FACTS *against* MYTHS

VIKAS ADHYAYAN KENDRA | Vol V # 8/99 | INFORMATION BULLETIN

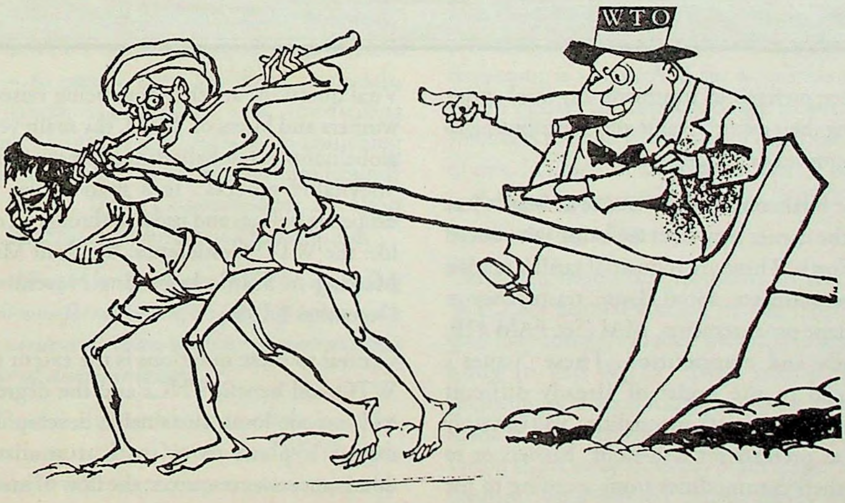
WTO's Roundup :
The "Millennium Round" MYTHS

COMMENT

Way back in 1947 the North with the aim of regulating global trade established the General Agreement on Tariffs and Trade, GATT. Since then its members met regularly to negotiate lower trade tariffs on goods. With the Uruguay Round negotiations (1986-92) GATT expanded to include other interests, such as the "harmonisation" of standards, free global investments and IPRs. The so-called new GATT led to the establishment of World Trade Organization (WTO) on January 1, 1995, to oversee many other aspects of global trade (see box pgs. 2&3).

Since then economic globalisation (the increasing global inter linkages of the markets in goods, services, capital and finance) has taken over, with disastrous impact, the various development spaces of especially the economies of the South. The South has been, in fact, losing everything: custom tariffs that proteced their emerging industries and produced revenues; agreements on basic commodities; producers' associations; rice

WTO & Indian Agriculture



The World Trade Organisation (WTO)

History: The WTO's was created at the end of the Uruguay Round of international trade negotiations. The agreement was formalized in the final act of the Round, which was signed by trade ministers in Marrakesh(Morocco) in April 1994. Launched on January 1, 1995, it replaced GATT which had acted as an interim world trade watchdog since 1947.

Status: WTO is officially defined as the legal and institutional foundation of the multilateral trading system. Unlike GATT, the WTO is a permanent organisation created by international treaty ratified by the governments and legislatures of member states. As the principle international body concerned with solving trade problems between countries and providing a forum for multilateral trade negotiations, it has global status similar to that of the IMF and the World Bank.But unlike them, it is not a United Nations agency although it has a comparative relationship with it. Its underlying documents are the General Agreement - a 38 - article code aimed at ensuring 'open and fair trade' in goods, services, agricultural produce and textiles .

Basic Principle: Most favoured nation (MEN)- Article 1 of the General Agreement - which binds all members to give equal treatment to the products and services of all other WTO states.

The membership applications of others are being examined by working parties of present members to see if applicants' domestic trade laws and practices conform to WTO rules. Notable among these are China, Russia, Taiwan, Saudi Arabia and Ukraine. The entry of all pending applications will bring in practically every state that engages in foreign trade. The possible membership of Iran, Iraq. Libya, Syria and North Korea have been cast in doubt, mainly due to pressure from the United states, which sees them as 'Rogue States".

WTO bodies: Two key units are the Dispute Settlement Body (DSB) and the Trade Policy Review Body (TPRB) the DSB, on which all member countries can sit, usually meets twice a month to hear complaints of violations of WTO rules and agreements. It sets up expert panels to study disputes and decide if the rules are being broken. The DSB's final decisions, unlike those of similar but les power ful body in the GATT, cannot be blocked. The TPRB is a form for the entire membership to review the trade policies of all WTO states. Major trading powers are reviewed every two years, others every four years.

Other major bodies are the Council for Trade in Goods, the Council for Trade Services and the Council for Trade Related Aspects of Intellectual Property Rights.

indexation; preferential treatment; any mechanism protecting their exports' value and contributing to their all-jround development.

With the forthcoming Conference at Seattle just around the corner new isues are being introduced by the North. These are industrial tariffs, market access, e-commerce, social clause, trasparency in government procurements, MAI (See FAM #10, 98), trade and competition. These "issues", introduced in the midst of already difficult conditions fraught with inequalities, will certainly be used as pretexts for non-tariff barriers or to prevent their commodities from acceding to the market.

Vital questions are therefore being raised on the winners and losers of WTO, the main vehicle for globalisation. Globalisation, however, is not an 'inevitable process'. It is man-made, through deliberate policies and peddled through at occasions like the WTO Conference, the third Ministerial Meeting in Seattle beginning November 30 to December 3,1999.

Central to these questions is the extent to which WTO will benefit TNCs and the degree that it will impede local, sustainable development; the extent it plans to re-institutionalise global dominance over resources; the flow of investments and empower monopoly control of technology.

Behind the facade of removing non-tariff barriers to trade and "harmonising" domestic regulations WTO threatens to bring about a lowering of environmental, health and safety standards. Its present autocratic structure lends itself to greater influence by TNCs with continued restricted input from citizens of the South.

In short, through the WTO, the North is going all-out to totally open up wider opportunities for the TNCs to seize larger and larger share of the markets and business of local firms in the South converting it into an immense Free Trade Zone (FTZ). They are proposing an investment agreement that will prevent governments from regulating the entry and operations of TNCs (thus allowing maximum freedom to foreign firms); a competition policy agreement that would disallow governments from favouring local industries (on the grounds that this impedes free competition by TNCs, etc.); and a procurement agreement that will eventually prohibit governments from giving any advantage to local firms in government contracts, supplies and projects.

What is presently taking place at Geneva has thus vital strategic relevance to South. The pressures being piled on the South by the powerful negotiating machine of Europe, the US and Japan are enormous. Between now and December, most of the key decisions will be taken by the diplomats at the WTO on what the Ministers will decide in Seattle. It is this concern that has spurred TUs, mass organisations, human rights and environmental groups, NGOs and concerned citizens the world over to mount a massive campaign against the North — to expose their invidious proposals, surreptitious maneuvers, and tenditious machinations against the South — in launching the so-called new WTO or "Millennium Round" (coined by EC Trade Commissioner Sir Leon Brittan). But this is nothing but a turnaround.

MYTH: *All member countries of WTO, including the South who form the majority enjoy equal voice in the consensus decision-making process without any form of discrimination.*

FACT: These decision-making processes, however, are undemocratic. The North uses WTO trade sanctions and rules when they are convenient for them or falling back on unilateral trade power when it is more effective in dominating the economies of the South.

Even a draft agreement is never sacrosanct to the North. After the final signing of a WTO agreement, these countries seek to make further changes. Social and environmental clauses get introduced that appear to promote worker's rights and environmental protection. However, these causes do not control trade in toxic material like pesticides or regulate the labelling of toxic, hazardous and genetically engineered foods. The North consider such issues to create "trade-distorting" barriers to their industries.

National governments are legally bound to adhere to decisions on crucial issues that affect national sovereignty, social and cultural values and public policy or face the threat of economic sanctions. For TNCs the agreements under WTO are likely to create a friendly trading environment replete with centralized decision–making authority, increasingly uniform standards, greater access to resources and increased mobility of capital. Conversely, the WTO presents a hostile environment in which to elevate and achieve social objectives.

Consider the case of decisions that are supposedly taken by consensus by various specialised bodies of the WTO which also include the Dispute Settlement Panels and the Appellate Body.

In this scheme, a country wishing to oppose a harmful proposal can be effective provided it puts a formal opposition at the time a decision by consensus is sought. And for a positive action, it has to muster the support of the majority of the Members present. In the case of the South nothing of this, in practice, takes place. This is partly due to the actual operation of the whole WTO process in considering a dispute.

Generally, important proposals in the GATT/WTO are normally made by the North. After they have formally made a proposal in a particular body in the WTO, there would be some preliminary observations by some delegations made in a non-committal manner. Thereafter the action shifts away from the main stage. The main sponsors hold limited consultations with some

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delegations, first trying to consolidate support and then involving the others to soften their possible opposition. Invariably these consultations are limited to a small number of delegations; the ones selected for participation being those that may have a keen interest in the subject or those that may be vocal in opposition in the open forum. A very large number of countries of the South are left out of this process of consultations which are practically full-fledged negotiations held behind the scenes in small groups.

In the meantime pressures are being applied on the South that opposed the proposal. The technique is to win over the opponents one by one either at a bilateral level in the capitals or on delegations at Geneva. And finally the hardcore opponents are left with the option of either keeping mum or withholding consensus in the open consultation. Very often they do not want to incur the political cost of formally opposing a decision at the end, if they are left alone or are in a very small group. The decision is thereby taken in the open meeting by consensus.

In these small group consultations and negotiations the Quad countries (Mafia?) countries (the US, the EU, Canada, Japan) are always present. Switzerland as the host country is also invited. Besides, either Australia or New Zealand, if not both, gets included. Thus, the scale is very much tilted against the South,not only by way of economic and political clout, but also, quite ironically, the weight or numbers.

Transparency & Participatory Function: This is another eye-wash as far as the South is concerned and who get called in the proceedings of the Consultations either at the very beginning and or at the close of any negotiations. Yet, without active involvement in the actual negotiations, the South must abide by the obligations imposed by these decisions. To illustrate:

- At the first Ministerial Conference at Singapore from December 9-13, 1996, the 'Open Part' of the Conference was the plenary session where Trade Ministers of 127 countries made speeches. But ambarrassingly enough, the Ministers were speaking to an increasingly empty hall. There were no discussions at all on their speeches, and thus no opportunity to seek solutions to the problems raised.

Meanwhile the 'real' negotiations on vital issues went 'underground' in many informal meetings to which only selected countries were invited. The US started its own group when the Ministers were presenting their speeches. No one dared to point out that it was sheer bad ettiquette to pull away so many Ministers and officials to a private meeting when the official plenary was on. Soon after the Conference the chairperson, Singapore Trade Minister Y.C. Tong, and WTO DG, R. Rugiero made false promises.

MYTH: *Through all-round promotion of investments, FDIs., etc., the WTO will help in boosting higher standards of living with full employment and overall prosperity for the people of the South on same levels enjoyed in the North.*

FACT: With the "Seattle Round" just round the corner claims like this have since collapsed and others are about to! For instance,

- Between 1994-95 to 1997-98 Indian imports have risen over and above its exports and the BOP position has merely worsened as also the ratio of exports to imports. There has been no increase in the country's share of world exports; compared to 1980 the percentage has even declined. FDIs have risen but only in the portfolio (share and stocks). The outflows towards fees for technical know-how, royalties and dividends have also risen very sharply. The new inflow of capital is not significant.

- Agriculture is the most affected. The only gain has been in the export of rice. All other commodities have also suffered. 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; 300 farmers committed suicide 1997-1998 (Cf. FAM #6, 99). The component of imports has risen with its dependence on TNCs. GM crops have further pushed these farmers into a servitude of these mega corporations.

- As for the impact, countries that entered into WTO agreements, have experienced the brunt of the downside of globalisation. Philippines is a good test case. Under the Mining Act,1995,some 12 m. hectares of Filipino land — about 40% of the total land areas of the country — are now covered by applications for mining operations. Over half of these lands are occupied by indignesous people who have been dispossessed and marginalised, their communities dispersed and their culture uprooted. Resistance to this loss of their ancestral lands has typically been met with government repression;
- Food security: the Philippines has also been threatened. Republic Act 7900 (High Value Crops Development Act of 1995) provides incentives to agri-business TNCs that shift to export-crop production. The result: vast tracts of land devoted to staple crops have been converted to planting high-value export crops such as oil palm, mango, pineapple, cut flowers, etc;
- The repeal of the Seed Industry Development Act, which prevented the importation of seeds produced locally, has also enabled a few mega TNCs to dominate rice and corn production
- The environment has also suffered. Mining activities have intensified, polluting land and the river systems while land clearings for cash-crop plantations and related infrastructure has led to deforestation, the loss of forest cover and erosion;
- Biodiversity likewise is in danger, as the forests are lost, and drug TNCs race to co-opt and patent useful herbs and indigenous technology under the WTO's IPRs.

At this point it is necessary to point out that though foreign investments are undoubtedly desirable for the South,the underlying motives of the North in introducing this subject in the Seattle Round are more to do in restraining the discretion and flexibility of governments in the South in respect of putting conditions on foreign investments thereby ensuring free and unfettered operation of foreign investors in the South. Their main appears to be centered on protecting the right of TNCs, through multi-lateral binding commitments which would be enforceable through the Dispute Settlement Understanding of the WTO, particularly through the provision of cross-retaliation. It is not aimed at ensuring the flow of investment into the South.

As regards benefits of WTO accruing also to women this claim has been an exaggeration. Besides, the costs of its policies to women have been totally ignored. At the 2nd Ministerial Meeting of the WTO at Geneva women's groups had specifically expressed their outrage at the failure of the Conference on issues and concerns affecting them. For instance,

- The growing domination of TNCs over food systems through the WTO Agreements on Agriculture & TRIPs has imperiled and denied women's rights as food producers and consumers. Women's knowledge and skills in biodiversity conservation and agriculture is further being undermined by trade liberalisation and the TRIPs agreement. Women have, for thousands of years, had an important and vital role in local trade. However, with the current global trade regime, women are being reduced to suppliers of cheap labour and consumers of foreign goods.

MYTH: *FDIs are the need of the hour. They have led to economic growth and development in the South as well as transfer of technology and welfare gains.*

FACT: This dogmatic claim is to be one of salient features of the so-called Seattle Round. Eminent economists and institutions, however, reinforce the stand that there is no evidence that FDI is an engine of growth. It is also misleading and dangerous to ask the South to pursue FDI. Das* for instance re-interates that though it has its uses FDIs

- involves outflow of foreign exchange through the repatriation of profits. In fact, within a short span of a few years, the one-time inflow of FDI may be balanced by the outflow of profits; and

- thereafter, it will be a situation of new outflow from year to year for any particular investment;
- may not be as stable as it was thought earlier. Operations of the trade in derivatives make FDIs vulnerable to considerable instability;

More specifically, FDIs have certainly risen but these have mainly been in the form of purchase of shares and stocks in existing Indian firms rather than in the manufacturing sector. Further, the dominant share of all FDIs was accounted for by mergers and acquisitions of existing assets in these firms rather than the creation of new areas and sectors though the illusion of much new investment has actually occured.

As Das further explains, FDIs can be very useful and the adverse implications can be mitigated if it is put to long term gain. But this will not come about automatically because it may not coincide with the first choice of the investor, whose main driving force, as mentioned above, are i)quick profit from investment, ii) production with the least of worries. The choice of the product and that of the location of the production unit will be guided by these concerns. More often, it may lead to i) production in non-priority sectors and ii) units located in already developed regions. The necessary consequences will be: wastage of foreign exchange and regional disparities in development.

Further, the statistical correlations between FDI growth and economic growth is now also highly questionable*. For instance, FDI inflows into Latin America in the 1990s were 13 times higher than in the 1970s but the average growth in the 1990s was 50% lower. This has been attributed to the fact the FDI did not lead to gross fixed capital formation but to the transfer of existing assets, and the funds obtained by regional governments through privatization went to finance the BOP gap.

Further, most FDI data cited or used are derived from the IMF BOP data. One IMF report shows that as the FDI rose so did the loans, with the ratio of loans to FDI increasing from 7% in 1991 to 13.4% in 1992 and 23.7% in 1993, coming down to 21.7% in 1994 and to 18.2% in 1995, and then rising again to 24.4% in 1996 and 36% in 1997.

The IMF report makes the point that Poland's external debt stock would be higher by more than 10% if the stock of FDI-associated credits were included.

Evidently, FDIs have made only a modest contribution to the country's development and above all, the export models based on natural resources or industrial commodities derived from them have only reproduced existing enclave schemes.

MYTH: *In the globalised economy of today electronic commerce devoid of the barriers of 'customs duty', etc., will usher in virtually unlimited opportunities and benefits of trade and commerce to all, including the South*

FACT: This claim stems from the proposal, initiated by the US during the WTO Conference on May 20,1998, to introduce duty-free treatment for items transmitted via electronic commerce (see following box). It involves scanning the various possible sources of supply, deciding on the supplier, placing the order for supply, the supply of the product and finally making the payment.

Finally, as Das states, the claim is a peculiar one in that it is devoid of all elements of reciprocity, as far as the South is concerned. Practically all the benefits will go to the North. The South will gain, at best, merely peanuts!

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The logic behind this proposal is that electronic-commerce transactions be duty-free is no identification of the physical point of crossing the boundary by the 'product', perhaps the term 'customs duty (or tariff)' may not be appropriate; one may call it an 'import tax' for the sake of convenience and avoid confusion by use of other terms. Presently, no country applied any such 'tax'; hence the proposal is to obtain a commitment of binding the current situation, something like binding the tariff on goods.

However, this proposal for binding the 'import tax' at zero rate and that the claim of virtually unlimited benefits for the South is the height of exaggeration. The first part has serious implications for the South. They gain nothing but more to lose. The North will be the major beneficiaries instead. Das reveals that some of the implications include:

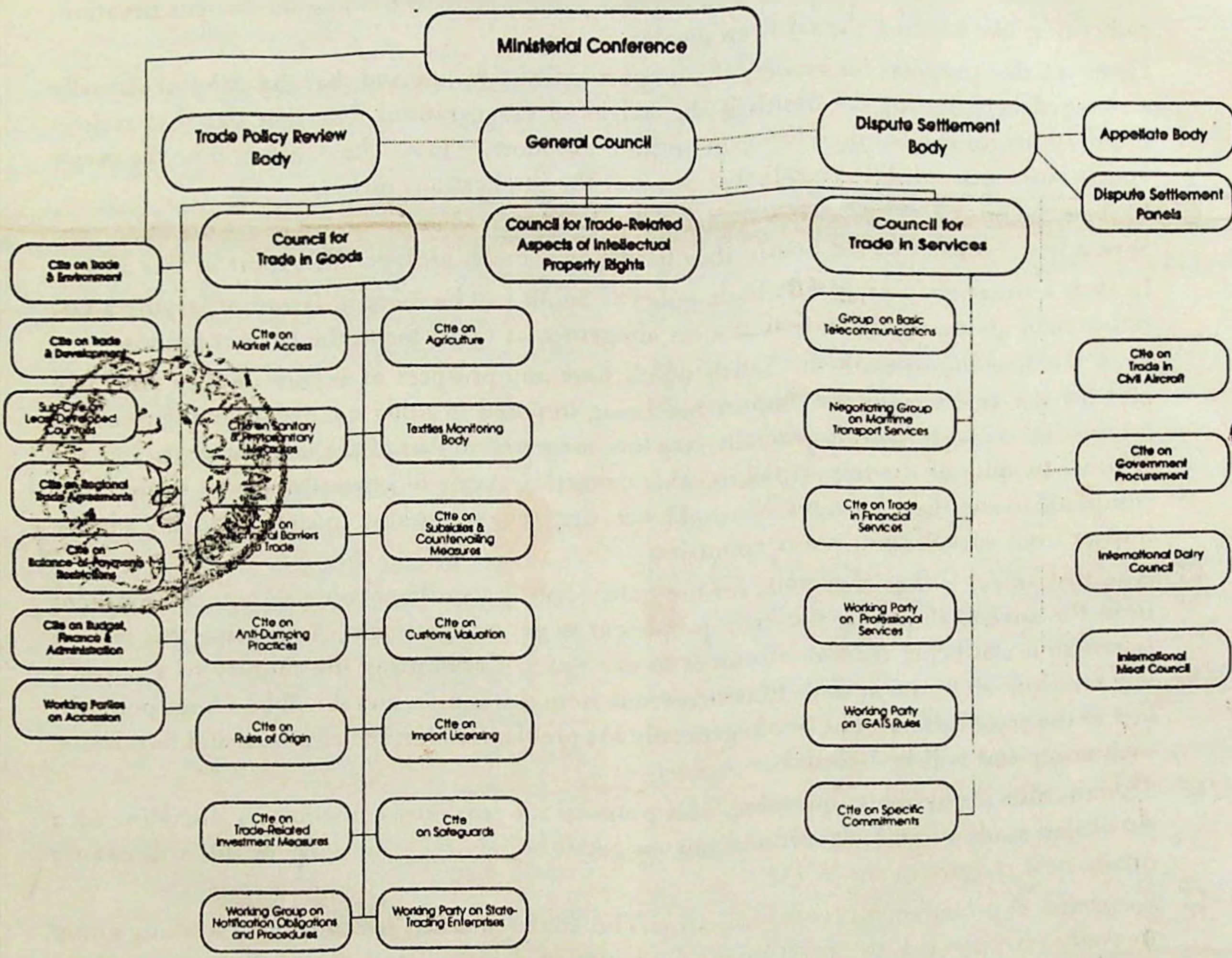
- In the e-commerce, the exporters are generally the North, whereas the South are the importers. Save a few countries in the South, they hardly have much prospect for export in this area;

  In such a situation, a pragmatic trade policy is South will be more in favour of levying a tax, rather than giving up the option of a tax altogether, as called for in the current proposal

  Even the few countries in the South which have any prospect of exports in this area, will perhaps not suffer from the 'import tax' being imposed in other countries, as their cost of production on such items is generally very low compared to that of the major exports, i.e., the North. In spite of the import tax in other countries, they will generally remain competitive compared to suppliers from the North. Hence, they too do not have to apprehend any adverse impact from such a tax in other countries;
- A related aspect is that of revenue for the state. This is a vastly growing activity, as is evident from the anxiety shown by the main proponent to get an agreement. And taxing this type of transaction can bring massive resources to the South. Committing the country to a zero tax will foreclose all future options to raise revenue from this source, and it will be a huge potential loss to the state coffers. The South generally has problems of limited resources and foreclosing such an option will be harmful;
- There is also the systemic question. This proposal for zero duty constitutes a discipline on a particular mode of transaction, and not on goods or services. Agreeing to this will open a totally new chapter in the WTO.
- Government procurement trade facilitation:The conference decided to set up a working group to study transparency in government procurement practices, and directing the Council for Trade in Goods to undertake exploratory and analytical work on simplification.
- Core Labour standards: Renewal of commitment of observance of core labour standards, which will continue to be dealt with by the ILO, ruling out their use for protectionist purposes and the erosion of comparative advantage of low - wage countries
- Investment and Competition: Establishment of two working groups under TRIMS Agreement, one to examine relationship between trade and competition policy, without closing down the possibility of future negotiations.
- Textiles and Clothing: In this sector, a commitment to full and faithful implementation of the Agreement on Textiles and Clothing. Reference to concerns of developing countries vis-a-vis trade distortive measures and circumvention, Goods Council to oversee agreement and integration.
- Pharmaceuticals: Addition of over 400 products to lists of tariff free products in pharmaceuticals.
- Services: Progress towards a successful conclusion to the negotiations on basic telecoms in February 1997, and resumption of financial negotiations in April 1977 to achieve improved market access commitments.

  Plan for LDCs: Approval of a Plan of Action to provide duty free access aimed at improving LDC's, overall capacity to respond to the opportunities offered by trading system.

WTO Structure



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.

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