the developed countries only.

The developed countries are willing to spend some money to help the poor ones. Some money, however no wealth (trade). The unwillingness of the developed countries to give up their wealth to favor the developing (least developed) countries, is considered in this thesis as a crucial problem of the economic policies towards reduction of poverty. And the developed countries are aware of this. Thus, no fair trade is made in developed countries to least developing countries relation. That is the true reason the poverty persists in such a scale even in 21st century.

Keywords: poverty, economy, dispute settlements, WTO, fair trade, developing countries, developed countries

CONTENT

1. INTRODUCTION

Eleven years ago, the mankind successfully entered into the new millenium. For over the 20 centuries of its development, the mankind finally seems to have a common vision, regardless its race or nationality, common goals, how to make this world a better place to live. This statement is connected to security of basic needs for everybody, to live a peaceful, worthy life. In other words, the world is trying to get rid of poverty. Or not?

Poverty became, common with the global warming, probably the most popular global issue in the last 2 decades. Unlike the global warming, where people are divided on two groups – the belivers and non-belivers of this phenomenon, the poverty problem seems to connect people with some sort of social understanding. The rich people common with the people living in relatively good social conditions tend to help the poor people to get rid of their miserable fate, relieving the bad conscience of themselves, when becoming messiahs for others.

The concept of rich / poor can be converted from people to states. The rich ones are called the developed countries and the poor ones are called the developing countries. The poorest of the poor are the least developed countries, which are affected by poverty the most and which are primary focus of interest in this bachelor thesis.

When it is spoken about help people to people, the rich usually give up their money. Or clothes as the representant of material help. Also, many organizations dealing with problem of poverty have been found. These are non-profit, independent organizations, via which are the help from the people given to the poor. Remark the word *money* from the first sentence.

From the countries's perspective is the help pretty similar, but it is done on economic basis. The developed countries also give up some money, but instead of clothes they build a school in some developing country, time after time. And, regarding the organizations which help the developing countries financially, there exist few on international basis (The World Bank, International Mostary Fund) but I am most interested in World Trade Organization (WTO), which deals with the concept of fair and free trade. Also, in this paragraph, remark the word *money*.

In this bachelor thesis, there is determined the fair and free trade as the main factor of how to help the least developing countries the most, economically. The WTO should be an organization, which can secure the fairness and liberty of the trade between the member countries, especially with its "dispute settlement system".

However, the information, which have been found are rather disturbing. The dispute settlement system seems to be set up according to developed countries, which use the system the most and, in addition, if the least developing country would ever make a dispute, due to its aggregate values of exports, even if winning the dispute, it is more costly than benefitable for such a poor country than settling any dispute at all.

Few paragraphs above, there is written to remark the word money. As a crucial problem of economic policies towards reduction of poverty is, that developed countries give up their money, but not their wealth, to help the least developed countries. And the developed countries are aware of this. Thus, no fair trade is made in developed countries to least developed countries relation. That is the true reason the poverty persists in such a scale even in 21st century.

2. OBJECTIVES OF THESIS AND METHODOLOGY

The objective of the bachelor thesis are outlined in the end of the introduction part. That is, to analyze the economic concept of trade and its benefits to compare it with the actual behavior of the developed countries to the developing (least developed) countries. For this, the most favourable instrument for was the WTO, and its dispute settlement system. And, in the end, it showed up it was really interesting research with some really interesting discoveries.

The bachelor thesis begins with the literature review part, where are covered basic facts about poverty. Determining poverty as one of the global issues, history of poverty and causes and effects of it. On the causes and effects of poverty is interesting, that they are basically the same. The most recent data about the poorest regions on the Earth was provided to create top 10 least developed countries in the world. Subsequently, there is outlined the basic economic absences in such a countries and simple recommendations to improve the situation.

Then, there is provided brief introduction on the international trade and its economic importance. Trade events preceding the WTO are mentioned. The Millenium Development Goals criteria on poverty resolution was added to prove the international community is aware of importance of the trade with the poorest of the poor.

The background for the analysis itself was almost created, when the problem of fair trade was posed. Due to British Trade Justice Movement, the literature review is richer of several brief points, which in general describe the international trade toward the least developing countries as a biased. The last point which was needed to mention in the literature review was the brief concept of the general dispute settlement. The full process of such a dispute settlement is part of the Supplements.

The literature review part of the bachelor thesis was done, so the next one is analysis. The analysis start with the shares of the least developed countries on the world exports. The data gained on the official website of the WTO were sufficient enough to preliminarily conclude, that there is something wrong with the trade with the least developed countries. Structure of exports of LDCs by major product is very interesting.

Another part of the analysis was simple demonstration of how the trade barrier works in the market. There is import quota and its implication in the market with the losses and benefits on the participants of the bargain described. Simply, transparently and understandable.

Smith's and Ricardo's insights to this topic, as the classic economists, also found a place in my work. Their theories of absolute and comparative advantages were very useful to mention, as well as the final impact of the tariffs on the economy, demonstrated on simple graph. The description, possible advantage and disadvantage of tariffs explained.

There is also section about influence of the trade on the GDP. It is basically brief explanation of how the trade affect the GDP and the rising share of the trade in most of the world's developed countries. This part is used more or less as an intro for the highlight of the bachelor thesis, the analysis of the WTO's dispute settlement system, though.

The dispute settlement system was analyzed very thoroughly. The topic the bachelor thesis is interested in the most are the developing (least developed) countries. Basic structure of the least developed countries is set. Further, there is comparison between the current members of the WTO and the members who actually use the dispute settlement system common with the nature of the member. Furthermore, there is analyzed classification of disputed issues. Possible reasons of the attitude of the least developed countries is thinked out, too.

As the last thing I did in my analysis was a hypothesis of why the developed countries do not want to open market to the developing countries; what could be motives and consequences for the developed country. On the example of real dispute settlement between Brazil and the U. S. A..

Conclusions offer author's opinion on the problem with the reference on the hypocritical human behavior.

3. LITERATURE REVIEW

3.1 The definition of poverty

The poverty is very complex and complicated term. At the present time, it is considered as one of the "hottest" global issues of the 21st century. [1] International community perceive the poverty still more and more intensively, in the way of the phenomenon, which is needed to be eliminated. Or, at least, to reduce its impacts on the world, so it will not be a slowdown of the development of the world's community anymore.

The motivation of the "western" countries for fightning poverty are more or less of double type. In consequence of destructive world wars of 20th century, the international solidarity, common with the effort of the developed countries to help their previous colonies, has risen. Rapid development of the communication technologies and the global tourism supports this cause; the process of globalization leads to minification of the world in the way of space and also, of time. That is the reason for fading out of the distance between cultures and continents.

For the global poverty fightning, there exist also pragmatical reasons: global issues, which are connected to poverty (migration of refugees, trafficking of people, weapons and drugs and also, terrorism), jeopardize the security and stability of the developed countries. Last but not least, the economical reasons also play their part; the developing countries can represent the trade outlet of the developed countries and the source of the cheap labor.

There exist many definitions of how to describe poverty, they basically differ according to the subjective opinions of the person, which stated it. The description of poverty given at the World Summit for Social Development in 1995 [2] provides the most informative explanation:

„Poverty is a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to services. It includes a lack of income and productive resources to ensure sustainable livelihoods; hunger and malnutrition; ill health; limited or lack of access to education and other basic services; increased morbidity and mortality from illness; homelessness and inadequate housing; unsafe environments and social discrimination and exclusion. It is also characterized by lack of participation in decision making and in civil, social and cultural life. It occurs in all countries: as mass poverty in many developing countries, pockets of poverty amid wealth in developed countries, loss of livelihoods as a result of economic recession, sudden poverty as a result of disaster or conflict, the poverty of low-wage workers, and the utter destitution of people who fall outside family support systems, social institutions and safety nets."

The common international poverty line has been roughly $1 a day in the past. In 2008, the World Bank came out with a revised figure of $1.25 at 2005 purchasing-power parity. Connected to this information, this is suitable moment for mentioning "absolute" (or "extreme") and "relative" poverty terms. Absolute poverty means the worst possible form of poverty, it is defined in terms of the minimal requirements necessary to afford minimal standards of food, clothing, health care and shelter. [3] In fact it is the poverty below the above mentioned $1.25 per day.

The relative poverty is relatively different term. It is the condition of having fewer resources or less income than others within a society or country, or compared to worldwide averages. Basically, it is artificial poverty defined by reference to the living standards of the majority in any given society. [3]

3.2 The history of poverty

When it is looked into the history of the world for poverty, interesting information uncover. Well-known American economist Jeffrey D. Sachs wrote in one of his papers about extreme poverty: „Almost everyone who ever lived was wretchedly poor. Famine, death from childbirth, infectious disease and countless other hazards were the norm for most of history. Humanity's sad plight started to change with the Industrial Revolution, beginning around 1750." [4]

Ian Vásquez in his paper states, that in 1820, 75 % of the world's population lived in absolute poverty. [5] These two papers inform about interesting fact, that mere 200 years ago the majority of global population was in the same position like some of the developing countries at the present time. Basically, poverty was global phenomenon, excluding just a very small group of nobles, businessmen and landowners. Average income in the West Europe in 1820 was 90% of current average income in Africa and economic development was virtually the same in all continents. The imporant difference to compare we can find in income per capita at that time when we compare the most developed economy (Great Britain) with the less developed economy (Africa) of that time. The ratio between these 2 economies was 4:1. When we do the same thing nowadays, comparison of the most (USA) and the less (Africa again) developed economy increased to 20:1.

Some economic theorists believe that alarming poverty perception brought the unprecedent economic growth of developed countries. For example, Simon Kuznets, famous historian of economy, presents the year of 1800 as „a breakage, when begins an era of modern economic growth of human kind and the years without economic development are over." [6]

Let us look at the causes of modern economic growth in detail and compare them with Africa development. Let us set USA and Europe as suitable representants of modern economies. The steam engine invention common with fossil fuel mobilization enabled to use huge amount of energy to mass production of goods and services. Rural population migrating to the towns and cities was rich resource of labor force. Political and citizen freedoms common with institutional stability of many countries contributed to radical change from poor and backward societies to modern economies with persistent growth based on technological and science development. This scenario began in 18th century (Watt's steam engine was invented between 1763 – 1775) in Great Britain and was later applied virtually in every European countries and North America. Average GDP growth of these countries from 1820 till nowadays was 1,7 % for USA and 1,5 % for Europe per year.

Current least developed countries had been through this process only partially or they had not at all. African economies GDP growth was 0,7 % per year. When compare real numbers, we can find out, that Africa during period of 200 years increased its GDP 3 times, whereas USA 25 times (!) [5] Africa, and especially its subsaharian part, is the poorest region of the present days.

But where lies the problem then? Already mentioned, economist Jeffrey D. Sachs believes that failure of application of western model in subsaharian Africa lies in combination of following factors [7]:

- GEOGRAPHICAL: African regions lack natural conditions common in developed countries like climate, rainfalls, quality soil, rivers and natural resources wealth.

- DEMOGRAPHICAL: Poor families have many children which they are not able to secure them education or even food and clothing.

- GOVERNMENTAL: Government does not fulfill its role in development of the country - it does not create investments, infrastructure, social services and inner stability and security of the country and its citizens.

- FISCAL: Governments do not have sufficient amount of resources to build needed infrastructure; tax income is low and state debt is big.

- GEOPOLITICAL: Poor countries face many barriers for trade from their business partners, which obstruct their development, the same result have economic sanctions aimed against hostile regimes.

3.3 The causes of effects of poverty

As the previous lines can be considered as the causes of poverty, what are the results of it? Paradoxically, the effects of poverty may also be its causes. This phenomenon is called "the poverty cycle" and operates across multiple levels: individual, local, national and global. In economics, the cycle of poverty is the „set of factors or events by which poverty, once started, is likely to continue unless there is outside intervention." [8]

The cycle of poverty has been defined as a phenomenon, where poor families become trapped in poverty for at least three generations. These families have either limited or no resources. There are many disadvantages that collectively work in a circular process making it virtually impossible for individuals to break the cycle. [9]

The poverty cycle is usually called the "development trap" when it is applied to countries. Its most critical effects are written below:

- HEALTH: Malnutrition, starvation, diseases.

- EDUCATION: None or insufficient.

- HOUSING: Slums and orphanages.

- VIOLENCE: Slavery and human trafficking.

- DRUG ABUSE: Results in criminal activity - stealing, killing, theft, sexual assault, prostitution.

3.4 The poorest regions in the world

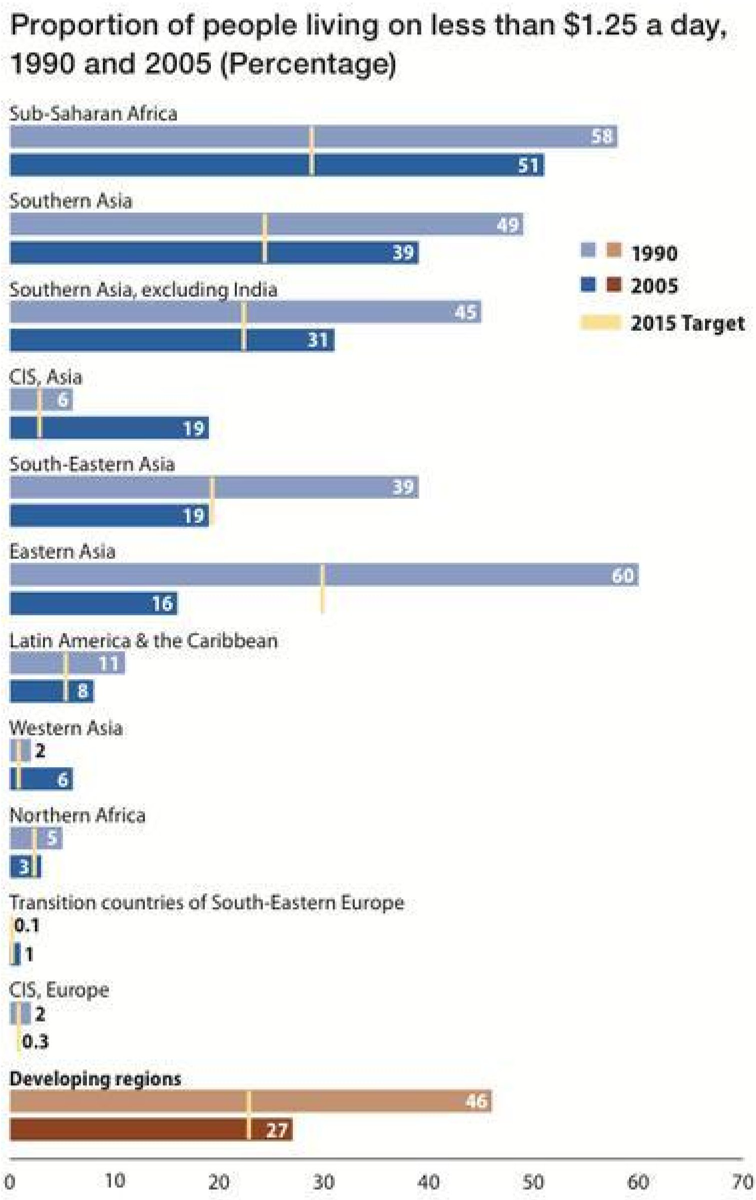
How many people in the world are affected by poverty then? When it is asked to find out how many people in the world live in poverty, again, it is essential to understand difference between absolute poverty and relative poverty already mentioned above. Absolute poverty is type of poverty which is taken into account - it is the state of being when people *are not* able to satisfy their basic needs and this state can also threaten their lives. Whereas relative poverty means state of being when an individual or family *are* able to satisfy their basic needs, but on *considerably lower level* than average level of their society.

According to the World Bank [10]: „For 2005 we estimate that 1.4 billion people, or one quarter of the population of the developing world, lived below our international line of $1.25 a day in 2005 prices; 25 years earlier there were 1.9 billion poor, or one half of the population. Progress was uneven across regions. The poverty rate in East Asia fell from almost 80 percent to under 20 percent over this period. By contrast, it stayed at around 50 percent in Sub-Saharan Africa, though with signs of progress since the mid 1990s. Because of lags in survey data availability, these estimates do not yet reflect the sharp rise in food prices since 2005."

By the way, eradication of poverty and famine is the first of Millennium Development Goals (MDGs), which accepted 189 member states of UN in 2000 on the Millennium Summit in so-called Millennium Declaration. Recently, the 20th – 22nd September 2010 took place another summit on the MDGs and the plan is to fulfill the anti-poverty goals until 2015. [11]

The MDGs report from 2010 [12] provided me with the most recent data about the poorest regions on Earth. As you can see on the Figure 1, the most stricken regions of the world are Sub-Saharan Africa and Southern Asia. Also, there can be seen some progress in reduction of poverty. The only region, which seems that increased its poverty even more is CIS (Commonwealth of Independent States), the former Soviet republics. However, the aggregate poverty in developing regions seems to decline.

Figure 1:



Source: UNITED NATIONS. *Millenium Development Goals Report 2010 – United Nations Department of Economic and Social Affairs* [online]. c2011. Available at: <http://www.un.org/en/development/desa/news/statistics/mdg-2010.shtml>

Figure 2 on provides the statistics of top 10 global population living with less than $1.25 a day for an individual. [13] These data are from Purchasing Power Parity (PPP) Statistics made by International Monetary Fund (IMF) in 2009. The countries are sorted by their GDP at PPP per capita from the least number. As we can observe, all the countries are from Africa. For comparison, the country with the greatest GDP (PPP) per capita, Quatar, has $88.232.

Figure 2: List of countries by their GDP (PPP) per capita
(International dollars)

Rank	Country	Region	GDP (PPP) per capita
173	Malawi	Africa	908
174	Togo	Africa	847
175	Sierra Leone	Africa	803
176	Central African Republic	Africa	764
177	Niger	Africa	720
178	Eritrea	Africa	676
179	Burundi	Africa	410
180	Liberia	Africa	396
181	Zimbabwe	Africa	395
182	Democratic Republic of the Congo	Africa	340

Source: My own illustration; data from: INTERNATIONAL MONETARY FUND.
IMF Data and Statistics [online]. c2011.
Available at: <http://www.imf.org/external/data.htm>

Similar statistics are made by various organizations and the estimations and assumptions in their resources slightly differ. However, the fact is, that these countries do belong among the poorest 10 in the world. The most favourable organizations with these data besides IMF are the World Bank and also CIA's Factbook.

3.5 Economy of the developing country

So far, it was described the basic definitions of poverty, its causes and effects and also, it was mentioned some general statistics regarding people living in poverty and least developed countries. Let us move to the economic policies towards reduction of poverty in the developing countries themselves. The recommendations below result from

International Monetary Fund country reports of 2010 dealing with poverty reduction and human development plan in the least developed countries. [14]

The main goal of economic policies towards reduction of poverty is to improve the living conditions of people living in poverty. These policies should also been aimed on the widest possible scope with the proper level of urgency. The latest concepts of dealing with poverty can be divided according to decisive roles of participants of the policies - internal and external.

As the internal participants are the state and its citizens and as the external ones stand international community for. Let us describe the internal group first since the state itself should have been able to deal with its problem on its own, the help of the other counties should have been the last solution.

Primary goal of the state to reduce the poverty is to have stable and long-run economic growth. And as the most essential elements of such economic growth, which are to be stirred to reach such a goal, are above all macroeconomic policies, public investment policies and also productive and commercial strategies should not have been underestimated. In the developing countries, macroeconomic policy should stimulate economic growth with greater social benefits for the poorest sectors of economy and society at first. This act guarantees the needed stability in the provision of public goods and services as well as financial markets. Additional benefit is minimization of the costs of inflation for families.

However, macroeconomic stability is not the only sufficent condition to make the state and its inhabitants happy. A very important thing is to restore the productive potential of the poor people, basically to set the basic economic pillars - increasing of human capital and improving the competitiveness. This act will help the state with sustained economic recovery common with redistributive effect of income. All of these factors mentioned in paragraph above can be achieved, however, there are some problems, or, let us say barriers, to make the new policies successful.

Generally, the recent world financial crisis in 2008 and inherent structural difficulties are the hardest problems to solve. The world financial crisis affected the global economy, there was no difference if you live in developing or developed country and we can say now, the world has yet recovered from it and its effect wanes. But the structural difficulties are the problems, which should be set right as soon as possible. Because such difficulties threaten the preservation of employment. And, with the employment unstable, the economy can not be stable, too.

Let us move to external participants, or in other words, the international community. The non-profit organization stuff will not be mentioned there, because their contribution in this matter is a bit controversive and some would say purposeless. The most important institutions which help the developing countries out of their misery are the International Monetary Fund (IMF) and the World Bank Group (WB).

It is appropriate to say, that without these two institutions, the least developed countries would have no chance to be lifted from their dire economic situation. When one of the many of IMF's functions is to lend money on the negative balance of payments of countries and rather financial consultancy matters, the WB group have more conceptual and concrete visions of how to deal with the poverty.

The WB group consists of 5 institutions: International Bank for Reconstruction and Development (IBRD), International Development Association (IDA) (these 2 institutions means The World Bank) and further International Finance Corporation (IFC), Multirateral Investment Guarantee Agency (MIGA) and International Centre for Settlement of Investment Disputes (ICSID).

As you can observe from the names of its institutions, the help with the world development is primary goal of the WB's acts. Here are mentioned few of many fuctions of each member of WB Group:

- IBRD: Lend long-term loans to developing countries on the building of infrastructure, telecommunication, agriculture, environment and energy with advantageous interest rates.

- IDA: Lend long-term loans to LDC's for even more advantageous conditions than IBRD.

- IFC: Lend loans to private sector in developing countries.

- MIGA: Protects investors to developing countries against non-trade risks.

And here, the help from the developed countries ends. As it was already said in the beginning, the problem of economic policies towards reduction of poverty is, that the developed countries are willing to give up some money, but not their wealth. Let us move to the trade problem then, which is connected to the wealth the most in this matter.

3.6 The importance of international trade

3.6.1 General background

The international trade exist since the first city states and their awareness of the other cultures, but its importance has risen rapidly in the recent centuries. The breakage of it is the start of the industrial revolution as it is written in the literature review part. Industrialization itself belong among the factors of great influence on the international trade system.

In the 20th century, the development of transportation and also the globalization are considered to be another factors which influence the international trade.
The outsourcing should not be omitted, too. International trade is of great importance then, because without it, the country would be limited to produce its goods and services from the resources of its own territory only.

Basically, the international trade is not different from the domestic trade. When comparing the concepts of these two terms, the only difference is, that the international trade is costlier. The reason for that is, that a border often reveals significant costs such as tariffs. The tariffs are the best known cost, but there exist also time costs due to border delays or costs connected to the country differences such as language, the legal system or culture.

Another difference between domestic and international trade is, that factors of production (capital, labor, land) are typically more mobile within a country than across countries. Thus, the international trade is mostly limited to trade in goods and services and only to a lesser extent to trade in capital, labor or other factors of production. Then, trade of goods and services can serve as a substitute for trade in factors of production.

Instead of importing a factor of production, a country can import goods that make intensive use of the factor of production and so they are embodying the respective factor. The famous example is the import of labor-intensive goods by the developed countries like the United States from China. Instead of importing Chinese labor to the developed country, the developed country is importing goods from China that were produced with Chinese labor.

3.6.2 Trade events preceding the WTO

Traditionally, trade was regulated through bilateral treaties between two nations.
For centuries, under the belief of mercantilism, most nations had high tariffs and many restrictions on international trade. In the 19th century, especially in the United Kingdom due to Adam Smith, a belief in free trade became paramount. This belief became the dominant thinking among western nations since then. In the years since the Second World War, controversial multilateral treaties like the General Agreement on Tariffs and Trade (GATT) and the WTO have attempted to promote free trade while creating a globally regulated trade structure. These trade agreements have often resulted in discontent and protest with claims of unfair trade that is not beneficial to developing countries.

Free trade is usually most strongly supported by the most economically powerful nations, though they often engage in selective protectionism for those industries which are strategically importantc such as the protective tariffs applied to agriculture by the

United States and Europe. The Netherlands and the United Kingdom were both strong advocates of free trade when they were economically dominant, today the United States, the United Kingdom, Australia and Japan are its greatest proponents. However, many other countries (such as India, China and Russia) are increasingly becoming advocates of free trade as they become more economically powerful themselves.

As tariff levels fall, there is also an increasing willingness to negotiate non-tariff measures, including foreign direct investment, procurement and trade facilitation. The latter looks at the transaction cost associated with meeting trade and customs procedures.

Traditionally, agricultural interests are usually in favor of free trade while manufacturing sectors often support protectionism. This has changed in recent years, however. In fact, agricultural lobbies, particularly in the United States, Europe and Japan, are chiefly responsible for particular rules in the major international trade treaties which allow for more protectionist measures in agriculture than for most other goods and services. [15]

During recessions, there is often strong domestic pressure to increase tariffs to protect domestic industries. This occurred around the world during the Great Depression. Many economists have attempted to portray tariffs as the underlining reason behind the collapse in world trade that many believe seriously deepened the depression.

The regulation of international trade is done through the WTO at the global level, and through several other regional arrangements such as MERCOSUR in South America, the North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico, and the European Union between 27 independent states.

3.6.3 MDGs' criteria on poverty resolution

At the present time, probably the most important document, when speaking about poverty resolution, is the Millenium Development Goals (MDGs), created in 2000 on the Millenium Summit of UN. The reason of mentioning MDGs is, that it is the proof, that western world responsible for this document, is awared about importance of international trade in poverty resolution.

The MDGs are considered very ambitious and it is not expected, that they all will be fulfilled until 2015. Nevertheless, they have high ideological and moral values. In harmony with the Millenium Summit conclusions and another big conference in Mexican Monterrey in 2002, UN consider these factors as the main expectations for fightning poverty [19]:

- EFFECTIVE DOMESTIC POLITICS: The governments of developing countries have to improve the bad employment situation by investing its money in the employment to create new working opportunities and also to develop some social support for the unemployed to cover basic human needs. The developing countries will also have to improve the rule of the law, to enforce the respect for human rights, to reduce corruption and to create the effective institutions and conditions for the economic development and inflow of external sources.

- DIRECT FOREIGN INVESTMENTS: Private foreign investments bring not only profit into developing countries, but also create working opportunities, often in the regions of high unemployment. By taking effect of foreign investments, modern technologies, managerial and working procedures and another know-how will be brought into developing countries.

- *INTERNATIONAL TRADE*:The main thing which needs to be improved, or rather which needs to be eliminated in this area, is progressive degradation of subventions (especially those of agricultural products) in developed countries and simultaneously, degradation of trade barriers in the way, that the developing countries can enter easily the developed countries' markets. The developing countries should also eliminate trade barriers among themselves.

- INCREASE OF THE OFFICIAL DEVELOPING HELP OF 0,7 % GNP: To make the developing help cooperation of the developed countries possible, it is needed to increase its volume. On the UN's Monterrey conference in 2002, the developed countries pledged themselves to increase their developing help cooperation of 0,7 % GNP, despite it, however, even the most "generous" donators of the developed countries in the world are just slower drawing closer to this border of this engagement.

- FORGIVING THE DEBTS: Many developing countries spend the same amount of money they receive thanks to developing help from developed countries to paying back the debts they already have. In such a situation, they do not have the sufficient financial resources to lead the domestic politics, which can lead to the reducing of poverty.

3.7 The problem of fair trade

The necessary background for the theory has been created. Now, let us talk about the problem of the fairness and liberty of the international trade, which is really interesting on this topic the most.

Identification mark of such a least developed country is poverty, as already described. However, problem of poverty in these countries lingers for several decades with no remarkable progress in solving their dire economic situation. But, we hear about help from developed countries, their policies of global poverty reduction. So, how come the problems are still persisting in the same scale? What is the catch?

The problem is maybe hidden in the hypocrisy of developed countries
in the international trade. Something is really wrong with the help to the least developed countries from the side of developed countries regarding the trade. British Trade Justice Movement (TJM) is one of the famous representants of fight against the global trade injustice.

Following few points are the statements of TJM and they seem to be the brief and exact material, to build the theory about trade injustice upon [16]:

- Unequal Partners: Rich countries abuse the system and bully poorer countries into agreeing to rules which favour the rich. The benefits of trade will only reach the poor – at home and in the developing world – if international trade rules are deliberately weighted in favour of poor people and the environment.

- While international trade is worth $10 million a minute, poor countries only account for 0.4% of this trade - half the share they had in 1980.

- The so-called Doha Development Round projected that 2/3 of any gains would go to the richer countries.

- According to the New Economic Foundation (2010), for every $100 of growth, just 0.60 found it is poverty reduction target and contributed to reducing poverty below the £1 a day.

- One size does not fit all: Rich countries use trade rules to force poor countries to open their economies to goods from rich countries (known as "trade liberalisation"). But poor countries' farmers and industries are not ready to compete. Decades of forced liberalisation has devastated many poor countries resulting in huge job losses, poor health care and less education. Trade "liberalisation" often comes alongside increased rights for foreign investors and pressure to privatise its economy.

- Do as we say, not as we do: Rich countries such as the UK, the USA and the East Asian Tigers succeeded by protecting their farmers and industries, only opening up to competition once their industries were strong enough to compete. Rich countries are using trade rules to deny poor countries the same rights.
For example, the average EU cow is subsidised to the tune of around $800.
In Ethiopia, the average annual income per person is just $100.

To make these points more representative and also to make them not to take effect as hollow words, let us aim on the statement „rich countries abuse the system“. Which system is it?

3.8 The dispute settlement system in the WTO

It is the so-called dispute settlement and its role directly in the World Trade Organization (WTO), the Dispute Settlement Body (DSB).

Dispute settlement is the central pillar of the multilateral trading system, and the WTO's unique contribution to the stability of the global economy. Without a means of settling disputes, the rules-based system would be less effective because the rules could not be enforced. The WTO's procedure underscores the rule of law, and it makes the trading system more secure and predictable. The system is based on clearly-defined rules, with timetables for completing a case. First rulings are made by a panel and endorsed (or rejected) by the WTO's full membership. Appeals based on points of law are possible. However, the point is not to pass judgement. The priority is to settle disputes, through consultations if possible. By January 2008, only about 136 of the nearly 369 cases had reached the full panel process. Most of the rest have either been notified as settled "out of court" or remain in a prolonged consultation phase - some since 1995. [17]

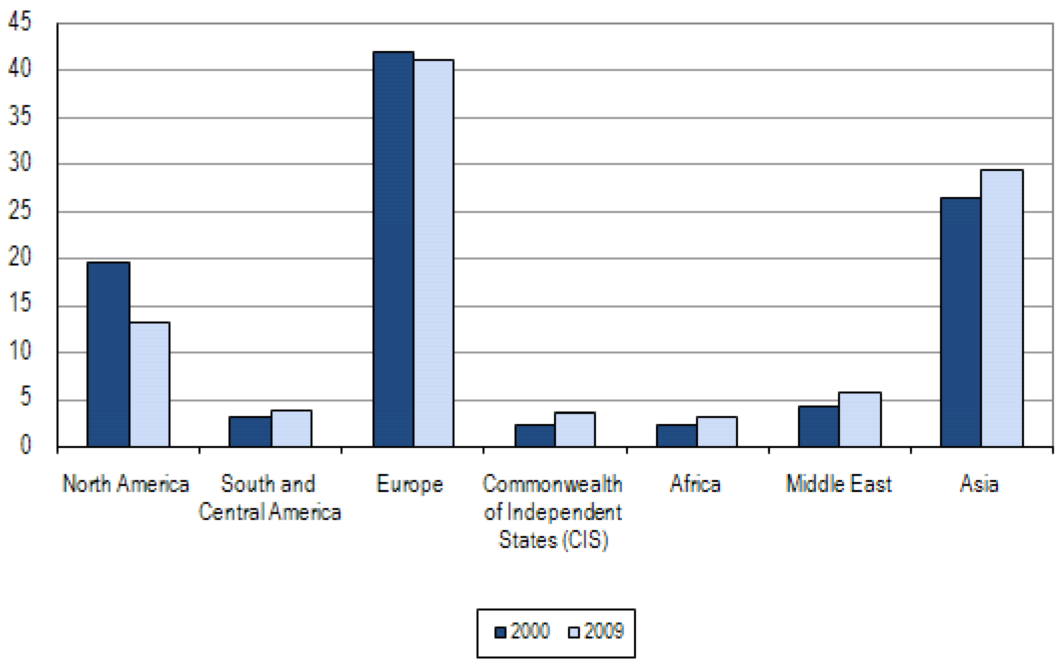
The full explanation of how the all dispute settlements process work, directly from the official website of WTO is part of my Supplements.

4. Analysis

4.1 Shares of the LDCs on the international trade

The international trade can be defined as the exchange of capital, goods, and services across the international borders or territories. [18] At the present time, in most countries, it represents a significant share of the gross domestic product (GDP).
The export, above all, has gained a great importance for the country's economy.
Let us take a look on the regions of the world and their share in the world merchandise exports of the last decade.

Figure 3: Regional shares in world merchandise exports, 2000 and 2009
(Percentages)



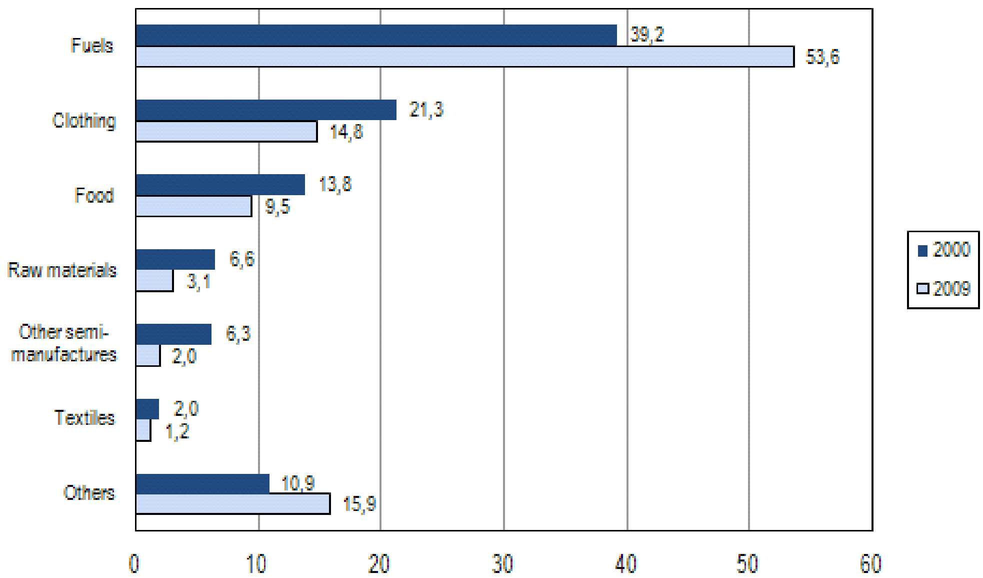
Source: My own illustration; data from: WORLD TRADE ORGANIZATION. *WTO – International Trade and Tariff Data* [online]. c2011.
Available at: <http://www.wto.org/english/res_e/statis_e/statis_e.htm>

As we can see on the graph, the only regions, which experienced decline are North America and Europe. The reason for that was the financial crisis, which led to a severe global economic crisis in 2008. I am interested in the least developed countries, though, so primary object of my interest is Africa region, with 33 of the 48 LDCs. [34]

Africa has risen its share in the world merchandise export approximately of 1 %, however, still it has only 3 % of the world's merchanise exports and remains the world's worst exporting region.

The reason I mention only merchandise export and not the service export is, that in some of the LDCs is not sufficiently developed the tertiary sector. However, growth of commercial services exports of LDCs by category and by region for 1990-2009 is part of my Supplements.

Figure 4: Structure of exports of LDCs by major product, 2000 and 2009 (Percentage of total value)



Source: My own illustration; data from: WORLD TRADE ORGANIZATION. *WTO – International Trade and Tariff Data* [online]. c2011. Available at: <http://www.wto.org/english/res_e/statis_e/statis_e.htm>

Figure 4 shows the structure of exports of LDCs by major product in 2000 and 2009. Notice this information is even more disturbing than the previous Figure. On the Figure 4, there can be clearly seen the decline of the five out of seven items of export.

Clothing, food and raw materials, typical products of the LDCs, they all fell significantly down. The sector which keeps LDCs alive is primary sector, in other words, this sector is reponsible for the basic raw materials, especially for other industries. Representants of this sector are agriculture, fishing, foresty and all mining and quarrying industries. From the information in the Figure 4 is then obvious, that the LDCs are even worse off in their exports than they were 10 years ago.

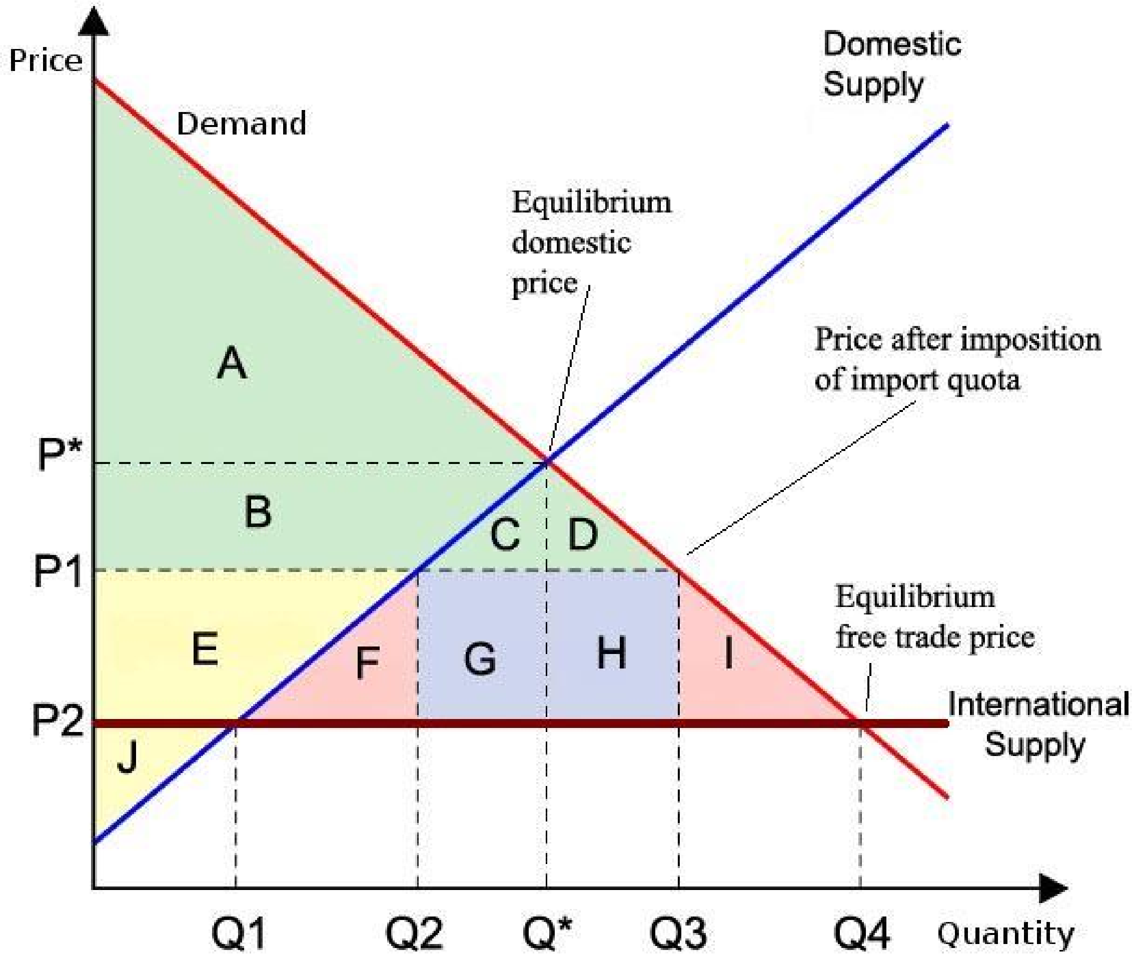
What is interesting, though, is the Fuels item, which experienced rapid growth in the demand obviously. It must not be omitted that not every LDC has some source of fuel (oil). In addition, it must be realized, that LDCs have not the technology to even treat the resource. What does it mean? It means, with the highest probability, that export of fuels is done due to developed countries's intervention. The question why is obvious. The worldwide demand for oil is constantly high. The Fuels is something which developed countries need. The rest of the items are not in the developed countries' interest.

What is wrong then? The problem lies in the trade barriers the developing countries very often face from the side of the developed countries. Trade barries are the identification mark of protectionism (the opposite of the free international trade). Let us explain the principal of such a trade barrier in the next chapter of the analysis. Through the understanding of the trade barriers the analysis can continue to the WTO and its dispute settlement system itself.

4.2 Implication of the trade barrier on the market (import quota)

As an example of the implication of the trade barrier, it is chosen the import quota on the Figure 5. Quotas, like other trade restrictions, are used to benefit the producers of a good in the domestic economy. However, at the expense of all consumers of the good in that economy, what will be shown. The Figure 5 can be found on the next page.

Figure 5: Implications of the import quota



Source: My own illustration

The import quota set a limit on the quantity of a good that can be imported
into a country in a given period of time. In a common, competitive market,
the equilibrium point which determines the price and quantity produced of a good

is where the demand curve and the domestic supply curve intersect. In the case of a purely domestic market, this point is at P* and Q*.

When international trade is introduced into the market, this equilibrium may change. If the price of a certain good is below P* when imported from abroad than when produced domestically, the international supply curve is a horizontal line at P2, which is the price of that imported good. It is also assumed, that the world economy can supply more goods at that price. In this case, the equilibrium price lowers to P2, and the equilibrium quantity produced increases from Q* to Q4. Domestic producers will actually produce less (as seen on the Q1), while the balance (the difference between Q1 and Q4) will be supplied by imports.

When the free international trade is introduced, consumers benefit significantly. In a purely domestic market, the consumer surplus is represented by the area A. With the free international trade, this surplus increases to include B, C, D, E, F, G, H, and I because they only have to pay price P2 for the good instead of the higher price P* and they are able to purchase the quantity Q4 instead of the quantity Q*.

However, domestic producers of the good are adversely affected. In a purely domestic market, the domestic producer surplus is represented by areas B, E, and J. With the introduction of free international trade, they lose areas B and E to consumers because they can only get the price P2 for their goods instead of the price P*. Finally, the economy on the whole benefits by areas C, D, F, G, H, and I, as these are areas of surplus that did not exist before the introduction of free trade. As is evident, all of the economic benefit goes to consumers.

Because of the adverse effects of the free trade on domestic producers, those producers may attempt to address the government to set an import quota. When this happens, the government will limit the quantity of a good that can be imported in order to increase the price and allow producers to recover some of their lost surplus. If the government restricts total imports to the difference between Q2 and Q3, three things will happen. First, producers will increase output from Q1 to Q2. Second, imports will decline from the difference between Q1 and Q4 to the difference between Q2 and Q3. Third, the price will rise to reflect the new total quantity consumed, which is now Q3.

The effect of an import quota on domestic producers is to allow them to recover the producer surplus in area E, which they take away from consumers. The effect on international producers is that they now obtain areas G and H as a surplus. The effect on consumers is that they lose E, F, G, H, and I. The effect on the total world economy is, that areas F and I are lost in what is called a deadweight loss. F represents producer surplus which is lost by goods consumed but not at a surplus to producers. I represents consumer surplus which is lost as these goods are not consumed at all. The effect on the domestic economy is, that E is gained, but F, G, H, and I are lost. The Figure 6 on the next page resolves the effect on the all participants of an import quota.

Figure 6: Implications of the import quota: resolution

Market situation	Consumer surplus	Domestic producer surplus	Foreign producer surplus	World economy	Domestic economy
Purely domestic market	A	B, E, J	none	loss of C, D, F, G, H, I	loss of C, D, F, G, H, I
Free international trade	A, B, C, D, E, F, G, H, I	J	none	none	none
Trade with import quota	A, B, C, D	E, J	G, H	loss of F, I	loss of F, G, H, I

Source: My own illustration

As it can be seen from the Figure 6, the free international trade represents the highest benefit for consumers, the world economy, and the domestic economy. Purely domestic trade represents the least beneficial situation for domestic consumers, the world economy, and the domestic economy, but the most beneficial situation for domestic producers. An import quota is the most beneficial to foreign producers and somewhat beneficial to domestic producers, but is somewhat harmful overall to consumers, the world economy, and the domestic economy.

Other issues, that should be taken into consideration are, whether the international producers, which obtain the quota rights, are the most efficient producers or not. If they are not, it will represent an additional deadweight loss to the world economy and a reduced benefit to those producers. Tariffs are generally seen as a more advantageous way to protect domestic producers without creating as much damage to the world economy as a whole.

4.3 Tariffs

Tariffs are probably the most popular trade barriers. Simply said, tariffs are taxes levied on exports and imports. For economic reasons, tariffs are usually levied on imported goods only. By many, mainly neoclassical, economists, is this act considered as a distortion of free market. According to the WTO [21], the features of the free market are:

- Trade of goods without taxes (including tariffs) or other trade barriers (e.g. quotas on imports or subsidies for producers)
- Trade in services without taxes or other trade barriers
- The absence of "trade-distorting" policies (such as taxes, subsidies, regulations, or laws) that give some firms, households, or factors of production an advantage over others
- Free access to markets
- Free access to market information
- Inability of firms to distort markets through government-imposed monopoly or oligopoly power
- The free movement of labor between and within countries
- The free movement of capital between and within countries

The value of free trade was first observed and documented by Adam Smith in The Wealth of Nations, in 1776. He wrote:

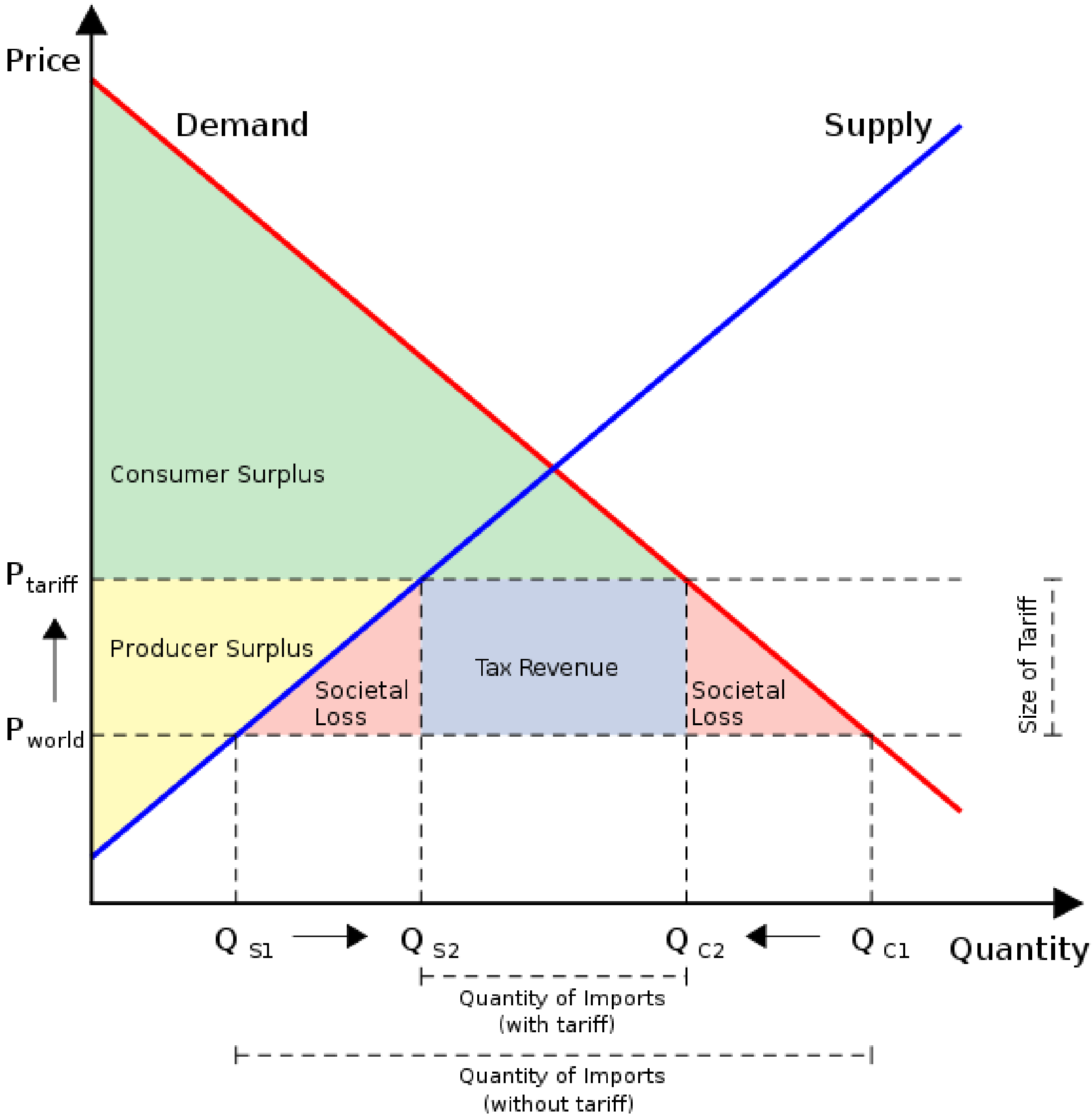
„It is the maxim of every prudent master of a family, never to attempt to make at home what it will cost him more to make than to buy. If a foreign country can supply us with a commodity cheaper than we ourselves can make it, better buy it of them with some part of the produce of our own industry, employed in a way in which we have some advantage.“ [20]

This statement uses the concept of absolute advantage to present an argument in opposition to mercantilism, the dominant view surrounding trade at the time, which held that a country should aim to export more than it imports, and thus amass wealth. [22] Instead, Smith argues, countries could gain from each producing exclusively the goods in which they are most suited to, trading between each other as required for the purposes of consumption. In this vein, it is not the value of exports relative to that of imports that is important, but the value of the goods produced by a nation. The concept of absolute advantage however does not address a situation where a country has no advantage in the production of a particular good or type of good. [22]

This theoretical shortcoming was addressed by the theory of comparative advantage. Generally attributed to David Ricardo who expanded on it in his 1817 book *On the Principles of Political Economy and Taxation* [23] it makes a case for free trade based not on absolute advantage in production of a good, but on the relative opportunity costs of production. A country should specialize in whatever good it can produce at the lowest cost, trading this good to buy other goods it requires for consumption. This allows for countries to benefit from trade even when they do not have an absolute advantage in any area of production. While their gains from trade might not be equal to those of a country which is more productive in all goods, they will still be better off economically from trade than they would be under a state of autarky. [22]

Two simple ways to understand the proposed benefits of free trade are through David Ricardo's theory of comparative advantage and by analyzing the impact of a tariff or import quota. An economic analysis using the law of supply and demand and the economic effects of a tax can be used to show the theoretical benefits and disadvantages of free trade. [24]

Figure 7: A supply and demand graph showing the effect of a tariff on imports



Source: My own illustration

4.3.1 Advantages and disadvantages of tariffs

Advantages of tariffs

The Figure 7 demonstrates the benefits of tariffs as means of protecting domestic industries.

Assume that Czech Republic wants to protect a domestic industry that is only able to produce and sell beer at the price P_{tariff}. Since there are other countries that

are exporting the same beer at a price of P_{world}, Czech Republic's industry is threatened to go out of business should beer be imported into their country without a tariff. This graph also shows that as long as P_{tariff} does not fall above the intersection of the Supply and Demand lines, then an equilibrium can be reached in which there are no shortages of supply or excesses of demand, and so Czech Republic's society can enjoy beer
to the same degree as any other country. [25]

In this case, the higher price would not cause domestic production to increase from Q_{S1} to Q_{S2}, since it has already been assumed in our example that Czech Republic produces the same amount of beer for price P_{tariff} as the world economy does for price P_{world}. The effect of the tariff would limit imports and create a higher demand for domestically produced beer but have no effect on consumer prices, since the graph shows that for all quantities to the left of the intersection of the Supply and Demand curves, consumers will buy whatever beer enter the market. Once the imported plus the domestic supply of beer in the Czech Republic reaches Q_{S2} then the tariff will no longer be necessary to protect the Czech Republic's industry since market forces will cause the domestic and world prices to become equal and the market price will be enough for Czech Republic's beer manufacturers to stay in business. [26]

The pink region labeled "Societal Loss" does not apply in this scenario.

Disadvantages of tariffs

The graph analyzes the effect of the imposition of an import tariff on some imaginary good. Prior to the tariff, the price of the good in the world market (and hence in the domestic market) is P^{world}. The tariff increases the domestic price to P^{tariff}. The higher price causes domestic production to increase from Q^{S1} to Q^{S2} and causes domestic consumption to decline from Q^{C1} to Q^{C2}. This has three main effects on societal welfare. Consumers are made worse off because the consumer surplus (green region) becomes smaller. Producers are better off because the producer surplus (yellow region) is made larger. The government also has additional tax revenue (blue region). However, the loss to consumers is greater than the gains by producers and the government. The magnitude of this societal loss is shown by the two pink triangles. Removing the tariff and having free trade would be a net gain for society. [27]

An almost identical analysis of this tariff from the perspective of a net producing country yields parallel results. From that country's perspective, the tariff leaves producers worse off and consumers better off, but the net loss to producers is larger than the benefit to consumers (there is no tax revenue in this case because the country being analyzed is not collecting the tariff). Under similar analysis, export tariffs, import quotas, and export quotas, they all yield nearly identical results. Sometimes consumers are better off and producers worse off, and sometimes consumers are worse off and producers are better off, but the imposition of trade restrictions causes a net loss to society, because the losses from the trade restrictions are larger than the gains from trade restrictions. Free trade creates winners and losers, but theory and empirical evidence show that the size of the winnings from free trade are larger than the losses. [24]

4.4 Influence of international trade on GDP

Gross domestic product (GDP) is probably the most affected economic indicator when we speak about international trade and trade itself. In general, it refers to the market value of all goods and services produced within a country in a given period. This indicator is used in macroeconomics to determine the performance of the country's economy with the time horizont of a year in principle. Also, it is often considered as an indicator of a country's standard of living. GDP can be determined in three ways, all of which should, in principle, give the same result. They are the product (or output) approach, the income approach, and the expenditure approach.

The most direct of these three is the product approach, which sums the outputs of every class of enterprise to arrive at the total. The expenditure approach works on the principle that all of the product must be bought by somebody, therefore the value of the total product must be equal to people's total expenditures in buying things. The income approach works on the principle that the incomes of the productive factors (producers) must be equal to the value of their product, and determines GDP by finding the sum of all producers' incomes. [28]

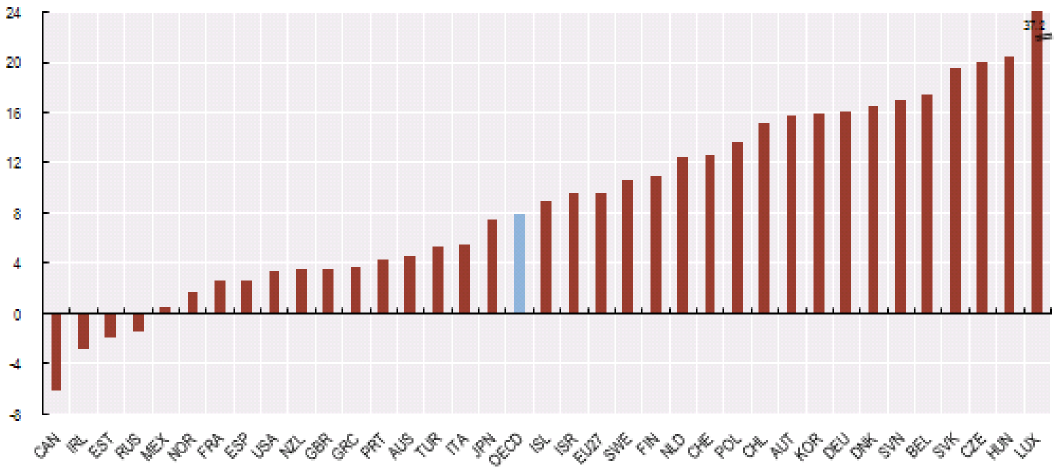
The expenditure approach, where can be showed, that international trade is very important part of economy, is chosen. Because, in the expenditure approach, there can be clearly seen, that if export is greater than import, it has even more positive effect on the economy. The equation for calculation GDP by expenditure approach is as following:

GDP = C (private consumption) + I (gross investment) + G (government spending) + nX (exports − imports)

Let us omit the C, I and G factors and let us focus just on the export / import factor. To be more accurate, it is called the net export or the balance of trade. To have positive balance of trade, the country has to have its exports higher than imports. To achieve this goal, the country should take few influences on this factor into consideration. The basic one will be the cost of production such as land, labor and capital in the exporting economy in comparison those in the importing economy. This fact is closely connected to comparative advantage theory already explained.

The cost and availability of raw materials, intermediate goods and other inputs is another fact to take into consideration. In developing countries, this will be probably bigger problem that the production costs themselves. Prices of goods manufactured at home are created and it is up to customer now to compare them with the imported goods. Restrictions on trade have been explained and it can be considered as residue of mercantilism. There exist also non-tariff barriers, such as environmental, health or safety standards, which obstruct free trade.

Figure 8: Trade to GDP ratios – Difference between 1998 and 2008 in member counries of OECD
(Percentages)



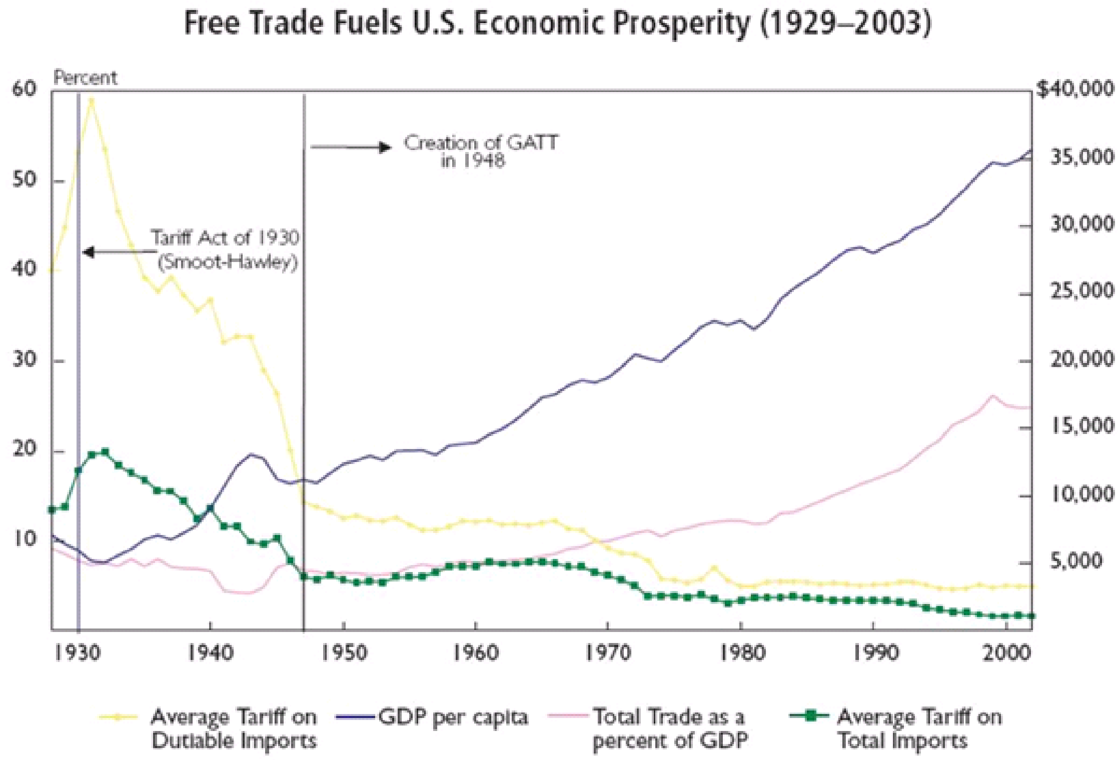
Source: My own illustration; data from: OECD (2010), *OECD Factbook 2010: Economic, Environmental and Social Statistics*, OECD Publishing. ISBN 92-64-08356-1.

On the Figure 8, there can be observed the increasing portion of the international trade on the GDP in the world's most developed countries. In the decade, from 1998 to 2008, the "best" of them were able to increase their trade with other countries of approximately 20 %. It can not be said, if the country had had positive balance of trade, because there are both export and import taken into consideration, however, the sure thing is, that international trade is increasing its portion on the GDP.

The exchange rate movements is probably the only thing which influences trade between countries, but is not adjusted negatively on purpose. Thus, if the exchange rate of the country to export into is not advantageous, it does not mean that this country is bullying the exporting country. Exchange rates are not trade restrictions; when trading, they are just given and they are influenced by another factors. When speaking about the exchange rate, the availability of adequate foreign exchange with which to pay for imports is influencing the trade, too.

As an ultimate example of positive impact of international trade on the economy, the information gained from U. S. Department of Commerce is used. It describes the effect of international trade on the U. S. A. and its GDP (per capita) in 64 years. It can be seen on the Figure 9.

Figure 9:



Source: U.S. DEPARTMENT OF COMMERCE. U. S. Bureau of Economic Analysis (BEA) [online]. c2011.
Available at: <www.bea.gov/bea/dn/nipaweb/SelectTable.asp?Popular=Y>

As it can be seen on the Figure 9, the most crucial moment in history was the creation of GATT, the predecessor of WTO, in 1948. The GDP per capita have rising tendency and when we take a closer look, total trade as a percent of GDP is rising by similar way. The graph shows the time of 64 years and looks so positive – if the people will eliminate tariffs, they are doing better off in the end. I agree, but - how come that the situation in the least developed countries looks permanently bad regarding the trade even when the

developed countries guarantee their help to those poor people.
How come the trade percent of GDP of developed countries keeps increasing and the trade percent of the least developed countries is minimal? How come the WTO existence has not the similar impact on the least developed countries? Is not the WTO just the tool of the developed countries to benefit more even on the poorest of the poor?

4.5 Analysis of WTO's dispute settlements

As an indicator to utilize the hypothesis on, the so-called dispute settlements (DS) and their role directly in the World Trade Organization (WTO) are taken, the Dispute Settlement Body (DSB).

At the present time, no list of achievements and activities of WTO is complete without inclusion of DS system. DSB is still a relatively "young" body of WTO, it was founded on the 1st January in 1995. The main purpose of it is to bring in the stability and foreseeability into the trade system of WTO, which were "missed" in WTO's predecessor, the General Agreement on Tariffs and Trade (GATT) from 1947.

Without the possibility of DS would be the whole WTO worthless, because the given rules would not be able to claim. DSB gives the member states a guarantee, that in the case of their need, they will be able to claim their rights, which result from agreements of WTO. [29]

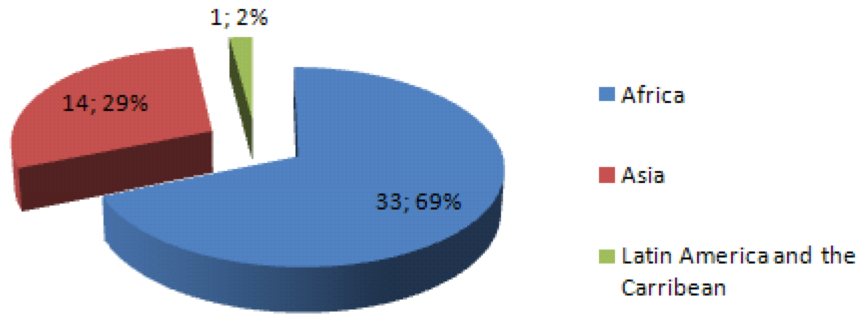
The WTO's procedure for resolving trade quarrels under the Dispute Settlement Understanding (DSU) is vital for enforcing the rules and therefore for ensuring that trade flows smoothly. A dispute arises when a member government believes another member government is violating an agreement or a commitment that it has made in the WTO. The authors of these agreements are the member governments themselves - the agreements are the outcome of negotiations among members. Ultimate responsibility for settling disputes also lies with member governments, through the DSB. The DSU - the main WTO agreement on settling disputes. Like the bulk of the WTO agreements, this was one of the outcomes of the Uruguay Round negotiations. [21]

So much to the theory.

Among other things, DS system also carried high hopes for the least developed countries (LDCs). As the poverty is probably the main determinant of general concept of the LDC, contact with other countries – investments, trade – is one of the crucial factors for such a developing country to eliminate poverty once and for all, step by step.

The WTO has currently 153 members. The WTO recognizes as the LDCs those countries which have been designated as such by the United Nations. There are currently 48 LDCs on the UN list, 31 of which have already become WTO members. Twelve more least-developed countries are negotiating to join the WTO. The structure of the LDCs according to regions can be seen on the Figure 10.

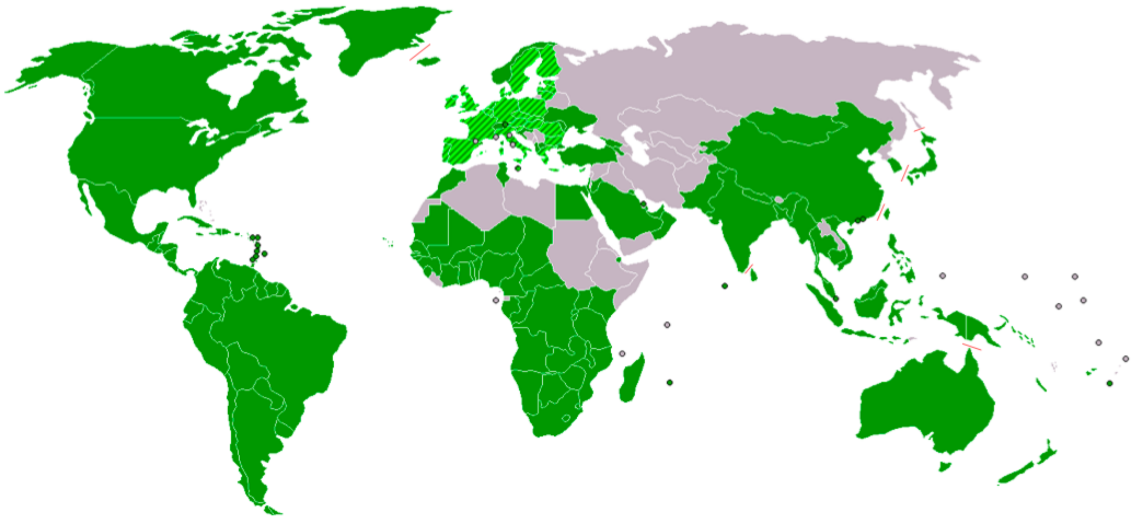
Figure 10: The structure of the LDCs according to regions



Source: My own illustration; data from: UNITED NATIONS. *UN-OHRLLS Least Developed Countries – Country Profiles* [online]. c2011. Available at: <http://www.unohrlls.org/en/ldc/related/62/>

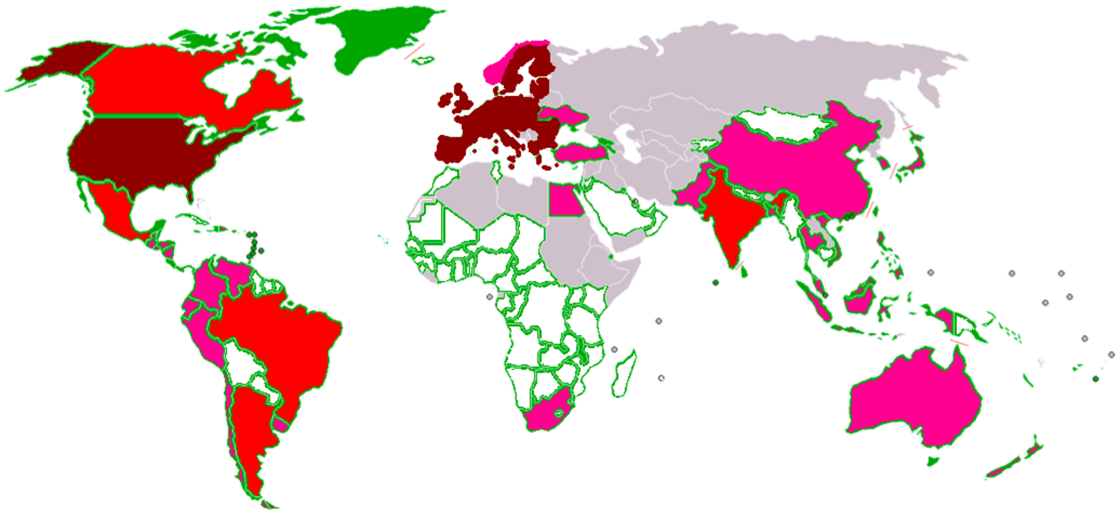
WTO's founding of DSB should have secure protection and most importantly fair trade to these counties. Unfortunately, based on data gathered on the official website of WTO we can find out that the most active users of this system are the developed countries (see figure 11 and 12). In addition, during first 4 years of DSB's existence, over 60 % of all complaints were made by the top economies of the world – in alphabetical order: Canada, European Union, Japan and the USA. [30]

Figure 11: Current members of the WTO



Source: My own illustration; data from: WORLD TRADE ORGANIZATION. *WTO – Understanding the WTO – Members* [online]. c2011.
Available at:
<http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm>

Figure 12: Members of WTO, which have ever used dispute settlement



Source: My own illustration; data from: WORLD TRADE ORGANIZATION. *WTO – dispute settlement – chronological list of disputes cases* [online]. c2011. Available at: <http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm>

On the Figure 12, the member states, which used the DS in hundreds of cases are marked by dark red. The member states, which used the DS in tens of cases are marked by red color. The member states, which used DS occassionaly are marked by pink. The member states which did not used DS at all are marked by white color.

Based on the list of countries, which use / has already used the DS system, available at the official website of WTO, we can divide the countries on developed and developing. The following table shows us the nature of complainant.

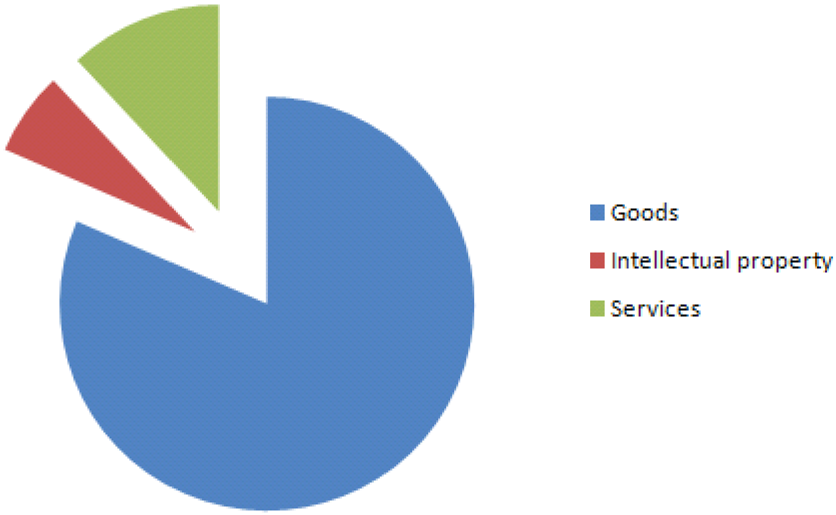
Figure 13: The nature of WTO members, which have ever used dispute settlements

Regime	Developed country	Developing country	Total
GATT	304 70,37%	128 29,63%	432 100%
WTO	268 63,36%	155 36,64%	423 100%
Total	572 66,9%	283 33,1%	855 100%

Source: My own illustration; data from: WORLD TRADE ORGANIZATION. *WTO – dispute settlement – chronological list of disputes cases* [online]. c2011. Available at: <http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm>

On the first sight, the statistics shows that trade activity of the developing countries since the WTO's creation has risen. Approximately 7 % more. However, the very important thing, which can not be obvious from such statistics is, that in the group of developing countries are not just the poorest of the poor, the LDCs, but there are also included countries like India or Brasil, countries perceived as developing mainly because of their GDP per capita. To prove the LDCs are still not better off, take a look on the world map of the Figure 12.

Figure 14: Classification of disputed issues



Source: My own illustration

As the Figure 14 hints, the disputed issues are generally divided into three groups; goods, intellectual property and services. Goods are then divided into 150 specific categories, intellectual property into 12 and services into 22. The biggest specific category is "Agricultural and Food" belonging to goods and taking in 107 from 423 disputes from the creation of the DS system.

As regards the DS system and the LDCs, their portion on the DS is quite interesting. From 423 disputes since the creation of DS system in 1995, in only 1 (!) case was the LDC involved as a direct participant of the dispute. In this case, it was Bangladesh in the role of complainant. Otherwise, six other LDCs were involved in the DS, however as the third, neutral party, in 16 cases. [35]

We can clearly see that there are also some countries which did not use DS system at all. And, surprisingly (?), among these countries are the African LDCs, the countries, which need help the most. It is unlikely that such a countries would be satisfied with every international contract. The limited use of the DS system by these poor, non-industrialized countries has prompted, whether the DS system is biased against smaller and poorer countries. [31] Where lies the problem?

The first and very essential problem is, that LDCs do not have specialised people in their ranks, which fully understand and can operate the DS. The WTO, according their video [32] states, that it does their best to learn the representants from LDCs principles of the DS. But, in the meantime of the education, they have no employee of WTO as their representant, so they are completely defenseless. They can just hire some foreign legal counsel, but such a counsel is not a cheap matter.

Another problem is the small aggregate value and variety of the LDCs's exports. That is, according to Shaffer [33], that „the LDCs have so low aggregate stakes in WTO complaints that it is downright disadvantageous to settle a dispute, because the prospective benefits from litigation are less likely exceed the costs of litigation."

Relations with developed countries are also convenient to take into consideration. Every year, the LDCs are given various financial and other help from the USA, EU and certainly also from the other developed countries on so-called "fighting poverty". The utilization of this help is another question, but the sure thing is, that litigation with your supporter can lead to be given no money next period. This factor can be called the factor of power.

So far we know, that the LDCs are defenseless in the cases of trade injustice (like setting high tariffs on their products). Also, we know, that the products of LDCs are mostly agricultural products with low variety. And we must not to forget about the very low portion of LDCs on international trade.

To trade with someone in this case, means to open the market of developed countries to the LDCs to allow them to sell their products. The countries are poor so they should not be charged by some kind of tariffs to sell their products as profitable as it would be possible. Price of the LDCs's products is low anyways, so there is no problem to sell the product. This sounds accomplishable, so – why are similar scenarios not done?

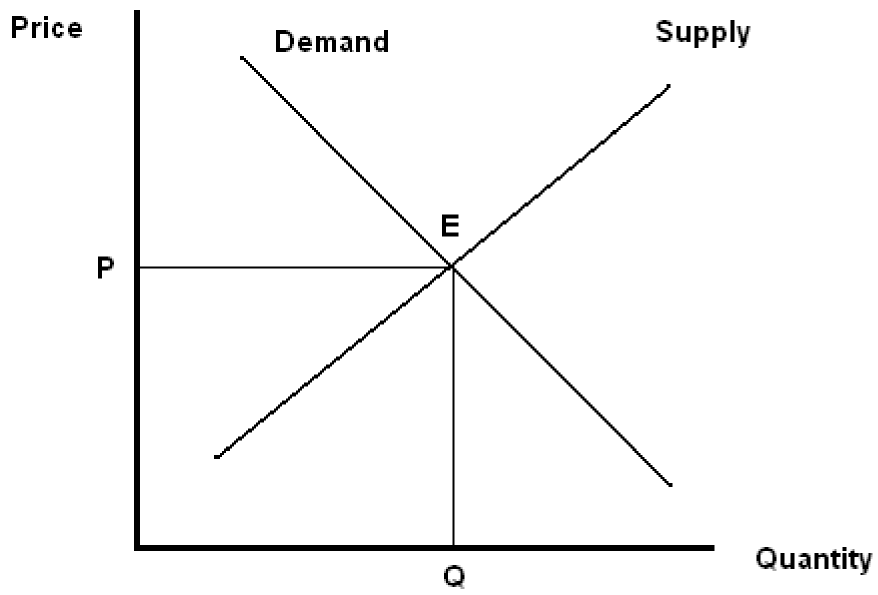
4.6 Example of DSB decision in favor to the developing country

On the example of Brazil (representant of developing country) and the U. S. A. (representant of developed country), there will be set possible scenario of consequences for the economy of the developed country, if it allowed some developing country to enter its market without tariffs. This example is based on the DS250, the dispute settlement between Brazil and U. S. A., which was settled in 2004 on the basis of "mutually agreed solution". At that time, Brazil complained at the U. S. for equalizing Excise Tax imposed by Florida on processed orange and grapefruit products from Brazil. [36]

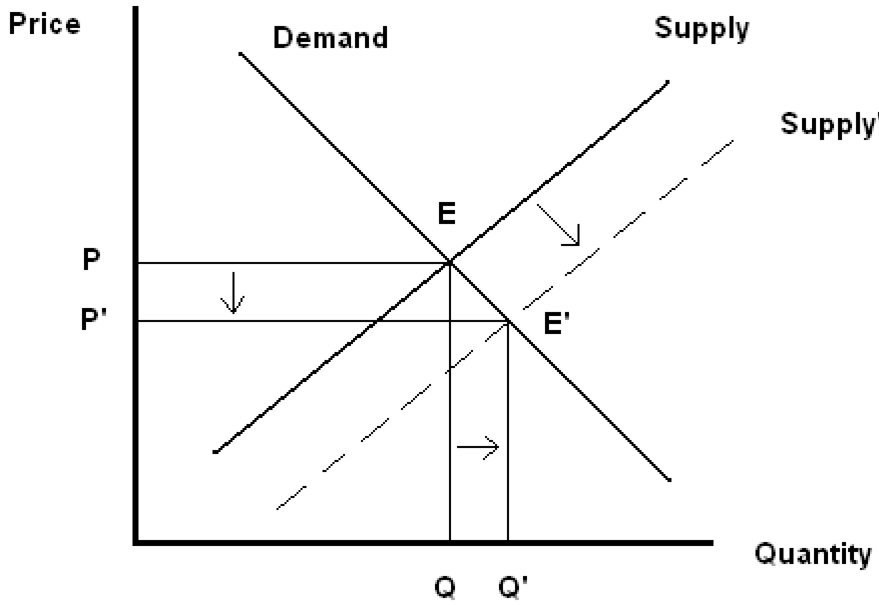
Suppose Brazil can export oranges to the U. S. market with no trade restrictions due to decision of DSB. The situation on the market is illustrated in the Figure 15, picture a) the domestic market only. The situation after entering a competitor from developing country is depicted in the same Figure, picture b).

Figure 15: Example: U. S. market for oranges

a) Situation on the market with the domestic producers only



b) Reaction of market on the entering a competitor from developing country



Source: My own illustration

This is the classic example of what will happen with the market. As the cheaper Brazil oranges enter the U. S. market, they will create the excess supply from the supply of oranges from U. S. farmers. Oranges are not sold so well with higher and cheaper competition, that means the U. S. farmers will have to decrease their price to find a demand for their oranges. Quantity demanded for cheaper oranges from Brazil will increase, however, the U. S. farmers will not find advantageous to produce oranges for a cheaper price, so the supply of oranges from their side will decrease. Eventually, new equilibrium is created and the supply curve shifts to the right.

This is just a general description of what can happen. The more specific consequences are written in the paragraphs below.

In fact, developed countries do not want to allow the developing countries to enter their market because of several economic reasons.

The first thing which will happen is, that the agricultural products from developing countries will be significantly cheaper than the US ones in the relatively same quality. Customer's reaction is obvious then: if the quality is comparable with the more expensive product, the customer will buy the cheaper one. This act leads to lesser interest for the domestic products.

As "weaker" farmers will have no demand for their products, their business will cease to exist. This will lead to higher unemployment in the U. S.. In other words, unemployment means the loss of products and services which could be created by those people, but they are not. Not speaking about weighting of the state budget because of the relief in unemployment and the social impacts of unemployment (e. g. crime).

Import to the country has risen and so the positive trade balance is in jeopardy. To sum it up, the unemployment plus the negative trade balance will eventually lead to lesser GDP. And the GDP is considered as the most important indicator of the performance of the country’s economy. It tells the world about the strength of the country and also about standard of living of its inhabitants.

In other words then, if the developed country want to save the poor countries as it states, it has to become "poorer", because it has to share its wealth in favor to the LDC. In my opinion, this is the true reason why are LDCs still at the same level as they were when the world started to talk about poverty. When the developed countries realized they have to sacrifice their own wealth to help the poor, the actual help transformed to hollow words.

5. CONCLUSIONS

We should be careful when we speak about some social solidarity of the developed countries towards the developing countries. Money and self-profit of the people were the main motives of their behavior throughout the whole history. The problem of the least developed countries (LDCs) is closely connected to these motives.

Poverty, trade and the WTO with its dispute settlement system. These were the key objects of the analysis. What was concluded then in relation of these objects to money and greed of the people?

Let us start with poverty. The developed countries do not need the LDCs. They are just a mess. What could be interesting on them though, even in 21st century, are discovery sites of oil. In my analysis, there can be seen the structure of the exports of the LDCs and the position of fuels. The fuels is the only item, which is rising rapidly in exports whereas primary products of agriculture, the only more or less autarchic items, their exports are not supported at all, because such items will not bring more money and wealth to the developed countries.

The trade was described really extensively. As the real motive of non-trading with the LDCs can be considered the last part of my analysis, where I schemed the possible consequences of allowing the developing country to enter the real market. Problem of trade with the LDCs itself is again the unwillingness of giving up the own wealth, which disagrees with the greedy motives of people.

The WTO with its dispute settlement system can be considered as a helpful step from the side of the developed countries. On the first sight. However, the analysis showed, that just only one LDC (Bangladesh) have ever used the dispute settlement system during 16 years of its existence. As was also mentioned, LDCs does not even know how to use it and if they do, it would be much more costly for them than no dispute at all. To hide that the poorest of the poor are in the same situation like before the joining WTO, as regards the trade injustice, the LDCs are mixed into the group of "just" developing countries like India or Brasil, which use the system actively and could increase the share on the disputes of 7 % more for developing countries, since the founding of DSB.

The economic policies towards reduction of poverty in the developing countries seem to be just a fiction, at least on the global level. The problem of poverty is not solved in appropriate way, because the developed countries are not willing to give up their wealth to share it with the poor.

On the one hand, it is obvious. They have also their own troubles, than to care about some poor country on the opposite edge of the world. On the other hand, though, if they do not want to help, nobody is forcing them to do that.

The non-existing economic policies towards reduction of poverty in the developing countries are just another proof of hypocrisy in our current society.

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7. SUPPLEMENTS

S1 – PROCESS OF WTO'S DISPUTE SETTLEMENT DIRECTLY FROM WTO.ORG

Principles: equitable, fast, effective, mutually acceptable

Disputes in the WTO are essentially about broken promises. WTO members have agreed that if they believe fellow-members are violating trade rules, they will use the multilateral system of settling disputes instead of taking action unilaterally. That means abiding by the agreed procedures, and respecting judgements.

A dispute arises when one country adopts a trade policy measure or takes some action that one or more fellow-WTO members considers to be breaking the WTO agreements, or to be a failure to live up to obligations. A third group of countries can declare that they have an interest in the case and enjoy some rights.

A procedure for settling disputes existed under the old GATT, but it had no fixed timetables, rulings were easier to block, and many cases dragged on for a long time inconclusively. The Uruguay Round agreement introduced a more structured process with more clearly defined stages in the procedure. It introduced greater discipline for the length of time a case should take to be settled, with flexible deadlines set in various stages of the procedure. The agreement emphasizes that prompt settlement is essential if the WTO is to function effectively. It sets out in considerable detail the procedures and the timetable to be followed in resolving disputes. If a case runs its full course to a first ruling, it should not normally take more than about one year — 15 months if the case is appealed. The agreed time limits are flexible, and if the case is considered urgent (e.g. if perishable goods are involved), it is accelerated as much as possible.

The Uruguay Round agreement also made it impossible for the country losing a case to block the adoption of the ruling. Under the previous GATT procedure, rulings could only be adopted by consensus, meaning that a single objection could block the ruling. Now, rulings are automatically adopted unless there is a consensus to reject a ruling — any country wanting to block a ruling has to persuade all other WTO members (including its adversary in the case) to share its view.

How long to settle a dispute?

These approximate periods for each stage of a dispute settlement procedure are target figures — the agreement is flexible. In addition, the countries can settle their dispute themselves at any stage. Totals are also approximate.

60 days	Consultations, mediation, etc
45 days	Panel set up and panellists appointed
6 months	Final panel report to parties
3 weeks	Final panel report to WTO members
60 days	Dispute Settlement Body adopts report (if no appeal)
Total = 1 year	**(without appeal)**
60-90 days	Appeals report
30 days	Dispute Settlement Body adopts appeals report
Total = 1y 3m	**(with appeal)**

Although much of the procedure does resemble a court or tribunal, the preferred solution is for the countries concerned to discuss their problems and settle the dispute by themselves. The first stage is therefore consultations between the governments concerned, and even when the case has progressed to other stages, consultation and mediation are still always possible.

How are disputes settled?

Settling disputes is the responsibility of the Dispute Settlement Body (the General Council in another guise), which consists of all WTO members. The Dispute Settlement Body has the sole authority to establish "panels" of experts to consider the case, and to accept or reject the panels' findings or the results of an appeal. It monitors the implementation of the rulings and recommendations, and has the power to authorize retaliation when a country does not comply with a ruling.

- **First stage:** consultation (up to **60 days**). Before taking any other actions the countries in dispute have to talk to each other to see if they can settle their differences by themselves. If that fails, they can also ask the WTO director-general to mediate or try to help in any other way.

- **Second stage:** the panel (up to **45 days** for a panel to be appointed, plus 6 months for the panel to conclude). If consultations fail, the complaining country can ask for a panel to be appointed. The country "in the dock" can block the creation of a panel once, but when the Dispute Settlement Body meets for a second time, the appointment can no longer be blocked (unless there is a consensus against appointing the panel).

Officially, the panel is helping the Dispute Settlement Body make rulings or recommendations. But because the panel's report can only be rejected by consensus in the Dispute Settlement Body, its conclusions are difficult to overturn. The panel's findings have to be based on the agreements cited.

The panel's final report should normally be given to the parties to the dispute within six months. In cases of urgency, including those concerning perishable goods, the deadline is shortened to three months.

The agreement describes in some detail how the panels are to work. The main stages are:

- **Before the first hearing:** each side in the dispute presents its case in writing to the panel.

- **First hearing: the case for the complaining country and defence:** the complaining country (or countries), the responding country, and those that have announced they have an interest in the dispute, make their case at the panel's first hearing.

- **Rebuttals:** the countries involved submit written rebuttals and present oral arguments at the panel's second meeting.

- **Experts:** if one side raises scientific or other technical matters, the panel may consult experts or appoint an expert review group to prepare an advisory report.

- **First draft:** the panel submits the descriptive (factual and argument) sections of its report to the two sides, giving them two weeks to comment. This report does not include findings and conclusions.

- **Interim report:** The panel then submits an interim report, including its findings and conclusions, to the two sides, giving them one week to ask for a review.

- **Review:** The period of review must not exceed two weeks. During that time, the panel may hold additional meetings with the two sides.

- **Final report:** A final report is submitted to the two sides and three weeks later, it is circulated to all WTO members. If the panel decides that the disputed trade measure does break a WTO agreement or an obligation, it recommends that the measure be made to conform with WTO rules. The panel may suggest how this could be done.

- **The report becomes a ruling:** The report becomes the Dispute Settlement Body's ruling or recommendation within 60 days unless a consensus rejects it. Both sides can appeal the report (and in some cases both sides do).

Appeals

Either side can appeal a panel's ruling. Sometimes both appeals report. It must state its intention to do so at a sides do so. Appeals have to be based on points of law such as legal interpretation — they cannot reexamine existing evidence or examine new issues.

Each appeal is heard by three members of a permanent seven-member Appellate Body set up by the Dispute Settlement Body and broadly representing the range of WTO membership. Members of the Appellate Body have four-year terms. They have to be individuals with recognized standing in the field of law and international trade, not affiliated with any government.

The appeal can uphold, modify or reverse the panel's legal findings and conclusions. Normally appeals should not last more than 60 days, with an absolute maximum of 90 days.

The Dispute Settlement Body has to accept or reject the appeals report within 30 days — and rejection is only possible by consensus.

The case has been decided: what next?

Go directly to jail. Do not pass Go, do not collect … . Well, not exactly. But the sentiments apply. If a country has done something wrong, it should swiftly correct its fault. And if it continues to break an agreement, it should offer compensation or suffer a suitable penalty that has some bite.

Even once the case has been decided, there is more to do before trade sanctions (the conventional form of penalty) are imposed. The priority at this stage is for the losing "defendant" to bring its policy into line with the ruling or recommendations. The dispute settlement agreement stresses that "prompt compliance with recommendations or rulings of the DSB [Dispute Settlement Body] is essential in order to ensure effective resolution of disputes to the benefit of all Members".

If the country that is the target of the complaint loses, it must follow the recommendations of the panel report or the Dispute Settlement Body meeting held within 30 days of the report's adoption. If complying with the recommendation immediately proves impractical, the member will be given a "reasonable period of time" to do so. If it fails to act within this period, it has to enter into negotiations with the complaining country (or countries) in order to determine mutually-acceptable compensation — for instance, tariff reductions in areas of particular interest to the complaining side.

If after 20 days, no satisfactory compensation is agreed, the complaining side may ask the Dispute Settlement Body for permission to impose limited trade sanctions ("suspend concessions or obligations") against the other side. The Dispute Settlement Body must grant this authorization within 30 days of the expiry of the "reasonable period of time" unless there is a consensus against the request.

In principle, the sanctions should be imposed in the same sector as the dispute. If this is not practical or if it would not be effective, the sanctions can be imposed in a different sector of the same agreement. In turn, if this is not effective or practicable and if the circumstances are serious enough, the action can be taken under another agreement. The objective is to minimize the chances of actions spilling over into unrelated sectors while at the same time allowing the actions to be effective.

In any case, the Dispute Settlement Body monitors how adopted rulings are implemented. Any outstanding case remains on its agenda until the issue is resolved.

S2 EXPORTS OF COMMERCIAL SERVICES OF THE LDCs, 2008 (WTO.ORG)

Exports of commercial services of the least-developed countries by category, 2008

(Million dollars and percentage)

	Value	Share in commercial services					
	Commercial services	Transportation services		Travel		Other commercial services	
	2008	2000	2008	2000	2008	2000	2008
Least developed countries	18400	20,0	20,2	46,9	55,1	33,1	25,0
Afghanistan	…	…	…	…	…	...	…
Angola	329	6,0	4,4	…	86,5	94,0	9,0
Bangladesh	899	32,3	12,8	17,8	8,3	49,9	79,0
Benin	328	14,3	4,0	60,8	71,8	24,8	24,0
Bhutan	55	…	…	…	…	...	…
Burkina Faso	166	13,0	…	67,3	…	19,7	…
Burundi	3	43,0	27,3	36,8	40,8	20,2	32,0
Cambodia	1613	16,9	14,8	71,9	75,6	11,2	10,0
Central African Republic	29	3,9	…	50,9	…	45,2	…
Chad	94	2,4	…	64,9	…	32,7	…
Comoros	59	13,0	9,9	81,2	65,1	5,8	25,0
Congo, Dem. Rep. of	522	…	…	…	…	...	…
Djibouti	129	76,2	82,6	11,8	6,1	12,0	11,0
Equatorial Guinea	33	2,8	…	49,9	…	47,3	…
Eritrea	…	18,2	…	64,2	…	17,6	…
Ethiopia	1775	55,7	59,0	14,7	21,2	29,7	20,0
Gambia	123	…	16,8	76,4	67,6	...	16,0
Guinea	99	58,2	11,7	7,4	1,5	34,3	87,0
Guinea-Bissau	40	11,9	…	…	…	...	…
Haiti	288	…	…	81,0	95,6	...	…
Kiribati	13	11,7	…	7,5	…	80,7	…
Lao People's Dem. Rep.	372	13,1	15,1	75,9	74,0	11,0	11,0
Lesotho	60	1,5	1,1	67,2	56,4	31,3	43,0
Liberia	182	…	10,6	…	86,9	...	3,0
Madagascar	906	16,4	30,0	38,6	39,1	45,0	31,0
Malawi	…	25,7	…	74,3	…	0,0	…
Maldives	687	5,8	5,8	92,9	92,6	1,3	2,0
Mali	442	35,9	7,3	43,8	62,2	20,3	30,0
Mauritania	104	0,7	…	20,1	…	79,3	…
Mozambique	488	30,0	32,3	22,8	38,9	47,2	29,0
Myanmar	…	16,5	…	35,4	…	48,1	…
Nepal	494	15,0	5,5	38,5	67,7	46,5	27,0
Niger	126	23,6	9,5	64,3	62,3	12,1	28,0
Rwanda	326	34,5	17,2	57,2	62,0	8,4	21,0
Samoa	…	…	…	…	…	...	…
Sao Tome and Principe	9	2,2	1,6	76,1	82,6	21,7	16,0
Senegal	1470	9,7	…	43,7	…	46,7	…
Sierra Leone	61	45,8	32,9	26,9	55,0	27,3	12,0
Solomon Islands	54	2,5	13,1	8,6	68,6	88,9	18,0
Somalia	…	…	…	…	…	...	…
Sudan	457	62,8	3,8	22,3	72,4	14,9	24,0
Tanzania	2136	9,9	17,1	65,5	63,4	24,7	20,0
Timor Leste	…	…	…	…	…	...	…
Togo	253	23,0	43,0	17,6	15,6	59,4	41,0
Tuvalu	…	…	…	…	…	...	…
Uganda	705	15,4	8,1	80,7	70,6	4,0	21,0
Vanuatu	213	24,3	…	47,4	…	28,3	…
Yemen	1049	12,3	4,3	41,7	84,5	46,0	11,0

Zambia	297	37,3	35,3	58,2	49,2	4,5	16,0
Memorandum item:							
World	**3826400**	**23,4**	**23,7**	**32,1**	**25,1**	**44,5**	**51,1**

Note: Data are estimated for most countries. The improvement of the quality of data in recent years may have resulted in changes relating to the breakdown of exports of commercial services by category of services. See the Metadata.