

# Facing Reality After Cancun

## *Continued Gridlock or Global Prosperity?*

Robert Picciotto

In September 2003, ministerial trade talks collapsed in Cancun, Mexico, setting back the global economy and tarnishing the reputation of the World Trade Organization (WTO). To resolve the current gridlock, rich and poor countries alike must face the new reality that multilateral trade negotiations are now irreversibly anchored within a system of cooperation for global development—a framework that all United Nations members have unanimously endorsed.

The prospects for global trade liberalization will remain uncertain until all countries realize the tremendous implications of the tight correlation between trade and development. Three lessons in particular emerge from the Cancun debacle. First, in response to the legitimate concerns of poor countries and the global civil society, countries in the Organization for Economic Cooperation (OECD) must open their markets in labor-intensive sectors. Second, poor countries must reduce their trade barriers and deepen their reforms, especially in agriculture. Third, the hard-pressed WTO must streamline its organization and refrain from involving itself in an ever-expanding range of “behind the border” topics.

**High Stakes.** These lessons from the Cancun battle may yet

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lead to success in the long twilight struggle of trade reform. The stakes could not be higher for the international community. Trade liberalization has contributed to the five-fold expansion of the global economy over the past fifty years. If a multilateral trade agreement is reached—a feat that can only be achieved under the banner of a “development round”—it will brighten the prospects for reducing global poverty and give a much-needed boost to the fragile world economy. Economists of all persuasions recognize that declining protectionism has been a common feature of successful developing economies, and that trade liberalization favors growth, which, in turn, facilitates poverty reduction.

While liberalized trade is not a panacea, a successful development round would achieve major reforms that policy analysts from rich and poor countries alike have been advocating for decades. In particular, it would ease tariffs that affect labor-intensive products, reduce agricultural protection by rich countries, and open new trade opportunities in services that would be highly profitable for developing countries.

Given these possibilities for growth, it is not surprising that the Bangladeshi

of apparel, textiles, leather, and frozen food, compared with a meager 1 percent tariff for imports from France. According to the Center for Policy Dialogue, a zero-tariff, quota-free access regime without rules of origin would lead to a 14 percent increase in Bangladesh exports—a boost of \$850 million, or about half of the international aid that Bangladesh currently receives.<sup>1</sup>

**Delicate Diplomacy.** Bangladesh and others will see reform only if the complexities of collective action can be solved. Without political will, trade diplomacy may continue to oscillate between heady expectations and disappointments, as it has for the past few years. A low point was reached in Seattle in 1999, when the WTO summit collapsed in the midst of violent street demonstrations. In 2000, the cycle rebounded when heads of states met at the United Nations in New York and issued a millennium declaration that gave pride of place to trade reform.

In 2001, a far-reaching declaration issued in Doha, Qatar, embedded the multilateral trade negotiations within a new development consensus. The new paradigm was designed to overcome the

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trade minister had tears in his eyes when the Cancun meeting failed and hopes faded for reducing exceptionally high U.S. tariffs. The United States imposes a 14 percent tariff on Bangladeshi exports

deep divisions that had scuttled the Seattle meeting. Then, in March 2002, the Financing for Development Conference in Monterrey, Mexico, confirmed that the creation of an “open, rule based,

predictable, and non discriminatory trading system” was an obligation that rich countries would assume in the global war on poverty.<sup>2</sup>

Unfortunately, negotiating positions subsequently hardened and ministerial trade talks collapsed in Cancun. According to a WTO spokesperson, the current round of talks is likely to go on until the end of 2006—two years beyond the original target. Sadly, the ultimate outcome remains in doubt, as the political motivation to engage in serious negotiations seems scarce.

Developing countries have become reluctant to support a global system that has made vital drugs inaccessible to poor people, treated rich countries’ cows better than poor countries’ farmers, driven poor and efficient coffee and cotton farmers out of business, used unfair trade restrictions to make processing of natural resources unprofitable for poorer countries, and contributed to the depletion of marine fisheries stocks through massive subsidies.<sup>3</sup>

To rebuild trust in the multilateral process, rich countries must lead by example and tackle the most destructive manifestations of their protectionist policies. A grand gesture by the United States—perhaps a relaxation of cotton subsidies—would encourage the EU to adopt a more flexible position on agriculture and help to ease us out of the current deadlock.<sup>4</sup> Such an action, combined with a successful development round, would greatly benefit the interests of consumers and taxpayers in OECD countries and restore the credibility of the WTO.

In turn, poor countries must be realistic and open up their own markets. They have much higher tariff barriers than rich countries, and their industrial tariffs average 13 percent compared to 3

percent in rich countries. Poorer economies would benefit handsomely from reform; the World Bank estimates that sharp, across-the-board cuts in trade-distorting measures would increase average incomes by 0.5 percent per year in rich countries and by 1.5 percent per year in poor countries. More than twice these benefits would accrue to countries that adopt judicious policies (\$60 billion in 2015 for low income countries).<sup>5</sup>

**The Agricultural Conundrum.** Two-thirds of the estimated gains from trade liberalization would originate from agricultural liberalization. Even though farming accounts for a small and rapidly shrinking share of employment (e.g. 1 percent in the United Kingdom), opposition to agricultural trade reform is strongest within rich countries. Ironically, they would benefit the most from agricultural liberalization.

Total agricultural subsidies in OECD countries are more than six times the volume of development assistance—over \$1 billion a day. On average, OECD farmers sell their products at prices that are 31 percent above world market prices. The protection rises to 80 percent for milk, 100 percent for sugar, and 360 percent for rice. Japan provides daily subsidies of \$7 per cow—seven times the daily per capita income in Bangladesh.

With full agricultural liberalization, food prices would be reduced by 45 percent in the EU and by 11 percent in the United States. The overall social impact would be beneficial, since trade restrictions act as a regressive tax (the lowest 10 percent of income earners spend ten times more of the family budget on food than the top 10 percent).

Efficient producers, including agricultural exporting countries in Latin

America, would gain from liberalization. Cotton producers in West Africa would also benefit. They currently face unfair competition from U.S. agro-industrial firms that receive exorbitant subsidies (over \$3 billion for 25,000 farmers).

On the other hand, urban consumers in food-importing countries such as very poor African countries would suffer from the increased costs of food imports. Equally, small island economies that now benefit from preferential access to the markets of their formal colonial rulers would face difficult transition problems. Thus, a gradual approach to liberalization will be required under a development round of trade negotiations, and adequate aid will be needed to facilitate the adjustment.<sup>6</sup>

**A War of Ideas.** Ultimately, success in the Doha trade round hinges on mobilizing the scattered energies of consumers and taxpayers in industrial democracies. This will require leadership at the service of a lofty vision. It is not accidental that the development round was unveiled at Doha, Qatar, a few weeks after 9/11. Just as the World Trade towers symbolized open trade and open societies, the Doha declaration confirmed the determination of the international community to use trade as an instrument of poverty reduction and international solidarity in the face of fanaticism and intolerance.

For Robert Zoellick, the U.S. trade representative, open trade is about more than economic efficiency: "it promotes the values at the heart of this protracted struggle." For Pascal Lamy, the EU trade commissioner, multilateral trade helps in the transition "from a Hobbesian world of lawlessness, into a more Kantian world—perhaps not exactly of perpetual

peace, but at least one where trade relations are subject to the rule of law."<sup>7</sup>

The idea that trade is an antidote to violence is not new. The enlightenment philosophers popularized the notion that human passions are domesticated by the free interplay of economic interests. Condorcet characterized commerce and industry "as enemies of the violence and turmoil which cause wealth to flee." Montesquieu remarked that "wherever manners are gentle, there is commerce; and wherever there is commerce, manners are gentle." According to Thomas Paine, "the invention of commerce...is the greatest approach toward universal civilization that has yet been made by any means not immediately flowing from moral principles."<sup>8</sup>

Of course, this view of market society has rivals. The anti-capitalist street protests that have plagued the WTO since its creation draw energy from the chronic distrust of commerce from both extremes of the political spectrum. Religious thinkers reject the notion of the market as a providential hidden hand and attribute declining ethical and community standards to unbridled self-interest. Neo-Marxists keep "discovering" self-destructive contradictions within capitalism, such as concentration of capital, periodic over-production, and economic instability.

Anxiety about a global economy plagued by imbalances has increased the influence of protectionist lobbies. The war in Iraq has diverted financial resources towards military intervention, fractured the Atlantic alliance, and weakened the UN. In today's troubled geopolitical arena, politicians have become reluctant to champion multilateral trade. As a result, reliance on regionalism and bilateralism has grown. The United

States is now striking trade deals with individual developing countries, which facilitates concessions from weaker trade partners and accommodates special

term, steady economic expansion of Brazil, Russia, China, and India (BRIC) will redraw the map of the global economy. Their combined GDP is now 15 per

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interests more readily than multilateral agreements. This detracts from a proud U.S. tradition of universal free trade, induces trade diversion, and creates a complex maze of international obligations.

According to Professor Jagdish Bhagwati of Columbia University, far from providing building blocks for global trade reform, regionalism and bilateralism contribute to a “spaghetti bowl” of accords that poor countries are poorly equipped to handle.<sup>9</sup> From a poverty reduction perspective, a multilateral approach would be far superior, but the WTO must be reformed to offer a credible global alternative to the ascendance of regionalism and bilateralism.

**Reforming the WTO.** The WTO remains under siege, as radical anti-globalization groups are still committed to dismantling it. However, some mainstream non-governmental organizations now support a trade liberalization process in which developing countries would be given a strong voice. Developing countries have become more proactive, secured access to expert advice, forged alliances with advocacy groups, and coalesced behind a new group, the “G21,” which includes Brazil, China, and India.

The strategic implications for the United States are clear. Over the long-

cent of the aggregate GDP of the United States, Japan, United Kingdom, France, Germany, and Italy (G6). Looking ahead, Goldman Sachs reports that this share could rise to 50 percent by 2025, and that the BRIC economies could overtake the G6 economies by 2040.<sup>10</sup>

Given their diverse commercial interests, whether the G21 will be able to maintain a common front in trade negotiations is uncertain. But there is little doubt that encompassing the developing world within a universal free trade system would be in the national interest of the United States. Therefore, U.S. leadership in reforming the WTO makes more strategic sense than concentrating negotiating resources on minor bilateral skirmishes.

The WTO is relatively new, but with the recent accession of China and the progress that Russia is making towards membership, it is close to becoming a global organization. Based on the WTO’s single undertaking principle, all 148 members must endorse the wording of every provision in every agreement. Hence, consensus on thousands of arcane provisions has become extraordinarily difficult to achieve, as there is no formal decision-making structure within the WTO, with the exception of the general assembly. The informal “green room”

meetings that have sprouted to fill the governance gap lack transparency and are vulnerable to capture by vested interests.

Urgent reform is needed. For a start, the WTO's "mission creep" into trade

tries agreed to mandatory intellectual property regimes that have severely penalized poor countries endowed with limited human resources. In return, rich countries only agreed to transfer tech-

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related areas should be restrained. Just as wars are too important to be left entirely to generals, trade related matters should not be left exclusively to trade specialists. Trade negotiations require the involvement of other international agencies and aid donors, and they should undergo the same processes of priority setting and appraisal as aid initiatives. Hence, independent evaluations of the impact of trade legislations should become a regular feature of WTO activities.

**The Singapore Issues.** A major source of contention at the Cancun talks was the insistence by Europe and Japan that the WTO should reach further "behind the border" to tackle such topics as investment, competition, government procurement, and trade facilitation—the so-called "Singapore issues." These trade-related topics have developmental implications, but recent experience suggests that rapid expansion of WTO rule-making over a wide front would be unwise.

The disparities in economic power among negotiating partners within the WTO has led to asymmetric outcomes. The "one size fits all" solutions that have emerged from prior rounds have not served developing countries. For example, under the Uruguay round, all coun-

nology and provide capacity building assistance on a "best effort" basis.

With respect to HIV/AIDS and other infectious diseases, developing countries negotiated new understandings regarding their freedom of action to protect public health, including access to generic drugs produced in third countries. However, protection of genetic resources and traditional knowledge are still needed to create a level playing field.

The hard-won lesson of policy based lending by international financial institutions is that externally imposed conditions that are not adapted to local circumstances are costly and ineffective. There is no reason to believe that top-down WTO conditionality would yield better results. Developing countries need working room to sequence their institutional development, and this has been recognized by the provision of "special and differential treatment" to developing countries under WTO rules. However, the agreed WTO principle is not binding. It is only a "best endeavor" clause. A new special and differential treatment package is needed to facilitate judicious sequencing of reforms in the least developed countries.

**Unfinished Business.** The WTO has yet to demonstrate a capacity to

manage fairly and equitably “behind the border” regulatory issues. Under the Uruguay round, developing countries took on obligations with respect to trade procedures and business environment regulations—import-licensing, customs valuation, technical and sanitary standards, and intellectual property rights enforcement—that are administratively demanding and unaffordable. In parallel, technical regulations in industrial countries are proliferating with heavy costs for countries with weak institutions.<sup>11</sup>

To avoid similar problems under the Doha round, each of the Singapore issues ought to be subject to careful developmental impact assessments and systematic consultations before new disciplines are included. Financial assistance should be provided to facilitate capacity building. Developmental results from voluntary adoption could be significant. For example, trade facilitation can produce substantial benefits since domestic transaction costs are sometimes several times larger than tariffs due to delays, inefficiencies, and corruption.

**The Way Ahead.** Both rich and poor countries need to fight protectionism in the public interest. A successful Doha round would make globalization work for the poor and revive the international economy, but a global agreement is not likely without strong leadership by OECD countries. In particular, a multilateral approach would better serve the strategic interests of the United States than a medley of bilateral agreements. Hence, the United States should encourage WTO reform.

Despite the inextricable link between trade and development, the WTO was never intended to spread its limited resources to address the myriad of developmental issues that fall under the jurisdiction of other international agencies. Nor should its mandate be subverted by using trade negotiations as a coercive tool to force policy reform on reluctant governments. Instead, the WTO should give priority to issues critical to poverty reduction. A strategy that concentrates on the basics of market access in agriculture, industry, and services offers the best hope for a successful development round and would rescue the WTO from institutional irrelevance.

#### NOTES

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