

PUTTING TRADE INTO PERSPECTIVE: why the collapse of Doha is an opportunity for a better trading system

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I. PUTTING TRADE INTO PERSPECTIVE: how to deal with the disappointment

The WTO is at a crossroads. The Doha Agenda, launched in 2001, and tasked to put development at its centre, is in a state of crisis. In July WTO members decided to suspend the Doha negotiations indefinitely and to take time-out for a period of reflection. The temptation is strong to think small and simply use this time to stay within the current framework and play around with numbers. If this happens, the status quo, or worse, will remain. If, however, WTO members take the time needed to refocus their negotiations and rethink the model of trade needed to support development and employment objectives, trade rules have the potential make significant improvements to our world.

Since the WTO was established in 1995, developing country members have consistently demanded that new trade rules address development concerns. In 2001, in the wake of September 11 attacks in the U.S., the Doha Development Agenda was launched, full of fine-sounding promises to put development at the heart of reforming the trading system. But even before the Doha Agenda was agreed, it was clear that neither of the two dominant players at the WTO, the U.S. and the EU, had really responded to the demands of developing countries. The interests of transnational corporations remained at the heart of the Doha Agenda: maximizing market access while protecting intellectual property rights. The current collapse can be linked back to mistakes made when WTO members agreed to the Doha Agenda.

When the suspension was announced by the WTO Director-General, Pascal Lamy, to WTO members at the General Council, many developing countries reacted with deep disappointment. Understandably so: the existing system is deeply flawed and impedes efforts by developing countries to tackle poverty and promote development. There are significant inequalities built into the system, inequalities that discriminate against the very

countries that most need support. Few developing countries were happy with the direction of negotiations, especially as it became clear that developed countries were still not ready to really open up their textile and agricultural sectors. Nonetheless, these countries had put an enormous amount of effort into the negotiations, and they know they are stronger in multilateral negotiations than they are in bilateral and regional deals where the richest countries are involved.

There is pressure from many sides to restart the talks soon. Pascal Lamy will continue to consult with members. Bilateral meetings between various members started almost immediately after the suspension was called. Australia has called for a G6 Ministerial Meeting on the sidelines of the Cairns Group 20th Anniversary Ministerial Meeting, set for September 20-22 in Cairns, Australia. Clearly some members are determined to keep going in the same direction without reflecting and Pascal Lamy believes that members simply need to move a little from their entrenched positions.

Yet, the WTO talks failed because the members are not working with a framework that is able to address some of the most fundamental issues that all countries struggle with, including the need to generate sufficient, stable, well-paying jobs; to ensure access for all to adequate and affordable food; and to diversify sources of foreign exchange to avoid shocks to government finances. Without the right mix of policies, liberalizing trade exacerbates these problems rather than contributing to their solution.

The major beneficiaries of the model of trade promoted in the WTO are transnational corporations (TNCs), many of which are headquartered in developed countries, and which control a huge share of global production and exports. Their over-riding interest is in ready access to the lowest cost raw materials and labour and in as few barriers to trade as possible. On the other side, especially in developed countries, there are some well organized sectors fighting to protect the status quo – the cotton industry in the U.S., the sugar industry in the U.S. and EU, and the shipping companies from the U.S. that benefit from food aid deliveries, for instance. Some of these groups resist change because they are profiting handsomely from the existing programs. Many of the farmers opposed to change have already seen their income fall precipitously over the past ten years and do not want to jeopardize such protection as they now have until they know what will take its place.

The vast majority of people affected by trade, including millions of small-scale farmers and workers in the developing world, are severely marginalized by the trade agenda and are the most negatively affected by the existing system. If any of the small farmers' production is sold abroad, it is for the most part exported by firms in which the farmers have no stake, so they do not necessarily benefit from the expanded markets. At the same time, their local markets are filling with imports, often at dumped prices. The imports depress demand for their production in the markets where they have the most control over profit margins.

Simply calling for the Doha negotiations to restart immediately, as many WTO members are, particularly developing country members, will not guarantee the changes needed to address these concerns. In fact, recent projections and research by the World Bank, the

UN and a variety of independent think tanks consistently confirm that the poorest countries would be the biggest losers if the current Doha framework were agreed to. The model of trade promoted in the Doha negotiations would perpetuate a system that accumulates wealth in the hands of a few and further marginalizes the poor.

The suspension of trade talks is no reason for dismay. It is a reflection of changing relations among countries in trade negotiations. In the past five years, power relations in the WTO have gradually shifted and the interests of developing countries are better reflected in the negotiations. Now the challenge is to consolidate these gains, while tackling the model of trade itself. There remain long-standing and deep divisions in how countries view trade as a tool for development and economic growth. The current framework is inadequate to respond to these different interests. It is now time to build a new framework that can better respond to each country's right to set their own development and employment objectives according to the needs of their people, while at the same time ensuring that they do not harm other countries' ability to do the same.

II. UNDERSTANDING THE COLLAPSE: hope for the future

The immediate cause for the collapse of trade talks was attributed to a lack of agreement over how much to reduce agricultural subsidies in the U.S., agricultural tariffs in the European Union and industrial tariffs in the largest developing countries. Neither U.S. Trade Representative (USTR), Susan Schwab, nor E.C. Trade Commissioner, Peter Mandelson, had sufficient political support back home to offer what was needed to get agreement from the rest of the WTO membership. U.S. Congressional leaders, in particular, voiced strong opposition to the offers of other WTO members in Geneva and they made repeated public statements about their refusal to support any compromise. A number of the large farm and commodity groups in the U.S., groups that supported the USTR during the Uruguay Round, oppose the Doha negotiations. These groups are not convinced that the opportunity for expanding markets abroad is great enough to justify the cuts to domestic support that are being asked of them.

The division of executive and legislative power in the U.S. means the USTR has to be sure Congress will support its offers at the WTO. In most countries, the executive and legislative branches of government have one head, a Prime Minister, who controls parliament and who's representative (a Trade Minister) negotiates on behalf of the government. President Bush does not control Congress in this sense, not even when his party holds a majority of the seats. U.S. trade negotiators in Geneva therefore cannot assume they have Congressional support, but must work closely with the Congressional leadership to ensure the leadership is supportive of what USTR is doing. The U.S. system has important strengths. It allows more direct participation of different stakeholders in trade negotiations. It also provides important checks and balances on trade negotiators to ensure that they are not negotiating against the national interest. On the other hand, it complicates international negotiations because U.S. domestic politics have a disproportionate influence on the outcome of negotiations and the voices of U.S. interests are heard more loudly than those of other countries.

In fact, many of the other WTO members lack domestic political support to conclude the Doha Agenda in its current form. This resistance is heard in different ways. Millions of small-scale farmers in India have held demonstrations recently and their representatives have voiced strong opposition to the current negotiations. This has resonance in Geneva. Indian Commerce Minister, Kamal Nath, has repeatedly made it clear that he will not sacrifice the livelihoods of millions of small-scale farmers for the sake of an agreement.

South African Trade Minister, Mr Mandisi Mpahlwa, is facing serious political resistance from the union movement, particularly from the Congress of South African Trade Unions (COSATU). COSATU opposes the direction of the non-agricultural market access (NAMA) negotiations. COSATU says the proposals threaten thousands of jobs and would ruin the possibility to further develop an industrial base in South Africa. This has led to South Africa taking on the leadership of the NAMA 11—a group of developing countries fighting to reclaim space for development needs in the NAMA negotiations.

Trade Ministers from Indonesia and the Philippines, Mari Pangestu and Peter B. Favila respectively, have strongly defended the food and livelihood security concerns of their small-scale farmers, reflecting well-organized political demands at home. They have successfully resisted the aggressive push by the U.S. to limit the flexibilities available to developing countries in the form of Special Products and a Special Safeguard Mechanism for agriculture.

While the interests of organized lobbies from the U.S. and the E.C. are still predominant, it is clear that voices from developing countries are increasingly reflected in the negotiations. This is cause for hope. It is no longer possible, as was the case in the Uruguay Round, for a handful of developed countries to set the outline of a deal among themselves and then impose that on the rest of the membership. Continuing to strengthen the voices of people at the national level in trade debates so as to be able to influence their governments' trade positions is an essential step towards making the multilateral trading system more accountable.

III. THE TAKE-OVER OF BILATERAL AND REGIONAL TRADE AGREEMENTS: myth or reality?

Whenever negotiations in the WTO are stalled, anxiety among WTO members rises that a failure of the multilateral system will trigger a wave of bilateral and regional trade agreements (BTAs and RTAs). As a result, many WTO members are eager to resume negotiations as quickly as possible, whether the problems underlying the stalled negotiations are properly addressed or not, so as not to lose momentum at the multilateral level. Pascal Lamy's letter to trade ministers published in the International Herald Tribune on 27th July was no exception: "*There are clear signs*", he said, "*that the failure this week has already given rise to two phenomena that threaten the multilateral system: a shift in priorities to bilateral or regional agreements (...), and a surge in threats to achieve through*

our highly effective dispute settlement system what could not be achieved through the negotiations.”

Many developing country WTO members prefer multilateral trade negotiations because it provides a more balanced environment for developing countries to defend their interests. BTAs and RTAs tend to extract greater commitments to lower or remove trade barriers than the WTO (sometimes known as WTO-plus commitments) with less special and differential treatment to take account of development needs. BTAs and RTAs also tend to overlap, which creates a confusion of rules that complicate (and add expense to) traders' business. Many countries, reflecting the interests of their traders, prefer a harmonized global trade system, with as few rules as possible.

But will an immediate restart of the Doha negotiations lessen the threat of a renewed focus on bilateral and regional trade negotiations?

According to the FAO's 2004 State of Agricultural Commodity Markets Report: "The number of regional trade agreements (RTAs) has grown at a rate of 15 per year since 1995, more than five times the rate during the previous 45 years". The number of BTA and RTA negotiations has been at its highest since the WTO was established. Far from being alternatives to one another, the different trade negotiating forums are on parallel tracks, progressing in tandem. Even though a deadlock in at the multilateral level might increase the energy spent at a bilateral and regional level, they are not mutually exclusive. Rather, they are pursued simultaneously, as part of the same ideological push for deregulated world markets.

Regional trade arrangements can actually provide an opportunity for developing countries to expand their markets in the region and provide new opportunities for their producers. As FAO puts it, "in many developing regions, RTAs are seen as a vehicle for promoting and diversifying trade". Some problems do arise, however, when countries within a region are at very different levels of development. "NAFTA's impact on Mexican agriculture provides a stark reminder that RTAs can produce losers as well as winners, particularly when they include countries at different levels of economic development." (FAO, *State of Agricultural Commodity Markets* 2004).

Countries in South America have demonstrated that it is possible to resist the demands of developed country counterparts in BTAs and RTAs. The Bolivian government, for example, recently issued a paper outlining conditions it will impose on any further engagement in trade negotiations. The Free Trade Area of the Americas' talks stalled because the U.S. could not persuade Latin America to meet its terms. This resistance is a reflection of the strong campaigns by Latin American social movements and civil society organizations, which have had a significant influence on their governments.

Unfortunately, poorer countries like those in sub-Saharan Africa that are currently negotiating Economic Partnership Agreements (EPAs) with the European Union, face a much harder challenge. Many of the African, Caribbean and Pacific (ACP) countries have old colonial ties to the EU that are reflected in current trade patterns. These countries are

also often heavily dependent on preferences first granted by the EU under the Lomé Conventions (now the Cotonou Agreements). Civil society organizations both in the EU and in the ACP countries have a lot of work ahead to prevent the EC, on the one hand, striking a damaging deal for people in ACP countries, and, on the other, to pressure the ACP governments not to sign a trade agreement that does not serve development interests.

Yet the EPA negotiations will continue with or without negotiations on the Doha Agenda. The question to be posed for all trade agreements is less whether multilateral trade agreements are better than bilateral or regional trade agreements, or whether deadlock in one forum triggers movement in another. The central question is more whether the model of trade and the types of power relations that govern these different negotiations allow countries to fulfil their development and employment objectives. Unless countries start to tackle these fundamental questions they will continue to face opposition to all types of trade negotiations.

IV. A TIME FOR REFLECTION

The collapse of talks is an opportunity to set a new course. It is a chance for rich countries to rebuild trust with poorer countries. It is a chance for the WTO to rethink its role in the multilateral system. Governments need to make the WTO work cooperatively with UN institutions, looking to integrate trade into long-standing obligations to respect and promote human rights, to protect and rehabilitate our polluted planet and natural resource base, and to end the scourge of poverty.

For trade rules to have any chance of tackling these more fundamental issues, the mindset of governments, and particularly trade ministries, needs to change. Trade does not operate in a vacuum. Trade ministries need to be able to locate trade in a broader context. Trade ministries need to communicate and collaborate more with other ministries that are affected by trade rules, to ensure that proposals on trade policy do not undermine efforts to increase employment, build up industries and agriculture production, protect the environment, and improve access to health care. In addition, all ministries must be more aware of how trade policies affect them and engage more with the trade ministries in the formulation of trade policies at the national level. Without this change, trade negotiations will continue along the same trajectory, simultaneously at all levels – unilateral, bilateral, regional and multilateral.

It is time to think outside the box. WTO members have been given a unique opportunity to fundamentally change the course of the trading system. It is time for WTO members to confront the challenges and work towards a different model of trade that supports genuine development and employment objectives.

V. THE WTO GOES ON

Even though the Doha negotiations have been suspended, the WTO will continue to function. The WTO houses regular committees that monitor the implementation of the existing agreements. These will continue as normal.

The WTO's Dispute Settlement System will also continue to operate and is actually expected to increase its workload if WTO members decide to use legal measures to challenge the trade policy measures of other members. Oxfam has already released a report indicating that developing countries such as Chile, Costa Rica, Argentina, Kenya, Peru, Ghana, Zimbabwe, Uganda, Egypt, Thailand and Nigeria, could bring cases against the EU and US on rice, corn, sorghum, milk, butter, tobacco, fruit and tomato subsidies.

Governments are also expected to continue negotiations in two other areas, both technical assistance measures for developing countries: "Development-Assistance Aspects of Cotton" and "Aid for Trade." The Aid for Trade taskforce submitted recommendations to the General Council, which were adopted (see www.wto.org WT/AFT/1). The taskforce members and other donors called for members to approve continuation of the work of the taskforce.

VI. IMPORTANT DATES TO REMEMBER

20-22 September Cairns Group Anniversary, Australia
G-6 Ministers Meeting, Australia (tentative)

VII. DOCUMENTS

Aid for Trade Taskforce Recommendations:
www.wto.org WT/AFT/1

The WTO's Cotton Crisis and Crisis in Commodities, by Steve Suppan:
<http://www.tradeobservatory.org/library.cfm?refid=88579>

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