

The Have Not's Have It: Triumph Of Developing Countries At The World Trade Organization Meeting In Geneva

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ABSTRACT

In July 2004, 147 World Trade Organization (WTO) member countries met in Geneva where the developed countries agreed to cut back and eventually eliminate an estimated \$350 billion of their farm and export subsidies. The accord was hammered out by five WTO members including India and Brazil and submitted to the WTO's plenary session where it was finally ratified on July 31, 2004. The Fifth Ministerial Conference of the World Trade Organization held in Cancun in September 2003 collapsed from inside as internal squabbles and irreconcilable philosophical differences developed between the developed countries and the developing countries. The WTO, which started with noble objectives of raising the global standards of living through international trade agreements and cooperation among the WTO member countries, appeared to be teetering on the verge of a complete collapse. Over the past decade, through five ministerial conferences, the WTO member countries gradually got polarized into two main blocks, the "have's" and the "have not's", the developed countries and the still developing countries respectively. One of the important items of contention was the issue of reduction and elimination of the huge farm subsidies in the European Union (EU) and the United States (US). At the 2003 WTO conference in Cancun, 21 of the developing countries formed a group, known as G-21 initiated under the leadership of Brazil and India, and insisted on discussions for elimination of the farm subsidies of the EU-US combine. The EU and US governments give billions of dollars worth of agricultural and export subsidies annually to their farmers that allow them to have a competitive advantage in international markets in effect preventing agricultural producers in developing countries from having access to global markets. The EU delegates insisted that the four Singapore issues must be dealt with first before including any discussions on the issues of farm subsidies on the agenda. The G-21 over night swelled into G-70. The developing countries refused to be pushed into a corner and have proved that they are now a force to reckon with. The WTO Cancun conference came to a dramatic end without any agreement, leaving the negotiations in a deadlock. At the historic July 2004 WTO negotiations in Geneva, an accord has been reached under which the developed countries agreed to reduce and eventually eliminate their export and farm subsidies. The developing countries also agreed to lower their tariffs on imports from EU-US and other developed countries. The accord is expected to pave the way for the resumption of the WTO Doha Round of multilateral negotiations to liberalize world trade.

INTRODUCTION

The WTO is comprised of a multilateral trading system, developed through a series of trade negotiations, known as "rounds," held under the General Agreement of Tariffs and Trade (GATT). The last round of the GATT, known as the 1986-94 Uruguay Round, led to the creation of the WTO. The ministerial conference of the WTO member countries is the highest-level body for its decision making process, mandated to meet at least once in every two years. Some of the main objectives of the WTO are to raise the standards of living of the member countries, to ensure full employment, to expand their production of, and trade in,

goods and services and to improve trade in developing countries. These objectives are to be achieved in a manner consistent with the respective needs and concerns of the member countries at different levels of development. The overall objective of WTO is to liberalize global trade and to improve the welfare of people of the member countries. It provides a forum for governments to negotiate trade agreements and a place to settle trade disputes. All efforts to achieve the WTO objectives are made only through negotiations and all decisions at WTO are taken only by consensus among all the member countries (www.wto.org, 2003).

THE WTO MINISTERIAL CONFERENCES

At the first WTO ministerial conference held in Singapore in 1996, four new issues were raised which later became very critical and contentious and stalled the global trade negotiations in Cancun in 2003. These four issues were proposed by the developed countries for discussion, negotiation, and eventual implementation by WTO. These are Trade and Investment, Trade and Competition Policy, Trade Facilitation, and Transparency in Government Procurement. These issues were widely criticized by developing countries, as they would hurt the interests of poor and developing countries. A coalition of anti-global trade non-governmental organizations in Indonesia argued that, for instance, wider access for foreign investors to bid on government procurement would only cut local companies' chances to win the bid (Wulandari, 2003).

The Fourth WTO Ministerial Conference was held in Doha, Qatar in 2001. There, the WTO members agreed to begin a new campaign for liberalized trade rules, aiming to commit to a new round of tariff cuts and removal of trade barriers that should, in theory, increase trade and prosperity for everyone (Stokes, 2003). The Doha round came to be known as the "Development Round". The Doha Round declaration established a series of negotiating objectives and mandated that the Doha development agenda must be completed by January 1, 2005. The agenda items included agricultural subsidies, services, industrial tariffs, implementation, environment and Trade Related Intellectual Property Rights (TRIPs). The agenda also included the four controversial Singapore issues. One of the important items of the agenda is reduction and elimination of the huge agricultural subsidies in European Union (EU) and United States (US).

FARM AND EXPORT SUBSIDIES

According to Hernandez Allende (2004), there exists a hidden agenda of protectionism in the trade policies of developed countries. There is a contradiction between the rhetoric of free trade that is proposed by the rich countries and the zeal with which they are willing to protect certain of their own national industries from competition. As Ricupero (2003), secretary-general of United Nations Conference on Trade and Development, observes, "instead of open markets, there are too many barriers that stunt, stifle, and starve. Instead of fair competition, there are subsidies by rich countries that tilt the playing field against the poor." According to Palley (2003), the dominant issue at Cancun WTO ministerial was that of EU and US agricultural policies that are significantly protectionist and impose tariffs and quotas on agricultural imports. Furthermore, they give enormous production subsidies to their farmers. The result is overproduction and the surpluses are dumped on the global markets driving down prices. For example, Japan imposes tariffs on imports of rice equal to about 700% of production cost, thus shutting off rice imports from Thailand. The \$4 billion US subsidies to US cotton farmers helped to halve the world price of cotton between 1997 and 2002 bringing untold misery to some African countries that are heavily dependent on cotton exports for their export earnings. The total agricultural subsidies and protections given by developed countries to their farmers is estimated at \$300 billion. These policies are detrimental to the tenets of free trade and prevent developing countries from having access to the developed countries' markets (Palley, 2003).

THE COLLAPSE AT CANCUN

The Fifth WTO Ministerial Conference was held in Cancun, Mexico in September 2003. From the beginning, the trade talks at Cancun appeared to be doomed. When the text of the agenda items was released, delegates from the developing countries were dismayed to see that many of their pre-submitted items were left out. Some of these items were part of a detailed agenda that had been negotiated in preparation for the conference among the developing countries (Chafe, 2004). One of the important items left out was the issue of reduction and

elimination of the huge EU-US farm subsidies. The EU commission rejected the total elimination of all agricultural subsidies. Negotiators failed even to agree on the terms for liberalizing agricultural markets and no progress was made at the key September 2003 meeting in Cancun (Harris, 2004).

At the WTO 2003 Cancun meeting, 21 developing countries formed as a group, the G-21, under the initiative of India and Brazil, and insisted on negotiations for reduction of agricultural subsidies in the rich countries. The EU delegates continued to insist that the four Singapore issues must be dealt with first before any discussions on other development issues that are already on the top of the agenda items. The G-21 over night swelled into G-70. The developing countries refused to be pushed into a corner and proved that they are now a force to reckon with. The WTO Cancun conference ended in a collapse without any agreement, leaving the negotiations in a deadlock. As Stokes (2003) states, the WTO Cancun collapse marked a watershed for global dialogue on trade. Developing nations demonstrated unprecedented solidarity and power. As a result, the WTO may never be the same rich men's club again. The confrontation revealed a culture clash – a profound chasm in philosophy and self-interest between the rich and poor nations, the have's and the have not's, – over how best to capture the benefits and redress inequities in the trade globalization process. A G-21 proposal to reduce the EU-US farm subsidies and market barriers largely drove the agenda at Cancun. India in particular argued that its 600 million poor farmers could not survive if exposed to subsidies-backed competition from America's corporate farmers (Stokes, 2003). The developing countries led by India and Brazil stood solidly together to demand that there would be no acceptance of subsidies of the rich for their agriculture in exchange for concessions on the Singapore issues. India's minister Jaitley stated that India's investment policies could not be determined by WTO in Geneva (Punj, 2003).

CONSEQUENCES OF CANCUN

The WTO Cancun conference clearly demonstrated to the world that the chasm between the developed and developing countries on issues such as trade liberalization in agriculture and the four Singapore issues is too wide to be bridged. It is also obvious that the deadline, January 1, 2005 to complete the Doha Round negotiations cannot be met with. Cancun conference also underscored the fact that the principal areas of concern for WTO are agricultural subsidies and the four Singapore issues and that only a trade off between these two areas can lead to a compromise among the principal protagonists, the EU-US versus the 70 disparate developing countries. According to Ramachandran (2003), the EU also conceded that formation of the G-21 coalition at Cancun forced the WTO to rework its strategy for multinational trade negotiations. Prodi, the president of European Commission, remarked, "there is a common voice which has to be heard. When 21 countries with differing interests could join hands, they have to be listened to, especially as they account for half the world's population," (Ramachandran, 2003).

It is well established now, after the Cancun conference, that the poor countries can not only unite to protest their cause with respect to the multilateral trading system but can also withstand the most intense pressures brought on by the rich economies to split their unity. The developing countries refused to discuss the Singapore issues at Cancun because they felt that global agreements in these areas would further reduce the space for autonomy in their domestic policy. The Doha round of trade talks are slated to be a "Development Round", but the proposals at Cancun had less to do with furthering development than with furthering the mercantile interests of the advanced countries. The failures at Cancun reflect a loss of confidence in the WTO agenda. If the WTO is to win the confidence of the developing countries, it has to offer an agenda that addresses the concerns and interests of the majority of the WTO members. Mccafferty (2004) has made an interesting observation about Cancun. According to him, a huge disaster has happened at Cancun and most people did not even notice it. The deal at Cancun is supposed to be that the first world would give the third world something on agriculture, and the third world would give the first world something in the intellectual property rights. What the first world lost on the intellectual property rights is much bigger than what it gained in their continued ability to subsidize their farmers.

THE RECONCILIATION

Soon after the WTO collapse at Cancun, the developed countries at first wanted to punish the developing countries for their upstaging the rich countries. As Bush (2004) states, the US embarked on a retaliation trail with alacrity when the chairman of the senate finance committee warned that the US would take "note" of those countries that had "torpedoed" the negotiations at the Cancun conference. Another method of retaliation used by the US was

starting negotiations for bilateral free-trade agreements with individual countries. For instance, President Bush called for a US-Middle Eastern free-trade zone within the next decade. US had already made deals with Israel and Jordan and is in the process of negotiating with Morocco. As Bhagavati (2004) observes correctly, “what matters most is that the negotiators keep talking...Liberalization of agriculture cannot be achieved except through multilateral agreements... Most of the bilateral deals at present exempt agriculture and few exist between countries with competing farm sectors. So, the G-21, US, EU, and Japan have only one real option: Multilateralism” (Bhagavati, 2004). According to Magnusson (2003) also, the issue of the highly protected US and EU farm industries will have to be settled only in the WTO.

However, as Zedillo (2004) observes, the atmosphere of acrimony and cynicism that prevailed before, during, and after Cancun collapse has changed the course of WTO during 2004. The first sign of the thaw in the WTO environment came when the US trade Representative Bob Zoellick indicated a welcome departure from the notoriously protectionist US-EU joint proposal made a few weeks before the Cancun meeting which precipitated its failure. In January 2004, Zoellick sent a letter to all the member nations of the WTO in which he called for the elimination of export subsidies before a deadline, with the exact date, to be negotiated later. He also called for cuts in domestic farm support and reiterated the US position that developing countries also must open their markets to US farm products. He made it clear that US favors total elimination of tariffs for goods and also suggested that the Singapore issues of investment and competition policy be dropped from the agenda. He called for the frameworks for negotiations to be put in place by the middle of 2004 and for the WTO trade ministers to meet in Hong Kong before the end of 2004 to resume the Doha round negotiations (Stokes, 2004).

DOHA ROUND, RESUSCITATED AND THE HAVE NOT'S BEGIN TO HAVE IT

After the Cancun collapse, the WTO multilateral system was on the verge of being replaced with bilateral and regional trade agreements implying the certain end of the Doha Round. But, on July 31, 2004, what is termed as a “truly historic milestone” has occurred. On that day, a consensus emerged at the WTO negotiations in Geneva. An accord was hammered out by five WTO members – Australia, Brazil, the EU, the US and India - and submitted to the WTO’s 147-member plenary session which ratified the agreement. Under the accord, the US and the EU agreed to eliminate agricultural export subsidies and to make substantial reduction, starting with a 20 per cent cut, in domestic farm supports. Developing countries too, led by India and Brazil, agreed to lower barriers to trade in manufactured goods and services from the developed countries (Barone, 2004). Beyond doubt, the WTO Doha Round has been resuscitated from the 2003 collapse in Cancun. It is put back on track, paving the way for resumption of negotiations next year in Hong Kong on the more critical issues of liberalization of global trade that would be equally fair to both developed and the developing countries. It is also evident that the close unity among the developing countries held on even under extreme pressure and was largely instrumental in forcing the developed countries, mainly EU and US, to come down from their inflexible positions and agree to eliminate export subsidies, reduce a variety of domestic farm subsidies, and make disproportionate reductions in high import tariffs. The 2004 Geneva accord is far more supportive of the interests of developing countries than the proposals suggested at the Cancun Round. Under the Geneva agreement, the developing nations can make less than proportionate reduction in import duties on farm products, take emergency measures to control imports, and continue to provide financial support to domestic agriculture if they can afford to do so (The Hindu, 2004). Another positive outcome of the Geneva agreement is that the EU has finally agreed to drop three very controversial Singapore issues – foreign investment, competition policies, and transparency - from the Doha agenda. Out of the original four Singapore issues that wrought so much havoc at the Cancun Round and threatened to wreck the Doha agenda, only trade facilitation – harmonization of customs procedures – remains on the agenda (The Hindu, 2004). As Deccan Chronicle (2004) editorializes, “the new (WTO Geneva) accord helped highlight the point that affluent nations cannot forever exploit the weaknesses of the poorer nations to enrich their own economies through discriminatory trade practices”.

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Notes