Presentation on Trade and Alternatives

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Firstly let’s establish some common ground.
1. We need multilateral rules on trade
2. We want all nations to be part of the rule making process
3. We want dispute settlement based on the rule of law
4. We think that trade can play an important part in the global economy and particularly enhancing the prospects for development.

So what’s the problem?

WDM’s main concern is poverty and injustice. This is usually the main justification used by the WTO for its policies of trade liberalisation. But the current trade system is not working for the poor:
- There is increasing poverty in all regions except China (World Bank World Development Report 2000); The average household in sub-Saharan is 10% poorer than they were 20 years ago (UNCTAD Economic Development in Africa: Performance, Prospects and Policy Issues, 2001).
- 89 out of 116 countries (77%) for which there is data suffered substantially lower growth in the period 1980-2000 compared to the previous 20 year period (The Emperor has no Clothes, Centre for Economic and Policy Research).

These impacts are not only because of trade liberalisation – as noted in the above UNCTAD report, the dominant economic instrument of the past 15 years for some 90 poorer developing countries has been the World Bank/IMF mandated Structural Adjustment Programmes. As with most WTO agreements, these have a process of liberalisation at their core. The problem is not that developing countries have not opened up to trade and investment:
- Sub-Saharan African trade > 30 % of GDP versus 17 % for the world on average
- FDI as a proportion of gross capital formation is higher for sub-Saharan Africa than in Latin America or Asia
- FDI in Latin America in the 1990s was 14 times as high as in the 1970s, while growth rates more than halved (Economic Commission for Latin America and the Caribbean).

What do economists say?
Here is the nub of the argument: These criticisms are important, but surely trade liberalisation is good for poverty reduction? So what’s the evidence? …
- Alan Winters paper for DFID: “Trade liberalisation alone has not been shown unambiguously to foster growth, but it has certainly not been identified as a hindrance…” (Trade, Trade Policy and Poverty: What are the Links, DFID, 2000)
- World Bank paper by Dollar and Kraay was widely published as justifying growth on the basis that it had not increased income inequalities. But the paper also looked for determinants of pro poor growth and was unable to find significant determinants (Growth is good for the Poor, 2000).
- Rodrik 1999: an analysis of causality suggests that economies with strong growth open up to trade and investment, but openness does not correlate significantly with GDP growth (The New Global Economy and Developing Countries: Making Openness Work, ODC, 1999).
Lundberg and Squire: “openness to trade is correlated negatively with income growth for the poorest 40% of the population” (Inequality and Growth: Lessons for Poverty, World Bank, 1999)

Much of the evidence rests how you include the countries of East Asia. They are the success stories that swing the analysis. Some conclusions:

- Trade has opened up, but it has been export-led. Extensive restrictions on investment and imports have been maintained until the late 1990s.
- FDI was important for Malaysia, but not South Korea and Taiwan; and in all cases it was subject to conditions which are progressively being ruled out under TRIPs and TRIMs.
- Capital account controls were retained until the 1990s; the subsequent financial crisis increased poverty from 9.6% to 19.7% in Korea (Global Economic Prospects 2000 WB).
- Their experience suggests that openness to ideas was more important than other forms of openness (supported by a historical reading from David Landes in The Wealth and Poverty of Nations); but the free trade of ideas is increasingly ruled out by declining investment in public research, proprietary technology rather than dissemination in the public domain, and TRIPs.

So the process was:

- Export led growth
- Selective and well executed use of industrial policy
- Openness to imports when industries are ready to compete

This development path, used by all OECD countries during their development phase, is increasingly being denied to the developing countries through agreements such as GATS, TRIPS, TRIMS and the proposed investment agreement.

The evidence for most other developing countries has been that liberalisation has resulted in de-industrialisation in many developing countries that have opened up at an early stage of development. The costs have been loaded onto the poor and there has been a failure to promote any growth (let alone pro-poor growth or environmentally sustainable growth).

Some reasons are:

1. The liberalisation model has been abused:
   Hypocrisy from the North; “do as I say, not as I do”
   - Developing countries exporters to the rich countries face tariffs on manufactured goods that are 4 times higher than those faced by rich countries exporters (World Bank WDR 2000)
   - Barriers to developing country exports of manufactured goods total $700 bn per annum (UNDP HDR 2000)
   - Agriculture subsidies in OECD countries are double all agricultural exports from developing countries; these amount to US$20,000 per farmer per year (OECD)

   Agreements are twisted to advantage of the North – TRIPs, TRIMs, anti-dumping agriculture, textiles, SPS etc.
   - There are agreements on financial services and telecoms but not on trade in primary commodities
   - Unfair use of power by the powerful, not only during negotiations in Seattle, but even more evidently in the run-up to the Qatar Ministerial
The illusion of consensus: the US and EU agree and then negotiating tactics are used to convince developing countries to sign up (including political pressure and widespread reports of links to aid programmes, threats and inducements).

High costs of implementation: World Bank report showed costs of implementing some Uruguay Round agreements (including TRIPs, TRIMs, SPS, TBT) was more than a year’s development budget for some developing countries. And it concluded that these would be little tangible benefit to them from doing so (Finger and Schuler Implementation of Uruguay Round Agreements: The Development Challenge, World Bank 1999).

As the Malaysian and Indian WTO Ambassadors have commented, the WTO remains a system based on power, rather than a system based on rules.

Lack of capacity of most developing countries

- EU delegation of 594 in Seattle; many developing countries had one or two representatives
- 29 countries cannot afford an office in Geneva.
- There are an average of 45-50 WTO meetings per week; these exclude those without the presence and capacity; if countries are not there, it is assumed they agree.

Mercantilist approach

- When the EU was negotiating with China for entry to the WTO, their main demand was not for policies to promote poverty reduction, sustainable development or human rights, but to allow EU companies the right to buy more than 49 % shareholding in Chinese telecommunications companies.
- Lamy “As EU Commissioner for Trade, my mission is to identify those sectors where Europe is the most competitive and to negotiate further market openings for them “
- The former Director of the Services Division, David Hartridge noted: “without the enormous pressure generated by the American financial services sector, particularly companies like American Express and Citicorp, there would have been no services agreement”.

The problem, however, is not just the fact that rich nations are hypocritical. The problem is deeper. It is that liberalisation is the wrong aim for trade policy.

2 Liberalisation is applied as “one size fits all “

- World Bank and IMF have promoted exports of a narrow range of commodities. The resulting ‘fallacy of composition’ has contributed to the collapse of commodity prices
- Liberalisation has been applied too early, wiping out small business in developing countries
- Liberalisation precedes regulation. The results in the financial sector became only too evident in the financial crisis of 1997 / 1998
- The secrecy of IMF and World Bank conditionality has been used to allow governments to hide from accountability to their citizens. As a result, elites in governments have used liberalisation to reinforce their own position and load costs onto the poor.

3 Liberalisation policies ignore economics of the real world:

The theory of comparative advantage is often used to justify liberalisation, but its assumptions are contravened by the reality of the global economy:

- Capital is mobile, labour is not
• The global economy is not comprised of small producers and small consumers. For example, trade in primary commodities is controlled by a few large companies for all the major exports from developing countries.
• There is no equal access to information nor is there a free market in technology - the TRIPs agreement will make distortion worse.
Countries that have followed their comparative advantage have fallen behind (eg. Portugal’s experience versus the interventionist policies of the USA in 17th Century). Trade theory needs to be brought up to date and made relevant to today’s world.

4 **The system regulates governments not the real actors in global economy**
Global trade is not undertaken by governments but by companies. Multinationals account for 70% of world trade, and one half of that is within the same company (UNCTAD):
• There is increasing recognition in many countries that unregulated markets will not deliver social benefits; governments need to establish the framework within which markets operate.
• Multinationals are able to avoid even the most basic regulation. For example, cartels, monopolies, restrictive business practices transfer pricing and tax avoidance are not regulated.
• There is an increasing imbalance in rights between international companies that benefit from incentives, preferential treatment and WTO rules, and the small domestic firms that suffer disadvantages of scale and scope.

5 **The liberalisation model ignores non-economic issues**
The WTO is facilitating the encroachment of the market into all areas of human activity, recognising no boundaries to the market. Problems arise from:
• Externalities that result load costs onto the environment, workers and local communities; and fail to recognise the benefits of government and community investment in people (such as health, education, training) and social capital.
• Ecological limits are not recognised, except through rising prices when they become scarce – this misses the long time lags between degradation and impact.
• Public goods, such as health, culture, human rights and access to food and water, are regarded as another market to be liberalised, privatised and commercialised. The General Agreement on Trade in Services (GATS) is a serious intrusion into the rights of governments to prioritise development and regulate in the public interest.

6 **Free markets reward the rich and powerful**
Free markets discriminate in favour of the rich against the poor:
• The combination of a smaller government role, competition for foreign capital and free movement of capital means that company taxation and contribution to public sector financing is reducing.
• Markets reward those with money – they are hundreds of face creams desired by rich consumers in the North, but no affordable anti-malarial that is desperately needed by people in the South.
• Those that can’t pay, don’t have market power.
• As has been recognised by developing countries in their call for an enforceable agreement on special and differential treatment, equal rules should not be the aim; trade rules should promote positive discrimination in favour of the poor.

7 **Liberalisation has become the objective rather than a tool:**
• What is trade for? Trade should serve higher goals of poverty reduction, sustainable development and human rights.
The WTO is out of step with UN commitments to poverty reduction, sustainable development and human rights; even the IMF has embraced poverty reduction. Not all regulations are “barriers to trade”, as is the assumption of the WTO; they fulfil important rules in setting boundaries for markets in the public interest.

So we need an agenda for reform. Not just WTO, but where trade fits into the wider system. Rethinking trade need to be a part of rethinking globalisation and rethinking development. Also debt, capital flows, more and better aid. WDM’s position is not anti-globalisation, but pro-fair markets.

Making Trade work for the Poor

WDM and other NGOs are not only opposing unfair agreements, but setting out the principles for a better system of international rules. We have moved from opposition to proposition. Our agenda for reform is to:

1. Make trade fairer;
   - Redress imbalances in existing agreements (especially agriculture and textiles)
   - Address implementation problems, especially TRIPs, TRIMs, SPS, subsidies, anti-dumping.
   - Capacity building before negotiations
   - Reform the process, including not only negotiations process, but also reciprocity, mercantilism, mandate of WTO.
   All these must be done before any new trade negotiations are undertaken; otherwise the results will extend the deep inequities even further

2. Strengthen international standards and international institutions
   Implement agreed standards on strengthen the framework of international standards to promote global rights, values and diversity.
   - Labour, health (tobacco), human rights, environment (not in WTO)
   - Protect basic rights for the poor (education, health, food, water, shelter, etc).
   - Settle disputes outside WTO (such as in the International Court of Justice) where there are conflicts between trade rules and other international agreements.
   The Biosafety Protocol provides an example of a first step towards a minimal position (the right to restrict trade).

3. Regulate corporations
   The major actors in the global economy are companies; they need to be regulated on their impacts beyond the national economy:
   - Ensure they abide by international standards
   - Competition policy and investment must be negotiated outside the WTO to ensure there is a balance of rights and responsibilities; UNCTAD should play a leading role
   - Tax avoidance and transfer pricing: bribery and corruption; anti monopoly (link to concentration of supply chains); and prohibit unfair competition (e.g. predatory pricing).

4. Create the space for development
   Development should be elevated as an objective above trade rules (beyond the current rules on Special and Differential Treatment in the WTO). There should be no barriers to countries pursuing policies that aim to:
   - Strengthen local economies
Promote environmental sustainability, social inclusion, equity and cultural diversity at the local level.

- Promote sound regulation (e.g. Capital controls).
- Promote a strong civil society in all countries, with the capacity and independence to call governments and corporations to account.

**5 Promote accountability of governments and international institutions**

- WTO must become part of the international system and serve wider aims.
- National governments must open up policy-making to public and parliamentary scrutiny.
- Open up WTO negotiations to full democracy amongst its members and greater scrutiny from Parliaments and the public.

Can the WTO be reformed to do this? Not on the basis of the lack of progress on reforms post-Seattle. The major trading nations have not changed their position; just the rhetoric.

The WTO is in crisis: the institution has been severely weakened by the battle over the Director-General; the failure of Seattle; the deeply damaging process leading up to the Qatar Ministerial; and a widespread loss of confidence amongst civil society and the wider public. Rebuilding trust with developing countries and members of the public should be a priority, rather than rushing into a comprehensive new Round that is beyond the capacity of developing countries to fully participate.

Contrary to many reports, it is not the NGOs that represent the main threats to the WTO. They come from within:

- Pressure for a new Round before fixing the deep problems with existing agreements, undertaking a massive programme of capacity-building and fundamentally reforming the WTO’s negotiations and decision-making processes and those of member governments.
- Northern protectionism, particularly resulting from government’s inaction on liberalisation of textiles and clothing
- Contentious trade disputes, such as the looming conflicts over GMOs and agricultural subsidies.
- Loss of public trust, particularly over the influence of business lobbies
- More evidence about the adverse impact of the the WTO’s unfair rules and trade liberalisation on the poor, the environment and democratic rights

Fundamental reform is needed. Where will the vision and the leadership come from? It is not evident in the actions of the most powerful governments or from the WTO itself.

A growing movement of civil society is continuing to call for rules on international trade that accord priority to poverty reduction and sustainable development. This movement will continue its campaign until these aims are achieved.

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