FACTS against MYTHS

VIKAS ADHYAYAN KENDRA | JUNE–JULY 2003 | INFORMATION BULLETIN

WTO: Whose Trade Organisation?

The Myths Behind the Cancun Ministerial Conference

"America's might and light emanate from our political, military and economic vitality. Our counter-offensive must advance US leadership across all these fronts...Economic strength – at home and abroad – is the foundation of American's hard and soft power".

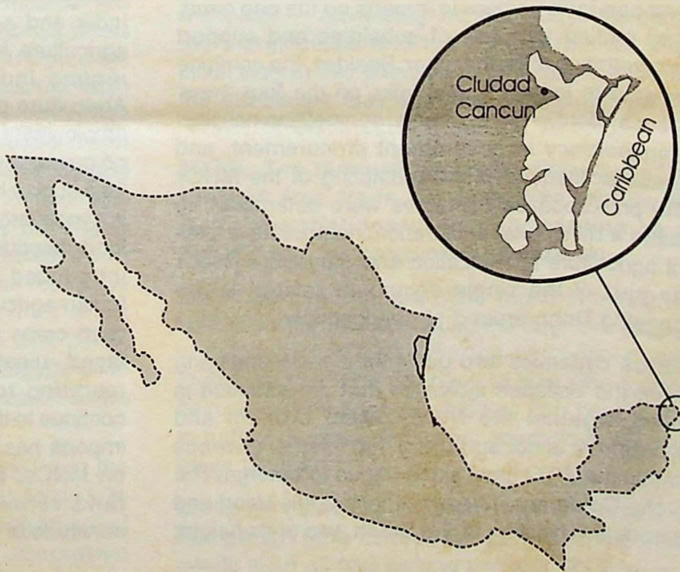
— Robert Zoellick in the Washington Post, 'Countering Terror with Trade'

"The events of September 11 are a turning point to international economic and political order and to the globalisation process itself".

– Klaus Schwab, President, World Economic Forum, at the CII Conference, Mumbai, on December 3,2001

COMMENT

The collapse of the 5th Ministerial Conference of the WTO at Cancun is a major setback for the North headed by the US and the EU. The failure means that it failed to sledgehammer the South into submission over the "draft ministerial declaration" which essentially supported their own vested business and trade interests at the cost of the majority of world's poor. Secondly, it signaled the South to now be cautious of joining any US-led initiative e.g. joining the FTA bandwagon given the commitment that the South has to undertake reforms in a wide range of areas of interest to the US without any corresponding reform, for instance, of the heavily subsidised US and EU agricultural system. Thirdly, the collapse also meant that the South partly succeeded in challenging the free trade regime inspite of the concerted machinations of the US-EU led group. Thus, the 5th Ministerial Conference was a major departure from the previous four



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ministerial conferences apart from being merely a conference for stock taking. First, the coalition of the world's poorest countries all succeeded in articulating their respective positions on some of the most contentious issues in the WTO Agenda. These countries were the Africa Group, the Caribbean Group, the group of poorest countries the G-22, the group of poorest African countries that are traditionally cotton growers. Second, the South led by Brazil, India and China presented their alternative proposals which systematically exposed the duplicity of the Draft Ministerial text that fully ignored the implementation issues of vital relevance to the South. Moreover, with the exception of isolated vacillators like India and deserters like El Salvador, led by the Africa Group and the Caribbean Group, the G-22 group did succeed in articulating the position of the South. While Brazil took the strategic leadership in resisting attempts at agriculture trade liberalisation, it was Malaysia, which was at the forefront in rejecting the Singapore issues from the Agenda. They were also strong in the demand in terminating subsidies that rich countries provide to their farmers which, in turn, adversely affect poor farmers in the South. They also demanded that new issues, unrelated to trade must not be part of the WTO negotiating agenda. Finally, a group of the poorest African countries strongly opposed the draft text, which fully sub-served the interests of American cotton growers.

Right from the outset, the US-EU combine tried to keep their agricultural subsidies, estimated at $300 b., intact while prying open the agricultural markets of poor countries by totally eliminating all kinds of national protection composed of both tariff and non-tariff barriers to imports on the one hand, and ending all kinds of subsidies and support programmes of on the other. Besides, the combine wanted to launch formal talks on the four "new" issues – foreign investments, competition policies, transparency in government procurement, and trade facilitation. At the prompting of the MNCs the pro-Globalisation forces were determined to issue a ministerial declaration incorporating rules of agriculture liberalization and Singapore issues as part of the single document related to the ongoing Doha around of negotiations.

These dynamics and powerful signals emerging from the collapse indicated that the situation is tilting against the North power brokers and therefore it is not surprising that internal divisions within the WTO have since begun to emerge. The Doha Conference clearly reflected this trend and where arm twisting of the South was at its height; to bully countries which had previously stood up against their trade and investment agenda.

Significantly, the Doha Conference was held in the wake of the barbaric attack on the World Trade Centre, New York. The tragedy was manipulated for a number of underlying motives. It became a pretext to boost and promote the aims of the free traders, their neo-liberal agenda and the institutions that promote it. The equation, 'support in the war on terror = support for free trade" became their rallying cry, conveniently equating it as support for neo-liberal globalisation. It helped in manufacturing the tall claim that through the enforcement of a set of rules and cooperation through global trade WTO contributes to world peace vis-à-vis resolving global conflicts. Since then, the wordgames about terror and free trade continues unabated. (Incidentally, Day 2 of the Cancun Ministerial fell on the 2nd Anniversary of 9/11!). Finally, 9/11 was used to ram through Fast Track (now dubbed Trade Promotion Authority). Under it the US House and Senate have only 20 hours to debate a lengthy, complex track or investment agreement. The US Congress must vote the entire agreement up or down with no room for amendments![1]

Lest it be forgotten, the GATT had initially dealt only in trade in goods. Many governments used tariffs, import controls or quotas on imported goods as a way to build and protect their local industry, economy and jobs. But under free trade agreements, the removal and reduction of tariffs have led to de-industrialization, the closure of countless domestic firms, job losses and a loss in revenue for government. Such trade measures adversely impact the South in the long run. For India and a number of countries in the South, agriculture is extremely crucial. Under the WTO regime India is one of the worst affected. Agriculture production is critical as key source of employment and food security. Because there are no guaranteed alternative sources of employment for a such a large number, large scale food imports is synonymous with importing unemployment and food insecurity. The link with global market has introduced an unprecedented vulnerability in Indian agriculture. Farmers chasing the mirage of cash crops and (direct or indirect) exports have faced ruination; a number of them have been resorting to suicide and suicides of farmers continue to this day. The component of agricultural imports has increased leading to its dependence on MNCs. The GMO seeds like the terminator (and verminator) have pushed farmers into servitude of these mega corporations. And the US

Aspects of the Sustainable Development Paradigm[2]

- The liberalisation of trade, to have an impact on poverty eradication, must be embedded in a comprehensive national development that prioritizes domestic markets as stimulus for growth over global markets;
- Countries must be free to choose the types of investments to safeguard against de-industrialisation, closure of industries, job losses as well as destruction of natural resources. A socially just global trade system must honour all the rights and welfare of workers and farmers who produce wealth and provide goods and services and not result in their impoverishment;
- Granting poor countries duty and quota–free access to the market of the North with significant reduction in trade-distorting farm subsidies by the US and EU;
- Develop an efficient and equitable global system for patent rights;
- Impose trade sanctions against industries for environmental violations so as to ensure that environmental costs cease being externalities for India's economic growth;
- Provide space for representatives of organised civil society sectors to participate in the WTO rule-making process including intervening in their dispute settlements;
- The dispute settlement system must prioritise the development needs of the countries especially those most vulnerable, over whether or not free-trade rules are being violated; and
- Seeds, plants, organisms and drugs should be exempted from TRIPS so as to preserve basic health care and agricultural systems in the South.

use institutions like the WTO to openly support these mega American biotech/agri business corporations; promoting genetically modified seed, grain and foodstuff into Indian and other markets, field and stomachs.

These policies, among others, have naturally led to much opposition and mass demonstrations worldwide. Institutions which enforce and promote neoliberal globalisation have had to face the wrath of countries of the South. Such opposition has since led the WTO machine to choose major conference venues for their inaccessibility and relative ease to secure. The choice of Cancun was no exception to this rule! This tiny but highly militarized island is also an exclusive beach resort for the rich and the super rich. Despite the heavy barricades mass demonstrations in front of the 8ft high metal barriers of the venue took place. On September 10, a South Korean protester killed himself and others fought riot police as Ministers opened global trade talks.

In the light of the above, it is essential that the task and the challenge for global civil society is to redouble its efforts to dismantle the structures of inequality and to push for alternative arrangements. This involves in not just dismantling spurious claims like "support in the war on terror = support for free trade" but also calling for a paradigm shift — from a "trade-creates-wealth" to one based on sustainable development — that ensures the long term sustainability of natural resources — advancing the interests of the poor, the marginalised and the disempowered[2]. The initial step in this direction is to uncover some of the tall claims that were tom-tomed on the 5th Ministerial Conference at Cancun, Mexico.

MYTH: ***The removal and reduction of tariffs, through free trade, is a positive feature in trade negotiations ultimately serving as a major boon for consumers worldwide.***

FACT: By negotiating a trade round in industrial tariff reduction without noting the negative impact of past and future tariff reduction, and without clear guarantees they do not have to liberalise further beyond what the local industries can bear leads to further de-industrialisation, unemployment and mass poverty

Moreover, many countries like the US, Japan and Europe still have controls or quotas on imported goods such as textiles and clothing. To illustrate, one carrot dangled in front of many poor countries of the South was the phaseout of the Multi-Fibre Agreement (MFA) and its replacement by the WTO Agreement on Textiles and Clothing. What has happened with the MFA helps to illustrate the frustrations of any governments in the South about the promises of growth and prosperity under trade liberalisation that were made to them, and the reasons why many have consistently been asking for a review of existing agreements before any expansion of the WTO.

Since 1974, the MFA had set the rules for global trade in textiles and garments made from cotton, wool and synthetic fiber. It set quotas limiting the amounts of imports of textiles and clothing from the "developing" to "developed" countries. Many small and medium garment firms either became part of mega TNCs' subcontracting chains or shut down.

The phase-out of the MFA and its quota system, which is supposed to bring textiles and garments trade under the WTO, was sold to exporting countries in the South as a great altruistic deed or sacrifice by the industrialized North. Along with promises about improved market access for agricultrual products, it was used as a lever to force the South to make commitments to the WTO agreements on trade-related invement measures, intellectual property and services, and to agree to lower tariffs. This kind of horse trading characterizes trade negotiations.

The MFA phase-out has led to uncertainty for the future of the garments and textile industry in many countries. The 10-year phase-out period which ends at the start of 2005 has been characterized by tardy implementation by the EU and the US, and new forms of barriers to prevent imports from the South, including more restrict rules of origin, and anti-dumping measures. Meanwhile countries in the South have committed to open their own markets for textiles and clothing[1].

The Agreement on Textiles and Clothing (the Alternative to the MFA) and its implementation is a clear cut con against the South. With the downward pressure on wages and conditions, the withdrawal of supports for local industry, trade and investment liberalistion and the imposition of an export-oriented market economic model trough SAPs workers in the North and South alike have seen their jobs disappear in the inhuman rush to maximise profits.

MYTH: ***The collapse of the Cancun conference was due mainly to the intransigence of South over some of the contentious issues.***

FACT: First and foremost, it was mainly tahe EU and US who are the main culprits for the collapse. Not the countries of the South!

When the second revision of the draft of the Ministerial text appeared early on September 13, it was clear the that the US and the EU who were most unwilling to make any significant cuts on their high levels of agricultural subsidies even as they continued to demand, intransigently, that the South reduce their tariffs. It was also clear that the EU and US were determined to disregard the Doha Declaration's stipulation that the explicit consensus of all member-states was required to begin negotiations on the so-called new issues of investment, competition policy, government procurement and trade facilitation. "Negotiate on our terms or not at all"—that was the message of the second revision. Not surprisingly, the South couldn't lend their consensus to a framework of negotiations so detrimental to their vital interests.

While it is true that posturing took front seat at Cancun — particularly by countries such as India, — the two trade majors also did not create a conducive situation, playing games on the first three days by saying one thing to one group and totally different things to others. In retrospect there were other factors responsible for the collapse. First, the issue of agriculture was not properly handled. The major industrialised countries e.g. the EU, Japan, Korea, Switzerland and Norway were unhappy and not prepared to show their cards util the outcome on the 4 Singapore issueds. Finally, when the EU trade commissioner Pascal Amy sought the dropping of the two of the Singapore issues — trade and investment and trade and competition policy – it was disliked by others e.g. Japan and Korea. Further, the US was not happy with the cotton initiative raised by four west African countries – Mali, Chad, Benin and Burkino Faso – as it involved a substantive downpayment and also rubbing the powerful American cotton lobby on tahe wrong side with election not too far away. The language of the formulation on this issue was not acceptable to their the 4 African countries or the US. Finally, the G-22 countries, especially India, had its share of responsibility for the final outcome. Along with the Philippines India did not share the farm export interests of Brazil and were pulling in the opposite direction. The result was that the G-22 was unable to adopt a cohesive stance in some key areas like market access[3].

Although it was a crucial factor in the negotiations agriculture was not the main reason for the collapse of the talks at Cancun. The collapse was

The Bane of Export Subsidies

Export subsidies in the US constitute the most egregious form of trade distortion. With reference to cotton the US has been the main culprit, whose subsidies lead to direct loss of income running to over $6 b. to farmers in West Africa viz., Chad, Benin, Burkina Faso and Mali. Their demands are clear: the US must phase out its massive subsidies on cotton cultivation and, over the period of transition, pay appropriate compensation to the countries that suffered its worst effects.

Faced with a very simple and straight forward demand, the US changed the subject! Trade negotiator Zoellick argued that quotas on textiles and garments. exports were sheduled to end by January 2005 and this provided cotton-growing countries with great opportunities for diversification. If the US proposal on cutting all tariffs on textiles and clothing were also accepted, the market would gain a fresh stimulus. US consumers, for their part, accounted for 22 per cent of all cotton textiles purchased worldwide[4]. While demand in much of the world declined through the 1990s , US consumption rose by the torder of 70 per cent. Without this important source of demand, world cotton prices would have been depressed by upto 17 per cent.

* Farmers in the South are, if not in a majority, still a sizeable minority of the population. In the North they are statistically insignificant. Farmers in tahe UK make 1 per cent of the population. While farmers in the South are over-exploited, those in the North are cosseted. For instance, the USA pay out $4 b. in subsidies to 25,000 cotton farmers. And this is not about sharecroppers in dungarees and staw hats wielding hoes. These people are getting $160,000 a head.

The implication of this line of argument was clear: US cotton subsidies undoubtedly hurt the farmers of from the American government. $ 4 b. is actually more than the entire crop is worth! As a result – because nobody actually wants to buy this cotton – it is sold at a loss ("dumped") on the world market. Peasants in countries like Mali in West Africa are literally driven to starvation by US cotton displacing what ought to be their export crop.

* In Europe, the EU subsides sugar geet producers to the tune of $1 b. "Our boys" manage to produce the goods at £430 per ton, while cane sugar can be bought in the South for £175. Nothing for it but a slap a tariff of 140% on imported sugar to enable the likes of the beet barons in East Anglia to survive. This is a crop that would not be cultivated in Britain if there were a genuine free world market! Yet, again, the surplus is dumped on the world market, impoverishing the poor farmers of the South. The EU negotiates as a bloc. But it is downright insulting when negotiator Pascal Lamy assures his constituency that what he is putting forward is in "our" interests in keeping the "third world" farm products out of Europe?! But "his" constituency has never been asked, and the Common Agricultural Policy is costing them a great deal. In reality the EU trade mission has been captured by the interests of a handful of rich farmers from France and Ireland. Overall, the US and EU featherbed rich farmers at home with $400 b. per annum. Most of this money on the other hand destroys the livelihoods of the masses of poor. This costs the North 8 times as much as the aid they fund the South with.[5]

Africa but without the US consumers, cotton growers everywhere would be plunged into acute distress. This presumably gave the US the right to dictate what the solution to the problem should be: An initiative coordinated across the WTO discussion on agriculture, non-agricultural market access and rules, to "address the impact of distortions that exist in the trade of cotton, man-made fibres, textiles and clothing to ensure comprehensive consideration of the entirety of the sector.

primarily to the Singapore issues. The South had expected that preferential treatment would be given to the negotiations on the agricultural issues, particularly the issue of eliminating the trade distorting EU and US Agricultural subsidies. Instead, the Singapore issues were given top priority over the agricultural issues. This, inspite of the fact that there was no agreement on whether members were going to launch negotiations on the 4 Singapore issues or not. Moreover, they had formally presented a letter on September 12, to the Canadian minister P. Pettigrew, the facilitator of the Singapore Issues working Group and Mexican minister L.E. Derbez, Chairperson of the Conference, clearly stating that with the absence of explicit consensus, there is no basis to commence negotiations on the four Singapore issues. Despite these communicated views of the South, the Draft Cancun Ministerial Text (second revision) of September 13 mandated

What Cancun Was All About

The WTO's 5th Ministerial Conference took place in Cancun, Mexico, from September 10-14,2003. Delegates hailed from 146 countries to discuss issues of freeing multilateral tarade.

The Agenda

At Cancun, the agenda included 4 new issues, viz., investment, Competition policy, transparency in government procurement and trade facilitation as well as a number of on-going talks on issues

like agriculture, market access and drug patent rules.

India's Stand

India's original stance was that investment and like issues have no place in WTO. Later this position that was taken by the then commerce Minister, Murasoli Maran, was diluted by the current Minister, Arun Jaitley.

India demanded a large chunk from tahe talks

Summits, Summits and... Summits!

Singapore: The first WTO meet in December 1996 complicated things by launching studies on trade and investment and trade and Competition;

Geneva: The second conference in May 1998 took on the additional work of Agreement on electronic commerce;

Seattle: The third meeting in 1999 collapsed without making any progress

Doha: The 4th Ministerial in 2001 made no real progress in fixing the agenda or plan of action. The rich and powerful North tried to broaden the agenda.

that negotiations clearly begin on two of the Singapore issues i.e. transparency in government procurement (para 16) and trade facilitation (para 17). Negotiations were also launched in a thinly disguised way on the to the other two issues i.e. investment and competition.

Agricultural protection is a life and death issue for farmers in the South.

MYTH: ***Bilateral free trade agreements are now a more effective and pragmatic mechanism for global trade than the present and complex multilateral trading system.***

FACT: This is a false choice! The WTO is not a neutral set of rules, procedures, and institutions that can be used defensively to protect the interests of weaker players. The rules themselves — the main ones being the supremacy of the principle of free trade, "most favoured nation" clause (that countries must provide to all partners the privileges they prove their most favoured partner) and the principle of "national treatment" (that foreign service providers must have the same rights and privileges as domestic providers) – institutionalise the current system of global economic inequality. Besides, the trouble with a deal between two countries is this: If the US allows Chilean goods, for instance, into the US, that means it is locking out the other 144 countries in the WTO! This is the argument for multilateral negotiation. Moreover, in such negotiations the US will hold all the cards.

True to this threatened claim, the US is to begin negotiating a series of bilateral deals with small countries. (The US has already signed free trade agreements with Chile and Singapore).

The weak countries have only a few weapons. The principle of special and differential treatment for the South (that they must have a different set of rules from the North owing to historical and structural differences) which was institutionalised in the GATT, has a very weak status in the WTO. At Cancun, the US and the EU completely banished from the negotiations this special and differential treatment agenda that had been mandated by the Doha Declaration. Clearly, the WTO is not an authentic multilateral organisation. It is a mechanism to perpetuate the US-EU condominium in the global economy. Hence, its convenient demand for bilateral negotiations.

MYTH: ***The collapse of the trade negotiations at Cancun was a major victory for India.***

FACT: On the contrary! As pointed out above, India's position at this Conference was defensive in character. This cannot be deemed as a victory!

The Indian government was not only reluctant to initiate any steps to reassert and reclaim the right to impose QRs on imports but continues to be reluctant. It is reluctant re-assert lest it should invite the displeasure of the EU-US axis. It is well known that at the last moment at Cancun India was even willing to toe the American line. For instance, even while keeping a rhetorical posture, Arun Jaitely, the Indian commerce minister who led the Indian delegation had reportedly conveyed to the Bush administration that he was willing to negotiate on two of the four Singapore issues, namely, government procurement and trade facilitation. Later, he tried to rationalise the Government position.

MYTH: ***Apart from their intransigence on the negotiations the South also oppose trade as such.***

FACT: On the contrary! The South is not against trade as such. What it desires and demands is trade on the basis of equality.

What the South is vehemently against is the rigid protectionist measures maintained by the rich countries that curb economic and social development in especially small economies lacking a mass internal market. Secondly, the insistence of norms and rules to international trade, instead of favoring the South, weakens them as it allows the powerful to impose far-out rules on the weak ones.

The South is indeed keen in the existence of a trading system but one that is balanced, fair and *multilateral, following rules that are common to* all countries and that allows global trade to stimulate all-round development and not economic annexation which the current trading system is all about.

The option of a multilateral trade system must take into account the existence of development asymmetries among nations. That is, there can be no free trade, with equal taxes, involving countries that are hopelessly unbalanced in terms of development. It is absurd, therefore, to maintain that tiny countries like Burkina Fasa or Bangladesh maintain the same trade taxes as Sweden or Switzerland.

MYTH: ***Through the active promotion of global trade and economic cooperation among the nations of the world the WTO contributes to global peace and economic prosperity and resolving major global conflicts.***

FACT: On the contrary! The real danger emanates from the massive inequalities and injustice wrought by neo-liberal policies, which are bringing about more instability, more popular unrest, more desperation, and more conflict.

Inspite of such claims and its rhetoric about a common set of nutral rules for all members militarily and economically, the US maintains a die-hard unilatralist approach whenever it sees fit. In its invasion of Iraq, for instance, there is an ongoing and intense battle on behalf of the US TNCs to control not only the main Iraqi resources but also the profits flowing from these resources particularly oil. USAID awarded "reconstruction" contracts to corporate supporters of the Buh Administration. On August 3,2003 the Press Herald reported.

If so, the war will not only be proven to have been considerably about oil, after all, but the Bush administration's imperial ambitions will be shown conclusively to have a major economic component in the form a corporate tail wagging the US government dog".[6]

Thus, contrary to this myth, militariisaton and enforcing free market disciples are weapons to make countries "safe" for foreign investors, at the expense of local communities' rights to determine their own future. The US armed forces including the security agencies serve as the muscle of the free market economy.

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Three Kinds of Subsidies under WTO : The Anomalies

Amber Box subsidies (such as the payments made by the US government to its cotton farmers to cover market loss, or payments made to encourage farmers to produce cereals in the EU) significantly distort production and trade. This is because a subsidy can influence the price of the product and the quantity produced, and therefore the trade in it. If one uses this role a subsidy plays as a kind of thumb rule.

Blue Box subsidies are those exempted (because subsidies can also be used to limit production). Such subsidies include, for example, what the government pays to farmers so that s/he limits the area on which s/he grows a particular crop, or the livestock bred. These subsidies are considered less trade-distorting.

Green Box subsidies. These are considered acceptable, because they are either not trade-distorting, or minimally so. A good example is money given to farmers that acts as an incentive for them to not damage the environment, or money spent in building rural infrastructure. Such subsidies are not required to be reduced. There is also no limit to the extent to which subsidies can be provided under this box. This is precisely what makes the Green box controversial.

Consider the recently unveiled EU reform of its common agricultural policy. In the policy, subsidies on production-related factors have been reduced. At the same time, the farmer will receive more subsidies if the farmer undertakes environmental protection measures, animal welfare measures and higher health and food safety standards. Therefore, now the EU can say that it has reduced trade distorting subsidies.

Fact of the matter is, the farmer's cost of production remains as low as before. Only this time, no nation on earth an challenge the EU because now, it has begun to provide Green box subsidies. Fact of the matter is, it has merely shifted its subsidies from one box to another.

Hence, this categorisation is considered an anomaly. Subsidies in any form, distort trade.

Source: Down to Earth, October 15, 2003 (www.downtoearth.org.in)

Facts Against Myths is a monthly bulletin of factual information on a number of development myths and fallacies, etc, including information against alien development models, paradigms and false concepts on caste, creed and gender.

Produced and Published by :
Vikas Adhyayan Kendra
D-1 Shivdham, 62 Link Road,
Malad West, Mumbai 400 064, **INDIA**

☎ : 882 2850 & 889 8662 **Fax :** 889 8941
Email : vak@bom3.vsnl.net.in

Design & Layout : Kartiki Desai

Printed by: **Omega Offset,** No 40, Yashwant Yihar, Nanawadi, Belgaum 9. ☎ 0831–424124 / 433429

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